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adcock ingram

Integrated Report

for the year ended 30 June 2020

a dose of care

Contents

About this report

Adcock Ingram regards the presentation of this report as a valuable opportunity to engage with its stakeholders and to respond to issues raised by them. The matters reported on in the Integrated Report are considered by leadership throughout the year as being vital to the sustainability of the Group and include all material aspects up to the date of issue of this report.

The impact of the COVID-19 pandemic has been included in each section and includes the latest relevant information as at 4 September 2020.

A full set of the annual financial statements is included with the Integrated Report.

Reporting principles

Adcock Ingram is a public company incorporated in South Africa in accordance with the provisions of the Companies Act 71 of 2008 (Companies Act), as amended from time to time.

Adcock Ingram has applied the principles of King IV[(1)] (unless otherwise stated), the Companies Act, the Johannesburg Stock Exchange Limited Listings Requirements and other applicable legislative requirements. The Group subscribes to high ethical standards and principles of corporate governance. For more details, and an overview of the Group governance and structure, please see the corporate governance section on pages 20 to 25.

The Group adheres to International Financial Reporting Standards (IFRS) in compiling its annual financial statements.

Scope and boundary

Adcock Ingram's Integrated Report covers the financial year 1 July 2019 to 30 June 2020. Comparatives are for the year 1 July 2018 to 30 June 2019 and included where available.

The report is released at least 15 business days prior to its Annual General Meeting to be held on 25 November 2020.

The report provides a general narrative on the performance of the Group which includes the holding company, and its subsidiaries and joint ventures across all territories. The business in South Africa has a material impact on the overall sustainability of the Group. The Group's presence in Kenya and India, individually and collectively, constitutes a small percentage of the Group's operations and are for that reason excluded from the operational review.

The B-BBEE assessment, as well as the employment equity statistics, exclude all non-South African companies and operations.

Assurance

The Board, in line with its responsibility, ensures the integrity of the Integrated Report. The Board has accordingly applied its mind to the Integrated Report and, in its opinion, the report fairly presents the integrated performance of the Group.

(1) *For compliance to King IV, please refer to https://www.adcock.co.za/documents/2020_KingIV.pdf*

Annual financial statements 2020

The annual financial statements for the year ended 30 June 2020 were approved by the Board on 25 August 2020.

An independent audit of the Group's annual financial statements was performed by PricewaterhouseCooper Inc. for the first time, following early implementation of the Mandatory Audit Firm Rotation.

B-BBEE scorecard

The Group's B-BBEE status has been verified by Empowerlogic, an independent verification agency, for the 2019 financial year. Through the external verification process conducted by the agency, the Group has been assessed as a Level 1 contributor in terms of the revised codes of the B-BBEE Act, following the successful implementation of the Youth Employment Service which resulted in a one level improvement from the actual score achieved. This rating is valid until 18 November 2020.

Carbon footprint

The Group's carbon footprint in South Africa, has been determined by "Carbon Calculated" for the 2020 financial year.

Other information

The rest of the Integrated Report has not been subjected to independent review or audit, and is derived from the Group's own internal records.

Document navigation

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- Manufactured capital
- Intellectual capital
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- Human capital

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- Growth and expansion
- Transformation

DIVISIONS

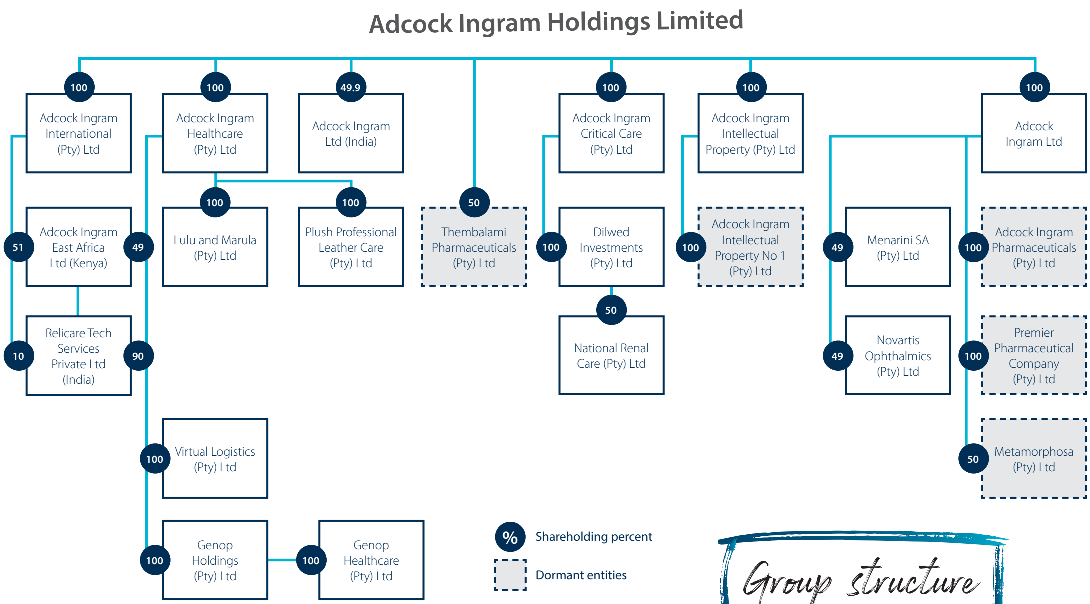
- Over the counter
- Hospital
- Prescription
- Consumer

NAVIGATION

- Refer to website

Adcock Ingram at a glance

Group structure



Who we are

Adcock Ingram is a leading South African pharmaceutical manufacturer listed on the Johannesburg Stock Exchange.

Our mission is to provide quality products that improve the health and lives of people in the markets we serve.

The Company manufactures, markets, and distributes a wide range of healthcare products and is a leading supplier to both the private and public sectors of the market. Through the recent acquisition of Plush the Company expanded into the Homecare market.

Adcock Ingram started as a small Krugersdorp pharmacy almost 130 years ago and now ranks as the second-largest local manufacturer in the private pharmaceutical market and a supplier to the public sector in South Africa. Beyond the borders of our own country, we serve markets in other African countries and also conduct operations out of India.

Adcock Ingram operates through a decentralised, autonomous operational structure that consists of four business units, each one structured to serve specific customer and consumer needs, and to meet specific regulatory requirements.

Business units

Consumer

CONSUMER competes mainly in the **Fast Moving Consumer Goods** (FMCG) space and includes market-leading brands such as Panado and Bioplus.

Over the counter

OVER THE COUNTER focuses on brands sold predominantly in pharmacy, where the **pharmacist** plays a role in the product choice and includes brands like Corenza and Citro-Soda.

Prescription

The **PRESCRIPTION** portfolio comprises products prescribed by **medical practitioners** and includes a range of quality and affordable generic medicines.

Hospital

The **HOSPITAL** portfolio has a long history with Baxter which positions Adcock Ingram as a leading supplier of **critical care products**, including intravenous solutions, blood collection products and renal dialysis systems.

What sets us apart

Major role player to the nation's healthcare services

Adcock Ingram is a leading manufacturer and supplier of hospital and critical care products in Southern Africa, and the largest supplier of critical care products to the South African public sector. Through a highly competitive tender system, we are a primary supplier of:

- antiretroviral (ARV) medicines;
- critical care products in hospitals; and
- blood donation bags to the South African National Blood Services.

Our operations are spread across sub-Saharan Africa and our manufacturing facilities are based in South Africa and India. The head office of the Group is located in Midrand, South Africa.

A LEVEL 1 B-BBEE CONTRIBUTOR

High-tech manufacturing facilities

The **tablet and capsule facility** located in **Wadeville** is focused primarily on the manufacturing of antiretroviral medicines.

The **Critical Care facility** situated in **Aeroton** produces intravenous fluids, blood collection bags, renal dialysis products and small-volume parenterals.

The **high-volume liquids facility** situated in **Clayville** is a state-of-the-art, highly automated factory primarily producing oral liquids and effervescent formulations.

BANGALORE (JV facility)	**Capacity – Tablets and capsules: 3.5 BILLION UNITS**
Accreditations:	Nigeria (NAFDAC),
UK (MHRA),	Ghana (FDB),
Australia (TGA),	Namibia (NMRC),
South Africa (SAHPRA),	Uganda (UNDA),
France (ANSM),	Zimbabwe (MCAZ),
Tanzania (TFDA),	Malawi (PMPB), and
Kenya (PPB),	Ethiopia (FMHACA)

Distribution

The Group through its agreement with RTT, has an extensive national footprint which is fully compliant with pharmaceutical standards and delivers over a million units per trading day through its various distribution centres to hospitals, wholesalers, the Department of Health, pharmacies, clinics, healthcare practices and retail outlets.

A broad range of services include bulk warehouse storage, direct delivery to healthcare customers through a fine picking system, delivery to all back-door retail outlets and distribution centres, temperature-sensitive deliveries, deliveries directly to renal home patients, management of customer returns and warehousing solutions designed to ensure a consistent storage environment. RTT's services includes despatch management, inter-depot movements, customer deliveries including cross-border, and the fleet, whilst Adcock Ingram is responsible for warehousing, orders, customer service, inventory management and planning, and compliance.

Consistent financial performance

Turnover	Trading profit	HEPS*	Cash on hand
3.8%	(1.2%)	(1.0%)	R317m
R7 347m	R944m	417.5c	
(2019: R7 078m)	(2019: R955m)	(2019: 421.7c)	(2019: R448m)

* *Continuing operations*

Our operating environment

What you need to understand about the working environment around us

The Regulatory Environment

The following regulatory bodies and regulations inform the way in which a South African pharmaceutical business is conducted:

The South African Health Products Regulatory Authority (SAHPRA)

SAHPRA is an entity of the National Department of Health, created to safeguard public health by the licensing of safe, effective and good quality medicines (including Complementary Medicines and Health Supplements), medical devices, in-vitro diagnostics, radiation devices and radioactive materials, and to license these manufacturers, wholesalers and distributors. SAHPRA is also responsible to maintain vigilance and ensure regulatory compliance of health products in South Africa. SAHPRA has three pillars to ensure that this mandate is executed: safety, efficacy and quality.

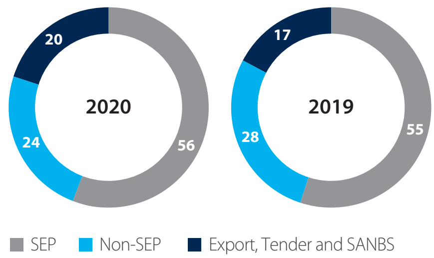
The ***Medicines and Related Substances Act, 1965*** (Act No. 101 of 1965), as amended (the Act) clearly defines the control of medicines and scheduled substances. Schedule 0 medicines can be sold in an open shop (i.e. supermarket) and Schedule 1 medicines and above must be sold in a pharmacy. Schedule 2 medicines and above should be kept behind the counter in a pharmacy, in a controlled area that is only accessible to authorised personnel who are allowed to sell these scheduled medicines. Schedule 0 and Schedule 1 medicines can be advertised to general public for self-medication purposes. The advertising of Schedule 2 and above to the public is prohibited.

In 2004, the government introduced transparent pricing for medicines, including a single exit price (SEP) for medicines sold in the private sector. The SEP is the price at which a manufacturer must sell to all pharmacies, irrespective of volume sold. The introduction of this transparent pricing system in the Act ensured that no-one could supply medicine according to a bonus system, rebate system or any other incentive scheme (Section 18A), including sampling of medicines (Section 18B). However, there currently exists an exemption from SEP and Section 18A for Schedule 0 medicines. SEP aims to improve medicine price transparency, and ensuring patients pay the same price for medicines irrespective of where they buy them – from pharmacies, hospitals or dispensing doctors.

The Minister of Health is required to determine on an annual basis, the extent to which medicine prices may be adjusted. The formula used to determine the adjustment is as follows:

% adjustment = 70% (South African CPI) + 15% (foreign exchange rate US$ movement) + 15% (foreign exchange rate Euro movement), but is at the Minister's discretion.

Turnover split
(%)



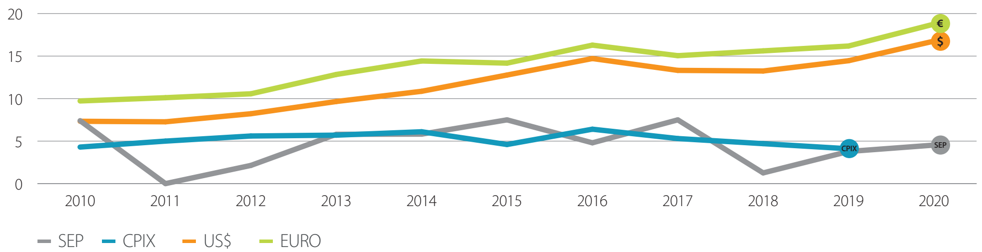
The Marketing Code of Authority (MCA)

The Marketing Code Authority (MCA) is an independent body with voluntary association, for the self-regulation of companies that market health products in South Africa. The MCA's Code of marketing practice is aligned with international best practice and requires members to apply the Code in all promotional activities concerning medicines, medical devices and IVDs. Enforcement of the Marketing Code will ensure that the promotion of health products in the healthcare industry to healthcare professionals and to the public is done in a responsible, ethical and professional manner.

Local Industry and Peers

Per IQVIA June 2020 Market report, the total market is valued at R56.4 billion, growing at 1.0% in value and 1.8% in volume. The private market is valued at R45.2 billion, declining 1.2% in value and 4.2% in volume. Prescription medicine represents 65% of the total private market, declining at 1.5% in value and 1.7% in units, with OTC medicine which represents 35% of the total private market, declining by 0.5% in value and 5.6% in volume.

CPI[1], SEP and exchange rate[2]
(%)



[1] *http://www.statssa.gov.za/publications/P0141/CPIHistory.pdf?*
[2] *https://www.nedbank.co.za/content/dam/nedbank/site-assets/AboutUs/Economics_Unit/Forecast_and_data/Daily_Rates/Annual_Average_Exchange_Rates.pdf*

Our Supply Chain

The Act specifies that manufacturers, importers, exporters, wholesalers and distributors of medicines and medical devices must hold a licence. To hold a licence there must be the ability to comply with good manufacturing practice (GMP), good wholesaling practice (GWP) and/or good distribution practices (GDP). Application for such a licence from SAHPRA also requires application to the South African Pharmacy Council (to record the pharmacy as an entity and the registration of the Responsible Pharmacist) and the Department of Health (to obtain a licence for the premises wherein or from which such business shall be carried on). As described above, the Pharmacy Act describes certain requirements for pharmaceutical companies and the Responsible Pharmacist, under whose supervision pharmaceutical operations must be conducted and certain duties and responsibilities which must be performed by pharmacists like manufacturing, release and distribution of medicines.

As a participating authority of the Pharmaceutical Inspection Cooperation Scheme (jointly known as PIC/S), SAHPRA requires that manufacturers, importers and exporters of medicines and related substances in South Africa meet the standards laid out in the PIC/S Guide to Good Manufacturing Practice (GMP). GMP describes a set of principles and procedures that, when followed, ensure that medicines and related substances are of high quality, safety and efficacy. SAHPRA may revoke, amend or suspend a licence when a statutory condition of that licence is no longer being met.

There are now 722 corporations competing in the total private market in South Africa, with the top 20 corporations contributing 74.1% of the total value market and the top 10 companies represent 55.5% of the total value market.

Aspen continues to be the overall market leader and the leader in the Prescription market, with Adcock Ingram leading the "Pure" OTC and non-scheduled markets.

Top corporations

Rank	Overall	Rx	OTC	Non-schedule	State
	All schedules	*Schedule 3 and above*	*Schedule 1 & 2 only*	*Scheduling not applicable*	*All schedules*
1	ASPEN*	ASPEN*	ADCOCK INGRAM*	ADCOCK INGRAM*	MYLAN
2	ADCOCK INGRAM*	SANOFI	ASPEN*	ASCENDIS*	SANOFI
3	CIPLA	NOVARTIS	CIPLA	CIPLA	ASPEN*
4	SANOFI	CIPLA	JOHNSON & JOHNSON (Consumer)	ASPEN*	ADCOCK INGRAM*
5	NOVARTIS	ADCOCK INGRAM*	INOVA PHARMA	ABBOTT	PFIZER
Total	**722**	**144**	**95**	**647**	**371**

* *denotes local corporations*

Leadership review from our Chairman and CEO

ANDREW HALL
Chief Executive Officer

LINDSAY RALPHS
Chairman

"Adcock Ingram is regarded as an essential service provider, and therefore no restrictions were imposed on the operations during the lockdown, albeit that the effects of the pandemic were evident across the business units in varying degrees."

Introduction

We present this year's integrated report in the wake of the global coronavirus (COVID-19) pandemic that has devastated humanity and economies. This pandemic has disrupted and challenged companies, including Adcock Ingram, to re-assess their business models and design innovative ways of doing business and engaging with stakeholders, particularly our customers and consumers. Adcock Ingram is an essential service provider, requiring that we have continued to remain operational throughout the nationwide lockdown, reacting and planning to the challenging circumstances within which we have had to operate. The health and safety of our employees has been a priority and we have, as part of our response to the pandemic, implemented robust protocols, in accordance with national and international guidelines, to ensure that we keep our employees safe, while navigating through the prevailing uncertainties. We are an integral part of the healthcare system and the medicine supply chain in South Africa. Our responsibility is to ensure that we continue to produce and supply medicines, particularly life-saving medicines such as intravenous fluids and ARVs, as well as other acute medicines and hygiene products that are used to treat and prevent COVID-19.

All of our South African factories, distribution network and other departments critical to the continuity of operations remained operational throughout the lockdown period, notwithstanding the challenges. The Company incurred additional spend of R31 million during the financial year pertaining to COVID-19 related operating costs, which included the provision of meals and transport for employees during the Level 5 lockdown, the implementation of additional hygiene protocols, disinfecting and decontamination procedures at all facilities, and pathology tests for employees.

Our joint venture factory in Bangalore closed for almost three weeks in late March and early April as it was unable to operate, despite being a pharmaceutical operation. Staff health and safety concerns, the inability to obtain deliveries of materials and closure of roads in the Karnataka district made normal operations almost impossible. By the end of April, the situation at that factory was generally back to normal, although a wave of infections struck the facility in August 2020.

Our commitment to providing products that improve the health and lives of the people in the markets that we serve, has probably never been more relevant than it was in 2020.

We salute all people, particularly healthcare workers, serving on the frontline, and our own employees who have made a difference to ensure that essential services are available to our country during this time.

Environment

The COVID-19 pandemic has added a tremendous amount of pressure to an already constrained South African economy, and has resulted in a recession with negative or very poor growth that will probably last for some time. Whilst it was necessary for the control of the disease and preservation of lives, the nationwide lockdown added to the current pressures on the economy which include electricity supply constraints, the downgrading of the country to junk credit status, along with significant weakening and volatility of the Rand. Consumer confidence has weakened considerably, consumer price inflation is at its lowest level since 2004, and the South African economy recorded its fourth consecutive quarter of economic decline with a unprecedented decline reported for the second quarter GDP of 2020, the steepest contraction since the first quarter of 2019, and the unemployment rate has risen to more than 30%.

Global and nationwide lockdowns had a significant impact on our supply chain, including on the sourcing of active pharmaceutical ingredients and certain finished products from Europe, India and China, but the Company managed to counteract these challenges and keep its supply chain intact during the pandemic.

Once again, Adcock Ingram has shown itself to be a well diversified pharmaceutical company, continuing its 130-year heritage, with a proven track record for innovation and resilience to adapt to a changing environment.

Industry overview

The Company operates within an industry that is governed by a highly regulated framework. Prior to COVID-19, the National Health Insurance (NHI) Bill was tabled in Parliament in August 2019. The Pharmaceutical Task Group that represents about 90% of the pharmaceutical industry in South Africa submitted a consolidated written submission on the Bill towards the end of 2019, supporting universal healthcare. Notwithstanding, the submission related to issues including procurement and supply mechanisms for medicine that would facilitate the long-term viability of the pharmaceutical industry in South Africa, maintenance of quality and the level of care within the NHI system, and a milestone approach in terms of implementation and governance. Adcock Ingram is supportive of NHI and the role that it could play, provided there is certainty on the funding model, it is rolled-out in a phased and sustainable manner, and it does not place the local pharmaceutical manufacturing sector in jeopardy. COVID-19 has provided significant evidence that countries which rely solely or heavily on foreign jurisdictions for imports of medicine are at risk in times of a global healthcare crisis.

The South African Health Products Regulatory Authority (SAHPRA) has faced many challenges during this period. An area that the regulator is focusing on is the Backlog Clearance Programme, and there has been positive progress in the generation of outstanding registration certificates and approval of new products. Launched in August 2019, the programme was geared towards clearing the registration backlog in two years, but given the shift in priorities at the Regulator during COVID-19, this timeline will not be met.

Since the appointment of Dr Boitumelo Semete-Makokotlela as the CEO of SAHPRA in January 2020, the industry has seen incremental improvements that include digitisation, human resource recruitment for critical vacancies and an increase in the output of regulatory reviews. We commend SAHPRA highly for its timely response in relation to any matters critical to the management of COVID-19 during the course of the year, including, in the case of Adcock Ingram, processing of post-importation testing exemptions, facility inspections and Section 21 applications.

The most recent Single Exit Price increase awarded to the industry in the latter part of the third quarter of the financial year under review was 4.53%. Although this price adjustment for 2020 was in line with the consumer price index, the quantum does not compensate for the rate of production inflation in wages and utilities, and the continued, and now highly significant further deterioration of the Rand.

Performance

We consider the results for the year to June 2020 to be very satisfactory within the economic environment outlined earlier, compounded by the many challenges encountered during the COVID-19 pandemic. Turnover increased by 4%, a pleasing statistic, considering that the total private pharmaceutical market, as measured by IQVIA, declined by 1% in value and volume. Margin pressure is evident at the gross margin, which as a percentage of sales decreased from 39.4% to 37.3%, adversely impacted by the unfavourable exchange rate, inflation in wages and utilities, and additional expenditure required in managing the pandemic. Operating expenditure was very strictly controlled and decreased by 2% year-on-year, despite average inflation of 4%, a 5% salary increase granted to employees in December 2019 and COVID-19 related expenditure. This resulted in trading profit decreasing by just 1%.

Headline earnings from continuing operations increased by 1%, whilst headline earnings per share decreased by 1% to 417.5 cents following the unwinding of the B-BBEE scheme which resulted in a higher number of shares in issue.

The Company generated R1.1 billion of cash from operations and is in a healthy financial position. At the end of the financial year, the Company had cash reserves of R317 million, after having paid dividends of R350 million during the year, acquired Plush for R309 million and conducted share repurchases amounting to R157 million. Following the slow performance of the pharmaceutical market subsequent to March 2020, as well as the extraordinary levels of uncertainty in the economy and operating environment brought about by COVID-19, a prudent approach was adopted in not declaring a final dividend, but rather preserving cash until the full impact of COVID-19 is better understood.

Living our strategy

The Group operates through a decentralised business unit model which has four autonomous operating divisions that are aligned to the overall strategy of the business.

The **OTC division** is the leader in the pain, cough, colds and flu, and anti-histamine therapeutic areas, operating mainly through the pharmacy channel, competing in both the private and public sectors, as well as in some export markets in sub-Saharan Africa. The division is the market leader in Schedule 1 and 2 medicines in retail pharmacy with share of 20% by value and more than 30% by volume. Iconic brands marketed by the division include Adco-Dol, Corenza C, Allergex and Citro Soda.

The division experienced a challenging first half of the 2020 financial year, mainly attributable to the temporary voluntary sales suspension of BronCleer with codeine, as well as operational and consequent inventory supply challenges at the Clayville factory. This high-volume liquids factory is the biggest manufacturer of oral syrups in South Africa. The second half of the financial year was influenced by the COVID-19 pandemic and the division adjusted its operations in order to ensure that there was an uninterrupted and consistent supply of medicines in the country. Some of the division's brands achieved higher than average sales during the COVID-19 induced panic-buying period in March, particularly Corenza C and Alcophyllex. However, one of the outcomes of the strict social distancing measures under COVID-19, was the absence of a regular flu season in South Africa, which resulted in the very slow sales of the traditional winter basket in May, June and the period subsequent to the financial year-end. Cough, colds and flu products normally comprise 40% of the division's portfolio.

Our **Prescription business** has been hit hardest by the pandemic and subsequent lockdown, and recorded substantially lower volumes than the prior year, partly as a result of reduced participation on certain formularies consequent to downward pricing pressures from funders, but also due to significantly reduced demand for many acute medicines and medical equipment during the pandemic, with low numbers of patients consulting healthcare practitioners and visiting dispensaries, suspension of elective surgeries, and reduced medical and trauma cases. Despite these challenges, the division delivered ex-factory revenue growth of 1%, whilst the Prescription private market as measured by IQVIA declined by almost 2%.

The Generics portfolio accounts for approximately one third of the division's revenue and delivered in-market growth of 3%, which was ahead of the market growth (IQVIA). The division re-introduced Scopex Co to the market this year, indicated for the treatment of stomach cramps, and relaunched Adco-Etoricoxib, the first-to-market generic etoricoxib indicated for the treatment of moderate to severe rheumatic pain.

The division has maintained its position as the leader in the pain therapeutic category with some of the major contributing products being Synaleve, Myprodol, Gen-Payne and Mypaid Forte. The Women's Health team secured a five-year licensing agreement with Sandoz, for a portfolio of products, and also obtained the marketing authorisations for Boniva and Bondronat, for the treatment of osteoporosis, through a licensing agreement with Atnahs.

The Genop business performed well, despite sales of ophthalmic equipment and surgical consumables coming to a virtual standstill during the COVID-19 pandemic. Epi-max, a market-leading emollient in South Africa, continues to grow.

Entry into more specialised segments has been a long-term strategic intent for the division, and just after the financial year-end it launched its first biosimilar, of infliximab, for the treatment of a number of conditions, including ulcerative colitis, Crohn's disease and rheumatoid arthritis. Subsequent to June 2020, the division also received registration for a biosimilar of rituximab.

The antiretroviral (ARV) business has had a difficult year. Nevertheless, this portfolio remains a key pillar for the division, which aims to strengthen the Company's commitment to local manufacturing. The de-listing of Trivenz from a large private sector formulary had the biggest impact on the portfolio's performance. The portfolio now includes two single-tablet regimens for the treatment of HIV, Trivenz and Nuvaco, the latter a Tenofovir, Lamivudine, Dolutegravir (TLD) fixed-dose combination, for which demand in the public sector is slowly beginning to gain momentum.

The division continues to deliver value to partners with the business including Leo Pharma, Takeda, Roche, Biocodex, Lundbeck and Novo Nordisk. The Dermatology team successfully integrated the former Bayer dermatology portfolio and team into the division, delivering on its commitment to its longstanding partner, Leo Pharma.

The **Consumer division** has shown a very healthy performance from its leading brands and achieved growth in turnover of 13%. Panado continues to grow its market share through high-visibility marketing campaigns driving trust, equity and awareness, and recorded sales in excess of R400 million this year. Demand for Panado was at unprecedented levels during COVID-19. Island Tribe, after a packaging revamp, achieved double digit growth and now ranks in the top five Sun Care brands in South Africa. Bioplus competes in both energy supplements and energy drinks segments, and achieved 8% growth, even though under COVID-19, demand for energy products was low. On the innovation front, the division launched the ADCO CBD cannabidiol range in both capsule and drop variants, targeting pain and stress relief.

In line with Company's strategy to pursue value-adding acquisitions, particularly in less-regulated areas of the market, the division acquired Plush, a well-recognised South African brand with over 55 years in the market, which markets a portfolio of shoe and leather care, and home care and cleaning products.

Earlier in the year, the division acquired Lulu & Marula, a fledgling brand within the natural skincare sector in South Africa. The product is locally produced and is a scientifically formulated skincare range making use of botanical and plant-derived ingredients.

The **Hospital division,** which is the leading manufacturer and supplier of critical care and hospital products in South Africa, increased turnover by 12%. Excellent performances were achieved by Adco-Hygiene, with significant COVID-19 induced demand for hygiene products. The division holds a market leadership position in intravenous solutions, renal therapies and blood transfusion therapies where it is the largest supplier of blood collection bags to the South African National Blood Services. The renal business continues to show outstanding growth, benefiting from its long-standing partnership with National Renal Care. Demand for intravenous fluids was erratic, peaking as hospitals planned ahead of the expected COVID-19 surge, but then dropping off significantly when hospital occupancies were low, with no elective surgeries and reduced trauma and medical cases. As part of the Company's growth and expansion strategy, the division ventured into sports medicine and rehabilitation in January 2020, marketing a range of products directly to physiotherapists and sports medicine practitioners. After a promising start, this team had to suspend its activities during the national lockdown, but resumed operations after the end of the financial year.

Rest of Africa

The Company is in the process of closing its office in Kenya as part of the Group's strategy of not investing in fixed infrastructure in the Rest of Africa. The Group will in future conduct sales through distributorships or agencies in markets that are of interest to the Company.

Manufacturing

Our manufacturing facilities that prioritise and ensure our products are manufactured with the highest standards of safety, efficacy and quality, are at the heart of our operations. All manufacturing sites hold accreditations from SAHPRA.

Our **high-volume oral liquids and oral powders facility** in **Clayville** was negatively impacted by water quality and supply challenges, but increased throughput in comparison to the prior year. The construction of the Ophthalmic facility is complete and will commence operations once an inspection is conducted by, and approval received from SAHPRA. We expect this accreditation before the end of the 2020 calendar year.

The **liquids, creams and ointments facility** in **Wadeville** increased output over the prior year. However, significant under-recoveries and poor yields were experienced in the oral solid dosage (OSD) section of this facility. An upgrade, including further automation of certain production processes was undertaken in the OSD section to correct these issues and completed early in the new financial year. This upgrade will result in more consistent supply of the triple combination ARVs.

Our **Critical Care facility** in **Aeroton** ensured that during the COVID-19 pandemic it was able to deliver a consistent supply of life-saving medication to our country during this critical time. The facility, which manufactures intravenous solutions, renal dialysis products and blood collection bags, had excellent throughput in the period under review, operating at full capacity, outside of temporary closures for planned maintenance.

Distribution

Our Distribution department continues with its focus on improving service levels, maintaining regulatory compliance, and tightly managing costs.

Early in the 2020 calendar year, an initial four-year arrangement was reached with RTT to take over the Company's product delivery infrastructure, including the owner-drivers and their staff. Subsequent to implementation on 1 March 2020, the scope of services provided by RTT includes despatch management, inter-depot movements, office courier, customer deliveries including cross-border, and the fleet. Our in-house department remains responsible for warehousing, orders, customer service, inventory management and planning, and compliance.

In January 2020, a new distribution centre was established in Halfway House, which houses the Genop laboratory, and training and procedure room. It also serves as the bulk receiving and storage site for Epi-Max, and services Critical Care's Gauteng North customers.

The COVID-19 pandemic added activities and compliance measures to the infrastructure in order to ensure that service delivery levels are maintained, including shift rotations and additional hygiene protocols.

Transformation

The Group was delighted to achieve a level 1 B-BBEE rating during the independent verification process in November 2019. The successful implementation of the Youth Employment Service initiative elevated the Company from a level 2 B-BBEE rating to the current level. The material changes contained in the B-BBEE legislation combined with the COVID-19 pandemic will impact some of the elements of the scorecard namely, Skills Development and Preferential Procurement, and the Company will be faced with a significant challenge to maintain its current level B-BBEE rating during the next verification. Nonetheless, the Company believes that the advancement of B-BBEE is a key driver to address economic and social inclusivity in our country, and transformation objectives are embedded into our social, human capital and procurement processes.

EMPOWERLOGIC
Your Logical Empowerment Solution

Broad Based Black Economic Empowerment Verification Certificate

A Consolidated Verification Certificate Issued to

Adcock Ingram Holdings

Level 1 Contributor

Measured Entity	
Company Name	Adcock Ingram Holdings
Registration Number	2007/016236/06
VAT Number	4770242057
Address	1 New Road Midrand South Africa

B-BBEE Status			
B-BBEE Status Level	Level 1		
Element Points Obtained	EO: 23.73 points; MC: 15.37 points; SD: 17.8 points; ESD: 33.38 points; SED: 5 points		
Discounting Principle Applied	No	**Measurement Period Year End**	30/06/2019
Empowering Supplier	Yes	Achieved Y.E.S target and 2.5% Absorption: Moved up 1 B-BBEE Recognition Level	

Board

The Board continues to demonstrate its commitment to adhere to good corporate governance, including the structures, processes and practices used to direct and manage the Company's operations. As the custodian of corporate governance, the Board is aware of its responsibility to lead the Group competently and with integrity, to ensure fairness, accountability and transparency.

Way forward

The COVID-19 pandemic has added an additional burden to the already depressed economic environment, unfavourable exchange rate, high unemployment levels and low disposable income of consumers, and given the uncertainties inherent around the pandemic, we do not foresee an improvement in the short term. Despite this short-term outlook, we have confidence in our well-respected and diversified brands, our people and our infrastructure, and will continue to deliver on our commitment of "Adding Value to Life".

Appreciation

We thank the members of the Board, our regulator, customers, consumers, shareholders, suppliers, partners and employees for their collective contributions that have assisted the Group in achieving success through a challenging financial year.

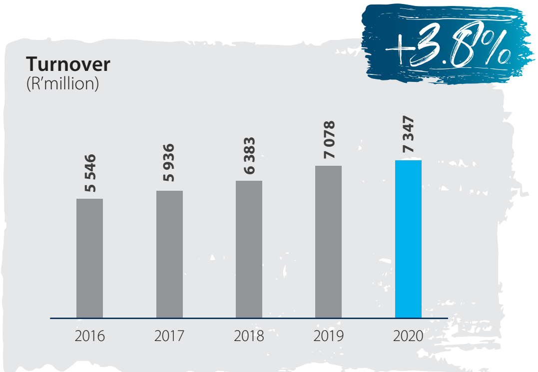
Refer page 16 for the COVID-19 timelines applicable to the Group

Financial Review

DORETTE NEETHLING
Chief Financial Officer

"The Group is pleased with the results delivered operating under the current depressed and unpredictable business environment, exacerbated by the global COVID-19 pandemic and consequential weak exchange rate, global supply chain disruptions, declines in demand for certain categories of medicine and products, and low levels of consumer discretionary spending."

Turnover increased by R268 million to R7.3 billion, with both Consumer (including R19 million from Plush in June) and Critical Care growing sales ahead of 10%, supported by the increased demand for certain products since the COVID-19 outbreak. A change in mix contributed 4.2% supported by the on-boarding of the Bayer portfolio and the inclusion of Plush for one month. An average price realisation of 2.6% was achieved, mainly driven by the Consumer business, but overall organic volumes were down 3%.



Gross profit of R2,739 million is R50 million lower than the comparative year.

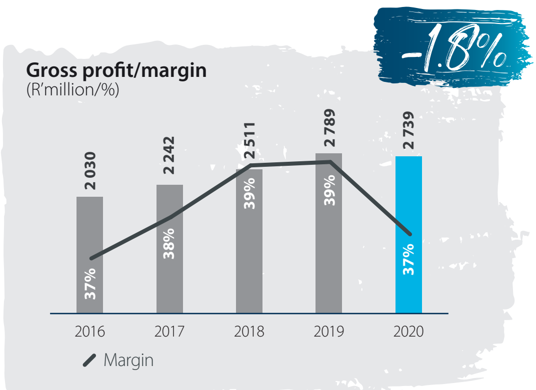
Gross margin of 37.3% ended below the prior year (39.4%), adversely impacted by:

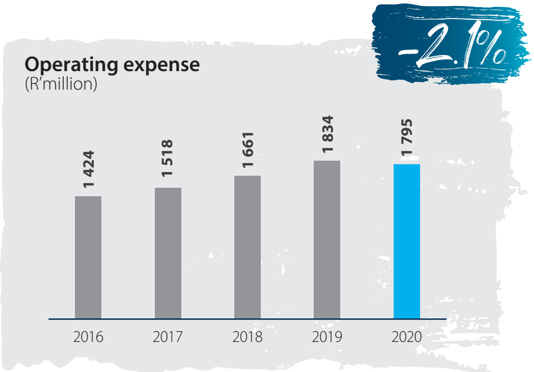
- unanticipated costs related to COVID-19 of R23 million, incurred in the factories;
- production inflation in wages and utilities running significantly ahead of selling price increases;
- poor factory recoveries at Clayville and Wadeville; and
- the weaker currency.

During the year the following material foreign currencies were bought in the South African businesses:

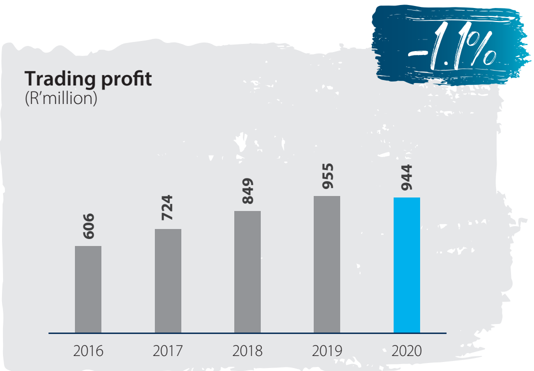
- Euro 50 million @ R16.91, a 3.8% weakening over the prior year (R16.29); and
- US$71 million @ R15.07, a 7.6% weakening compared to the prior year (R14.00).

With approximately 55% of FEC's in US$ and 44% in Euro – the cost of our weighted basket of all currencies increased by 6% in 2020, compared to the prior year.





Operating expense discipline has been outstanding, ending R39 million lower than the prior year, inclusive of R8 million spend on COVID-19 in the distribution and administrative facilities and an average 5% salary increase granted in December 2019.



Trading profit of R944 million ended R11 million below: the prior year.

Non-trading expenses of R82 million include

- retrenchment costs of R34 million;
- a loss on de-consolidation of the owner-driver companies of R19 million;
- the impairment of intangibles of R16 million; and
- an ex-gratia payment of R10 million made to the shareholders of Ad-izinyosi Proprietary Limited.

Operating income of R862 million ended 2.4% below the prior year.

The **net finance cost** for the year is R34 million, which includes the IFRS 16 finance costs of R29.7 million.

Equity accounted earnings for the year of R97.5 million increased 7.5% over the prior year, and 4.7% on a like-for-like basis. It includes the result for:

- National Renal Care (NRC), the joint venture with Netcare; and
- the manufacturing plant in India, the joint venture with Meiji of Japan.

The prior year also included the Group's share of the Ghana associate until it was sold.

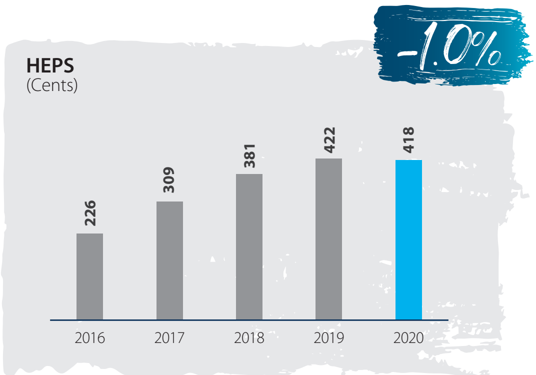
Profit before tax for the year is R930 million, 3.8% lower than the prior year.

The **effective tax rate,** adjusted for equity accounted earnings is 29.8%, with non-deductible expenditure causing the increase over the statutory rate.

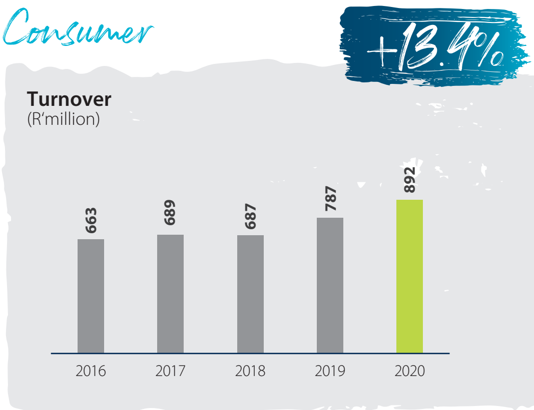
+1.2%

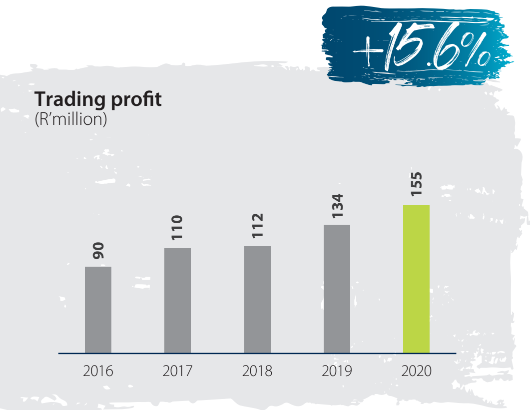
Headline earnings for the year amounted to R710 million compared to the prior year of R701 million, an improvement of 1.2%.

Headline earnings per share from continuing operations decreased by 1% to 417.5 cents (2019: 421.7 cents) following the unwinding of the B-BBEE scheme which resulted in a lower number of treasury shares. The R10 million *ex-gratia* payment with the lower number of treasury shares, on a combined basis, adversely impacted HEPS by 18.1 cents (4.3%).



Consumer





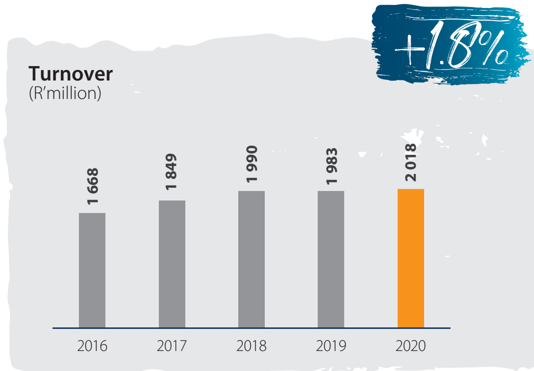
Turnover of R892 million ended R105 million above the prior year, the result of consistent strong performance throughout the year and price realisation of 7.5%. Volumes increased 2.5%, bolstered by an exceptional sales performance in March, and mix contributing 3.4% supported by the inclusion of Plush in June. The last quarter witnessed subdued demand, albeit not to the same extent as the rest of the Group, due to restricted movement during the national lockdown, as well as consumers having stockpiled in March.

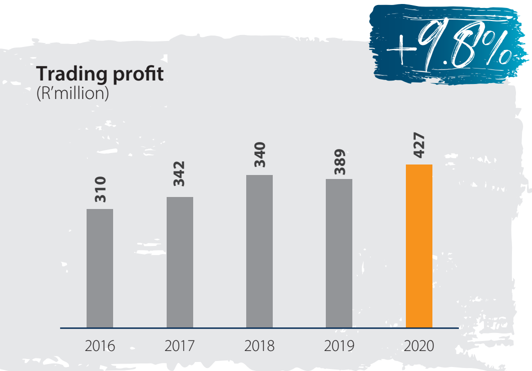
The gross margin ended marginally ahead of the prior year due to excellent negotiations with suppliers.

Operating expenses ended above the prior year as a result of higher marketing spend to adapt to the change in consumer behaviour due to COVID-19, and ensuring online visibility of major brands.

Trading profit of R155 million ended R21 million above the prior year.

Over the Counter (OTC)





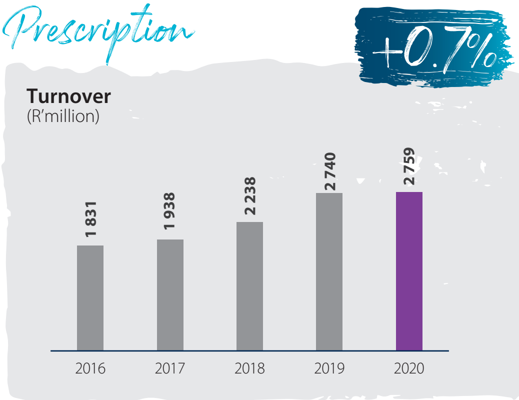
Turnover of R2 018 million ended R35 million above the prior year, which needs to be seen in the context of the impact of the difficult trading conditions and the absence of a flu season in South Africa which normally starts in May. Cough, cold and flu preparations represent almost 40% of the OTC portfolio. Price realisation in this business was 4.4%.

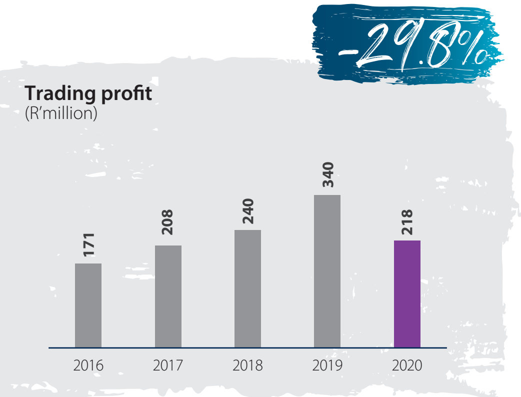
Gross margin ended below the prior year, adversely impacted by the weaker currency and additional costs related to COVID-19 and lower factory recoveries in the first half of the year.

Operating expenditure has been extremely well controlled and ended below the prior year, including the rapid response to the impact of COVID-19 on normal operating activities, with a reduction in certain selling and marketing activities.

Trading profit of R426 million ended R38 million above the prior year.

Prescription





Turnover for the year of R2 758 million ended R19 million above the prior year, as difficulties were experienced in the ARV and Branded segments and only 0.1% price realisation. Volumes were down 7.8%, with ARV volumes decreasing by 20%, impacted by the loss of the Discovery formulary listing for Trivenz and the slow roll out of DLT by the State. The Branded portfolio recorded a decline in volumes of 14%, impacted by the COVID-19 pandemic and subsequent lockdown which resulted in lower levels of patient activity at doctors and pharmacies, as well as postponement of elective surgeries. This impacted demand in the Pain, Dermatology, Urology and Ophthalmology segments in the last quarter.

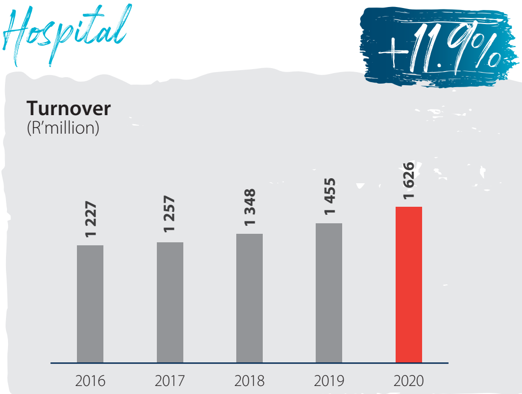
However, the segment benefitted from the inclusion of the Bayer portfolio in the current year contributing R133 million.

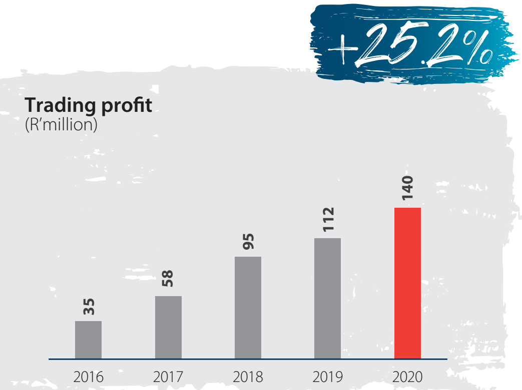
Gross margin ended below the prior year, adversely impacted by the weaker currency, inventory obsolescence provisions, additional costs related to COVID-19 and poor factory recoveries at Wadeville.

Operating expenses for the year were well controlled, ending 7% below the prior year.

Trading profit of R218 million for the year ended a very disappointing 29.8% below the prior year.

Hospital





Turnover of R1 628 million ended R173 million ahead of the prior year. Price realisation was 2.1%, with volumes increasing 7.1%, as both the Renal segment and the Adco-Hygiene business within Medicine Delivery benefitting from buy-ins related to the COVID-19 pandemic. However, in the last quarter demand for hospital products was subdued, with private sector hospitals running significantly below capacity, with almost no elective surgeries, and fewer trauma and medical cases.

Gross margin ended in line with the prior year, driven by an advantageous sales mix, and excellent throughput in the factory, which compensated for the weaker exchange rate and additional costs incurred in the operations to ensure continuity of supply during the COVID-19 crisis.

Operating expenditure ended above the prior year, with higher selling and distribution expenditure consequent to the increased sales, as well as the launch and operating costs of the Sports Science and Rehabilitation business.

Trading profit of R141 million ended R28 million above the prior year.

Balance Sheet

The movement of R10 million in Property, plant and equipment since June 2019 is mainly a result of:

- additions of R154 million;
- the take-on of the Plush business (R6 million);
- offset by:
- depreciation of R147 million; and
- the loss of control over the owner-driver entities (R18 million).

Right-of-use assets in accordance with IFRS 16 had a carrying value of R264 million, after depreciation charges of R39 million.

Intangible assets, including goodwill, now have a carrying value of R929 million and comprise of Generic, Consumer and OTC trademarks, brands and licence agreements. This amount includes the goodwill and intangibles of R342 million recognised on the acquisition of Plush in June this year, as well as the goodwill and intangibles of R285 million recognised on acquisition of Genop in the 2018 financial year. Intangible assets include a charge for amortisation of R10 million and impairments of R16 million in the year.

Inventory of R1.9 billion (2019: R1.3 billion) is stated at the lower of cost and net realisable value, after provisions of R236 million (2019: R199 million). Days in inventory increased to 137 days compared to 108 days at June 2019, mainly arising from:

- the investment in active pharmaceutical ingredients related to the ARV tender;
- on-boarding of the Bayer dermatology brands;
- the launch of the Sports Science and Rehabilitation division in Critical Care;
- the take-on of Plush; and
- higher inventory held to address global supply constraints as a result of COVID-19.

Trade accounts receivable of R1.4 billion (June 2019: R1.6 billion) are shown net of provisions of R42 million (June 2019: R32 million). Days in receivables are 66 days, marginally up from the 64 days reported in June 2019. Government debt is 20% of the total gross debtors' book.

The Group had cash resources of R317 million at 30 June 2020, after the settlement of the Plush acquisition which resulted in a net outflow of cash of R309 million.

The Group is comfortably able to service its obligations in the short-term with R1 billion of working capital facilities available.

The impact of the changes following the adoption of IFRS 16 Leases has been disclosed in detail in the Accounting policy election section of the annual financial statements.

COVID-19 timelines

28 February
Overseas traveling prohibited within the organisation and tight restriction placed on local travel

11–12 March
WHO declares COVID-19 a pandemic. Establishment of the Adcock Ingram COVID-19 Crisis Committee (CCC) to consider, plan and react to matters related to the pandemic

15 March
President Ramaphosa declared Coronavirus (COVID-19) a national disaster in terms of the Disaster Management Act

17 March
Work from home procedures and guidelines and suspension of face-to-face in-field activities were enforced

Screening procedures for all employees and visitors attending our sites implemented

Compiled a comprehensive COVID-19 toolkit, additional bandwidth secured, business continuity plans formalised; working from home and wellness support provided

Essential worker travel permits issued to all employees who were reporting for duty as per regulations

25 March
All of our factories, our distribution network and other departments critical to the continuity of operations to be operational throughout the lockdown period and all staff in critical areas will be required to report for duty

26 March
Start of lockdown at Alert Level 5

9 April
Announcement from the President that the lockdown Level 5 is extended

9 April
COVID-19 Employee survey to gauge employees' concerns and fears

Guidelines for symptoms' monitoring and management of COVID-19-related infections

Quarantine rooms reserved at all sites in the event an employee presents with symptoms of COVID-19 during working hours

Implementation of a contact tracking and tracing register

Enforcement amongst others of mandatory wearing of cloth face masks by all non-manufacturing employees until the risk of the virus has sufficiently abated

21 April
Announcement of the five-level risk adjusted strategy for COVID-19 by the President

23 April
First positive case for Adcock Ingram at Critical Care facility

1 May
Level 4 lockdown implemented

26 May
Proposed business restructuring/right-sizing as result of economic impact of the COVID-19 pandemic on the economy

1 June
Level 3 lockdown implemented

Enablers to flatten the COVID-19 and mental health curve

Continuous communication and education on COVID-19. Communication from the CEO office to employees on various platforms. Training on COVID-19 disease area, quarantine/isolation and testing criteria to ensure consistency across the organisation. Leadership communication to employees. ICAS assistance to all employees on COVID-19 and mental health. Continuous engagement with organised labour.

Additional disinfecting and decontamination procedures at all sites, with special measures in factories, canteens and ablution facilities

Process flow on how to handle suspected or confirmed cases of COVID-19 in the workplace and home environment. Business continuity plans updated for every site

Regular employee engagement and communications, focusing on education on COVID-19, hygiene protocols, social distancing, government communications and regulations, etc

23 March

Pronouncement of a nationwide lockdown at Alert Level 5 to help combat and delay the spread of COVID-19 to commence on 26 March

The CCC, chaired by the Executive Director: Human Capital & Transformation, consists of human capital, medical, legal, commercial, operations, IT, distribution, M&A, communications and finance executive managers. The CCC meets regularly, at least on a weekly basis, to consider challenges that are being experienced in the business, and ensure company-wide and consistent operational and communication strategies in response to the Coronavirus

10 April

Flu vaccinations offered to all employees at the Company's cost

14–20 April

Suspension of filling of non-critical roles

Staggered arrival and departure time for factory employees to reduce queuing at clocking-in stations

Employees are notified of COVID-19 online Doctor Consultation services

Provided sanitisers to taxi operators contracted to transport Adcock Ingram employees

Conversion of Return-to-work guidelines into a policy in line with the Disaster Management Act, 2002 requirements

Staggered tea and lunch times to limit number of employees in canteen, and arranged tables and chairs to ensure correct social distancing

Appointment of COVID-19 officers. These employees are COVID-19 ambassadors and appointed to ensure proper implementation and adherence to COVID-19 preventative measures

2 June

Implemented a SMS system *Appsolve* to pre-screen employees' health in order to detect if any employee shows COVID-19-related symptoms to combat the spread of the virus

18 June

Re-opening of additional industries to further increase economic activity

19 June

Adjusted the Return-to-work guidelines to cater for change in regulations regarding place of congregation

24 June

COVID-19 related fatality at Adcock Ingram Critical Care

30 June

Statistics for Adcock Ingram:
Active positive cases = **33**
Recoveries = **4**
Death = **1**
In quarantine = **53**
Out of quarantine = **174**

4 Sep

Statistics for Adcock Ingram:
Active positive cases = **4**
Recoveries = **260**
Deaths = **3**
In quarantine = **0**
Out of quarantine = **619**

Golden rules and COVID-19 protocols

1. Frequent washing of hands for at least 20 seconds. Use soap and water or an alcohol-based hand sanitiser
2. Social/physical distancing, 1.5m minimum between employees
3. Avoid touching your eyes, nose or mouth
4. Cover your nose and mouth with your bent elbow or a tissue when you cough or sneeze
5. Stay at home if you feel unwell. If you have a fever, a cough and difficulty breathing, seek medical attention
6. Mandatory wearing of face masks by all non-manufacturing employees
7. Employees working within manufacturing facilities make use of disposable face masks in line with Good Manufacturing Practice (GMP), but should nevertheless ensure that they use a cloth face mask when travelling to and from work

Mapping our approach to integrated thinking and our business model

Our capitals defined		Our capitals inputs
Financial Capital	We use cash generated by our operations as well as debt financing to run our business and fund growth	The Group has **R317 million** in cash as well as access to working capital facilities of R1 billion to finance operations, expansions and acquisitions
Human Capital	Consists of a diverse set of people with specialist skills and experience suitable for the needs of the Company	**2 388** permanent employees
Intellectual Capital	Consists of our proprietary and licensed products, brands, dossiers, technologies, software, licenses, and standard operating procedures	**1 371** registered trademarks and **82** pending trademark registrations in South Africa
Social and Relationship Capital	Is built on the relationships we have with our key stakeholder groups	As members of Proudly South African we share a commitment to an uplifting ethos that promotes social and economic change and progress
Manufactured Capital	Consists of all the tangible assets we rely on to conduct our operations and business activities	3 manufacturing plants in South Africa; 1 manufacturing plant (JV) in India; The Group also has access to various 3rd party manufacturers; and various distribution centres/hubs throughout South Africa
Natural Capital	We require packaging material, raw products, water, fuel, electricity, land and air to conduct our activities and operations	Electricity usage (kWh): **53 806 727** Water usage (Kl): **355 002** Industrial coal usage (tonnes): **4 734**

When making decisions on how to manage and grow the business, we consider those resources and relationships which are critical to our ability to create value. Input of each of the six capitals are needed for the effective management and subsequent value creation for all our stakeholders.

Our mission

We are committed to providing quality products that improve the health and lives of people in the markets we serve

... while actively managing our risk universe ... (page 28)

... and continue to focus on our three strategic focus areas ... (page 26), considering the following material matters:

- Portfolio diversification to support growth and be less dependent on SEP regulated products
- The macro-economic environment in which we operate, post COVID-19
- Quality and output efficiencies in our manufacturing plants
- Transformation

The regulatory and healthcare environment in which we operate (page 04), inform the way the following business activities are performed:

Product sourcing	3rd party product providers Raw materials sourced locally or internationally
Research and development	Buy intellectual property Develop intellectual property
Manufacturing	Each facility has been built for a specific purpose, for the manufacturing of: • Oral liquids • Creams and ointments • Effervescent granules and powders • Tablets and capsules • Parenterals
Distribution	42 600 pallet spaces across sites including Midrand, Aeroton, Clayville, Cape Town, Durban, Bloemfontein, Port Elizabeth
Sales and marketing	Sales and marketing activities differ from one division to the next depending on their regulations and customer base

realising the following capital outcomes

FINANCIAL CAPITAL

R388 million payments to providers of capital (interest and dividends)

HUMAN CAPITAL

R1.4 billion employee remuneration, including share-based payments

SOCIAL AND RELATIONSHIP CAPITAL

R6.7 million total CSI spend

MANUFACTURED CAPITAL

R154 million capex (maintenance and expansion) spend

Grounded in good corporate governance

The Board of Directors

Independent Non-Executive Directors

LULAMA BOYCE (41)
CA(SA), MCom (Fin Mgt)
Appointed: 24 May 2017

SIBONGILE GUMBI (48)
PhD in Pharmacology, MBA
Appointed: 13 August 2019

MATTHIAS HAUS (71)
MB ChB, MD, DCH, FCFP, Hon FCMSA FFPM (RCP), Dip Obst
Lead independent director
Appointed: 1 June 2012

CLAUDIA MANNING (53)
PhD
Appointed: 24 November 2016

DEBBIE RANSBY (47)
CA(SA)
Appointed: 13 August 2019

MICHAEL SATHEKGE (53)
MB ChB, MMed (Nuclear Medicine), FAMS, PhD
Appointed: 25 August 2020

Non-Independent Non-Executive Directors

NOMPUMELELO MADISA (41)
BSc, BCom (Honours), MCom (Finance and Investment)
Appointed: 23 November 2017

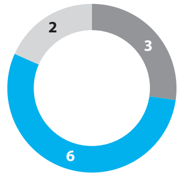
LINDSAY RALPHS (65)
CA(SA)
Chairman
Appointed: 24 November 2016

KEVIN WAKEFORD (60)
CA(SA)
Appointed: 27 August 2019

Corporate governance is about the structures, processes and practices that the Board uses to direct and manage the Company's operations. The Board is committed to adhering to good corporate governance, and as a custodian thereof, ensures that the Adcock Ingram Group adheres to the highest standards of accountability and ethical conduct.

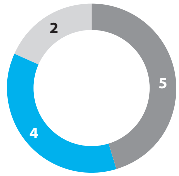
Board diversity*
(including executive directors)

Tenure on Board



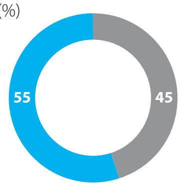
0 – 2 years
2 – 5 years
6+ years

Age



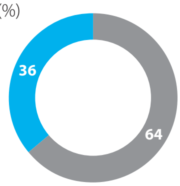
40 – 50
51 – 60
61 – 70

Race
(%)



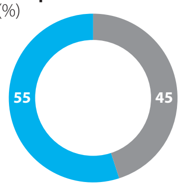
Black
White

Gender
(%)



Female
Male

Independence
(%)



Independent
Non-Independent

* *excluding appointment after yearend*

adcockingram/leadership.asp

All directors have unlimited access to the Company Secretary for advice to enable them to properly discharge their responsibilities and duties in the best interests of Adcock Ingram. The Company Secretary works closely with the Chairman of the Board, and has unfettered access to the Chairpersons of the respective Board committees and executive directors, to ensure the proper and effective functioning of the Board and the integrity of the Board governance processes, but maintains an arm's-length relationship with the Board and its members and is not a member of the Board. The Company Secretary reports to the Board via the Chairman on all statutory duties and functions performed in connection with the Company and administratively to the CEO. The Board can confirm that it has considered and is satisfied with the competence, qualifications and experience of the Company Secretary.

Executive Committee

Executive Directors

ANDREW HALL (58)
CA(SA), BPharm
Chief Executive Officer
since November 2015.
Joined September 2007 as CFO.
Appointed as director:
15 July 2008

DORETTE NEETHLING (46)
CA(SA), MCom (Taxation)
Chief Financial Officer
since 23 February 2016.
Joined August 2007

BASADI LETSOALO (57)
MPsych , CLDP, MLPC, MPhil (Executive coaching)
Executive Director – Human Capital and Transformation
since 25 August 2016.
Joined January 2008

Executive Committee

JASVANTI BHANA
BSc, MBBCh, Masters in Sports Medicine
Medical Director

FRANS CRONJE
BSc, NDip (Ind Eng)
Operations and IT Executive

TOBIE KRIGE
BEng (Ind Eng), MBA
Distribution Executive

NKOSINATHI MTHETWA
BSc (Hons), Masters in Public Health
Public Affairs Executive

ASHLEY PEARCE
Dip Pharm, BCom
Managing Director – Prescription

SUDIER RAMPARSAD
MSc (Biotech), BSc
Managing Director – Over the Counter

COLIN SHEEN
MBA, BTech, NDip (Marketing)
Managing Director – Hospital

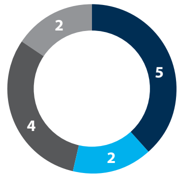
NTANDO SIMELANE
B. Juris, LLB, Advanced Company Law
Company Secretary and Head of Legal

GAIL SOLOMON
IMM (Marketing), BBA (Marketing)
Managing Director – Consumer

TIM WALTER
BCom, BCom (Hons)
Mergers & Acquisitions, Risk and Strategy Executive

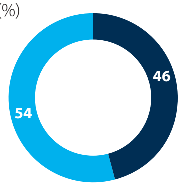
Diversity of the Executive Committee

Age



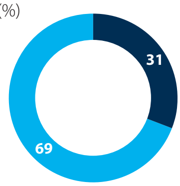
■ 45 – 50
■ 51 – 55
■ 56 – 60
■ 61 – 65

Race
(%)



■ Black
■ White

Gender
(%)



■ Female
■ Male

Average tenure on Exco: 6 years

Average tenure at Adcock Ingram: 11 years

The Board and COVID-19

Notwithstanding the COVID-19 outbreak, the Board continues to demonstrate its commitment to adhering to good corporate governance and as a custodian thereof, ensures that the Company adheres to the highest standards of accountability and ethical conduct. During these unprecedented times, the Board is especially aware of its responsibility to lead the Group competently, ethically and effectively. During this period the Board has consistently emphasised the importance of acting with integrity to ensure fairness, accountability and transparency in governing the Company.

Adcock Ingram was designated as an essential service provider under the lockdown regulations, which meant that it was permitted to operate throughout all lockdown levels. However, a number of regulations introduced at short notice, had to be complied with to ensure that operations could continue.

Management has a duty to keep the Board, who in terms of King IV are required to account for the execution of their responsibilities even where these were delegated, reasonably informed of new developments to ensure that the Board was able to support management and to account to shareholders where required.

The Board has a responsibility to oversee that the Company continually assesses and responds responsibly to the undesirable consequences as a result of COVID-19. Directors also have a duty to keep themselves informed about any relevant subject matter, including reports from management. The Company took the following reasonable steps to ensure that the Board was effectively supported to play its oversight role in response to COVID-19:

- The Company established a COVID-19 Crisis Communication Task Team (CCC) to consider, plan and react to matters related to the pandemic. The CCC, chaired by the Executive Director: Human Capital & Transformation, consists of representatives of various departments, including human capital, medical, legal, commercial, operations, IT, distribution, M&A, communications and finance. During lockdown Level 5 and the early stages of lockdown level 4, the CCC met regularly, at least on a weekly basis, to consider challenges that were being experienced in the business, and ensure Company-wide and consistent operational and communication strategies in response to the COVID-19 pandemic. Subsequently, it met at least twice per month or more often when necessary, particularly during the period that the infection rate in South Africa increased, to adjust business requirements and make changes to the risk strategy. The CCC also ensured that there is a constant review of legal and regulatory developments regarding COVID-19 to ensure that internal policies and protocols are aligned to these changes.
- Management, through the CEO, ensured that the Board was sufficiently informed of the Company's day-to-day activities and COVID-19-related operational challenges and employee well-being to enable it to provide oversight. There was increased and sustained communication between management and the Board on the business risks and the workplace health and safety issues posed by COVID-19. This ensured the Board was able to effectively play its oversight role and to ask questions and make recommendations where necessary. Management had identified the following areas as priorities during this period:

  a) the safety and health of employees and contractors;

  b) ensuring operational continuity across all teams and departments; and

  c) maintaining the integrity of the Company's supply chain.

An extraordinary Board meeting was held in April dealing specifically with COVID-19 matters.

More details about the activities of the CCC are discussed in the sustainability section.

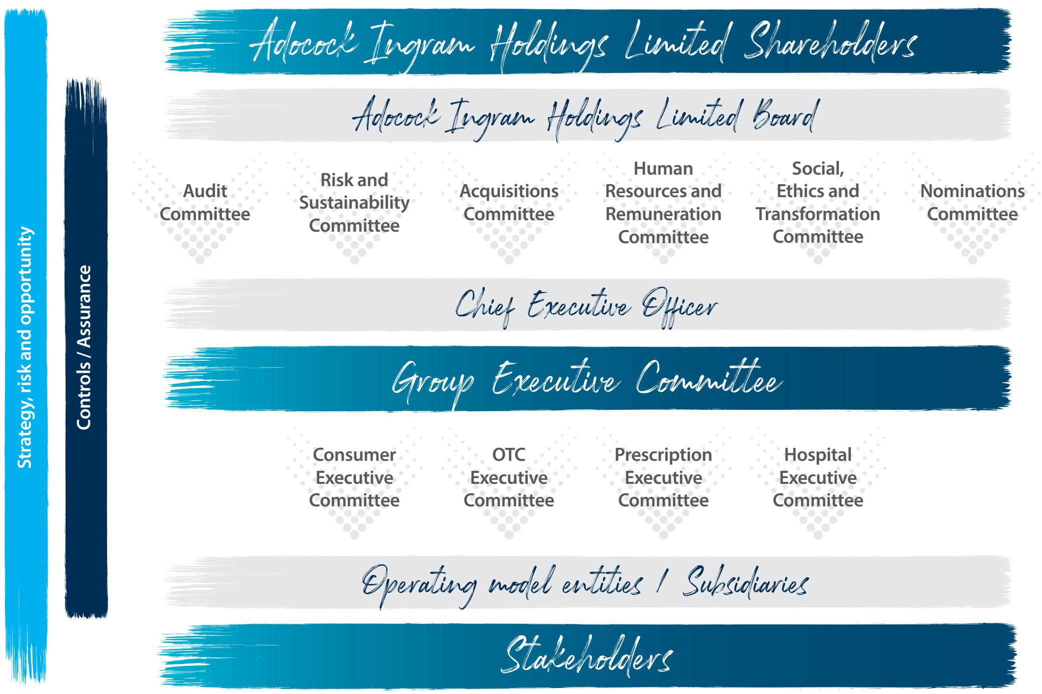
The Board's roles and responsibilities

The Board is aware of its responsibility to lead the Group competently and with integrity to ensure fairness, accountability and transparency. It:

Board roles

- directs the Company by formulating and reviewing the Company's strategies, policies and major plans of action;
- ensures accountability;
- reviews risks and risk policies, approves annual budgets and business plans, and sets performance objectives;
- monitors the implementation of approved strategies and oversees corporate performance, approves major capital expenditure, acquisitions and divestitures, and ensures compliance with applicable laws;
- controls the Company by ensuring that a code of conduct and ethics, and conflict of interest policy are in place to set the tone from the top, oversees the process of disclosure and communications, ensures that appropriate systems for financial control, and for reporting and monitoring risk are in place, appoints and evaluates the performance of the executive directors, and balances the potential for conflicts between the interests of management and the wider interests of the Company and shareholders;
- is accountable to shareholders for creating, protecting and enhancing the wealth and resources of the Company and reporting to them on the Company's performance in a timely and transparent manner, and to stakeholders to ensure that the Company acts as an ethical, responsible corporate citizen;
- is not involved in the day-to-day management of the Company as that is the responsibility of management; and
- delegates certain responsibilities to Board Committees without abdicating responsibility. The delegation is done via Board-approved Terms of Reference for each Committee.

The Board is satisfied that the following delegation of authority and the concomitant framework of the Company contribute to role clarity and effective exercise of authority and responsibilities.



The Board's composition and meeting attendance during the year under review were as follows:

Members[1]	Meeting attendance
Chairperson	
L Ralphs	5/5
Members	
L Boyce	5/5
S Gumbi	5/5
A Hall (CEO)	5/5
M Haus (lead independent director)	4/5
B Letsoalo (ED: Human Capital and Transformation)	5/5
N Madisa	4/5
C Manning	5/5
A Mokgokong	2/3
D Neethling (CFO)	5/5
D Ransby	5/5
K Wakeford	4/4

(1) *Refer page 103 for changes in directors' responsibilities and status.*

5 meetings

(4 scheduled and 1 special)

95% attendance

Overall Number of committee meetings:

15

96% attendance

The Board's commitment to Adcock Ingram and its stakeholders:

1. **Achieving the highest standards of ethics** by nurturing the principles of transparency, accountability and integrity in all aspects of operations and stakeholder engagements. The Board is governed in accordance with its Charter and the Company's Memorandum of Incorporation (MOI), amongst others. The Charter sets out, *inter alia*, the principles and a formal process in terms of which directors are appointed, and the duties and responsibilities of the Board. The Charter ensures that there is a clear division of roles and responsibilities on the Board and that no chairperson has a casting vote.

   Ethics are the foundation of Adcock Ingram's business and an unequivocal commitment to fairness, transparency and integrity inspire all facets of the Group's operations. Adcock Ingram's Board, assisted by its different committees, is responsible for setting the ethical tone "*at the top*" and monitors its implementation, to ensure that business is conducted in a manner that is beyond reproach at all levels in the Group.

   The Board reviews the Code of Ethics and Conduct (the Code) annually or when a need arises to ensure it remains relevant. The Code *inter alia* directs, board members, employees and other stakeholders (when dealing with Adcock Ingram) to model their conduct in accordance with its provisions and to report any suspected inappropriate, unethical and illegal activity or misconduct.

2. **Providing stakeholders and the investor community with clear, meaningful and timely information about Adcock Ingram's operations and results.**

3. **Conducting its business on the basis of fair commercial and competitive practice.**

4. **Ensuring that the Board and management team are equipped with the right balance of knowledge, skills, experience, diversity and independence to carry out their responsibilities effectively.**

   As the Board is led by a non-independent non-executive Chairman, in the objective and effective discharge of its governance role and responsibilities, a lead independent director was appointed to achieve a balance of power and reinforce accountability mechanisms on the Board. A clear separation of power exists between the Chairman of the Board and the Chief Executive Officer.

   The Board continually reviews the composition of its various committees to ensure that they are effective and appropriately constituted. Changes that were effected to the Board and its Committees are reflected on page 103 of the report.

   The Board does not have a formal succession plan. A skills matrix is in place, reflecting required and existing skills and expertise and is updated when the need arises. To fill a vacancy, the Board uses multiple sources to locate the required skills, including talent search firms and Board networks. The Board always endeavours to recruit directors with a minimum level of governance experience and considers the number of outside professional commitments before confirming any appointment.

Directors are encouraged to attend external director development and training programmes, at the cost of the Group, to ensure their knowledge of governance remains relevant. In addition, all newly appointed directors are provided with an onboarding file containing important legislation and the Group's governance framework (including the Board committee governance structure, the Board Charter, terms of reference of all Board committees and key Company policies) and are also offered a tour of the Company's facilities. The Company Secretary also onboards newly appointed directors (or directors whose roles have changed) on their statutory obligations as set out in the Companies Act, the MOI and other related regulations such as the JSE Listings Requirements. During the period under review, the JSE Sponsor trained all newly appointed directors on the JSE Listings Requirements.

During the year, the Board has conducted a performance evaluation of the Social, Ethics and Transformation Committee, HR and Remuneration Committee, and Nominations Committee. The Board will attend to the outcome of these evaluations in the coming year. During the year the Board attended to the outcomes of the performance evaluations of the Board, the Audit Committee, and the Risk and Sustainability Committee, which were done at the end of the prior financial year and successfully resolved all issues. The next evaluation of the performance of the Board is due in 2021.

The Board is satisfied that the Company has substantially complied with the principles set out in King IV and disclosure thereof can be found on www.adcock.co.za/documents/2020_KingIV.pdf

5. Actively pursuing transformation

The Board has a Gender and Race Diversity Policy, which is available on the Company's website. Although the policy expresses a commitment to working towards achieving gender parity by no later than 2026, this has already been achieved.

The Board remains committed to the undertaking made in the Policy that, when considered as a whole, it shall not have less than 50% directors who are black and 30% females who are black. Following the resignation of Dr Mokgokong earlier this year, the Board has less than 50% directors who are black, but this has since been remedied following the appointment of Prof Mike Sathekge as an independent non-executive director on 25 August 2020.

6. Proactively accepting responsibility for and managing the sustainability and environmental issues associated with its business.

Intended outcomes

Ethical culture	Transparent information sharing	Responsible performance	Effective control	Transformation	Management of sustainable matters

ACQUISITIONS COMMITTEE

The Committee consists of five directors: three non-executive directors and two executive directors, and other non-executive directors are co-opted dependent on the nature of the opportunity. Relevant members of management are invited when necessary.

The Committee's role includes monitoring and strengthening the objectivity and credibility of the Company's acquisition strategy and plans. It includes considering and making recommendations to the Board on major acquisition plans and terms applicable to these acquisitions. The Committee operates in accordance with formal terms of reference, which were reviewed and amended in line with King IV and approved by the Board.

The Committee's composition, and meeting attendance during the year under review were as follows:

Committee members[1]	Meeting attendance
Chairperson	
L Ralphs	1/1
Members	
A Hall (CEO)	1/1
N Madisa	1/1
D Neethling (CFO)	1/1
K Wakeford	1/1
Invitees	
T Walter (M&A Executive)	1/1
G Solomon (MD: Consumer)	1/1

(1) *Refer page 103 for changes in directors' responsibilities and status.*

Our Strategy

We remain committed to three strategic focus areas, while at the same time focusing on:

Customers

Products

Service

Refer to the Operations (pages 36 to 59) for further details on the achievement of the strategy in each division.

Build on the Foundation

To protect our margins:

We will

- exercise **strict cost control,** particularly in the current uncertain and depressed economic climate. This includes realignment of sales and marketing activities to cater for changes in our customers' commercial behaviour;
- extract **manufacturing efficiencies** and increase throughput in factories, through automation and process improvements;
- focus **investment in sales and marketing** of our major brands to grow our market share and drive technology-based virtual customer engagement tools for product marketing, launches and training;
- **maintain full regulatory compliance** in our supply chain;
- have **relentless focus on customer service;** and
- reinforce the **culture of responsibility, accountability and fun** at work, through continuous engagement and communications with our people.

Adcock Ingram has three strategic focus areas which are driven from a Group level. *The strategies will deliver businesses that return long-term profit growth and create sustainable value for all stakeholders.*

Growth and Expansion

To expand product portfolios and to secure growth and sustainability:

We will

- continue to investigate and where appropriate, **acquire:**
  - non-regulated product portfolios; and
  - products that complement the existing Adcock Ingram offering;
- through **partnerships:**
  - launch Biosimilars into the market; and
  - maintain access to a broad range of therapeutic categories;
- continue **innovation** by leveraging existing strong brands to extend products into adjacent categories; and
- continue to identify **new customers and sales channels.**

Transformation

To focus on broad-based empowerment initiatives to maximise the Group's B-BBEE credentials:

We will

- improve black representation in middle and senior management;
- continue to support small- and medium-sized and black women-owned businesses;
- expand the "My Walk" programme by increasing the supply of school shoes made from recycled PVC;
- identify new enterprise and supplier development projects to support; and
- continue investing in CSR programmes and opportunities in the health and education sectors.

Risk management

This report is presented by the Company's Risk and Sustainability Committee (Committee). Adcock Ingram appreciates that success rests on the ability to capitalise on opportunities and pro-actively manage risk, especially within the ever-evolving regulatory environment in which the Group operates.

Roles and responsibilities

The Board

The Board is responsible for the Group's risk governance which is achieved through its oversight committee, being the Risk and Sustainability Committee. The chairperson of the Audit Committee is also a member of the Risk and Sustainability Committee.

The Board is updated on key risks and considers their residual level when formulating strategy, approving budgets and operational plans, and monitoring progress against business plans. The Board ensures that an adequate level of assurance is provided on control processes related to significant risks. The Board has approved a policy that articulates and gives effect to its set direction on risk.

The Committee

The Committee has an independent role with accountability to the Board. It does not assume the functions of management, which remain the responsibility of the Executive Directors, and other members of senior management. The role of the Committee is to assist the Board to ensure that the Company implements an effective policy and plan for risk governance that will enhance the Company's ability to achieve its strategic objectives; and that the disclosure regarding risk is comprehensive, timely and relevant.

The roles and responsibilities of the Committee are governed by a formal Terms of Reference, which is aligned with King IV, and reviewed annually and approved by the Board.

Duties assigned to the Committee by the Board:

- Ensure an appropriate and effective control environment and clear parameters within which risk is managed;
- Oversee issues relating to operational sustainability;
- Oversee the conducting of a Group-wide business risk assessment to identify the most significant commercial, financial, compliance and sustainability risks and implement processes and controls to mitigate these risks whilst also exploiting any opportunities that may present themselves; and
- Assist the Board in setting the risk strategy and policies in determining the Group's tolerance for risk.

Within each business segment and the Group as a whole, risk management processes have been designed and implemented to identify, assess, manage, monitor and report on the significant risks on a continual basis. The Group views this approach as core in terms of achieving the appropriate balance between risk and reward. This enables management to protect the Group against avoidable risks and develop mitigating controls and plans related to unavoidable risks.

Composition and meetings

The Committee consists of five (5) directors; three are independent non-executive directors and two are executive directors. Four (4) scheduled meetings are held per year. During the year under review one of those scheduled meetings did not meet the quorum requirements, as the Committee did not have a majority of independent directors as required by its terms of reference.

A Risk Advisor from Marsh Risk Consulting (Adcock Ingram's risk advisors and insurance brokers), a representative from the external auditors, as well as various senior members of management, are permanent invitees to these meetings.

The Committee's composition, and meeting attendance during the year under review were as follows:

Committee members[1]	Meeting attendance
Chairperson	
M Haus	4/4
Members	
S Gumbi	3/3
A Hall (CEO)	4/4
D Neethling (CFO)	3/4
D Ransby	3/3
Invitees	
J Bhana (Medical Director)	4/4
F Cronje (Operations and IT Executive)	4/4
D Nabarro (Marsh)	4/4
J Smit (Marsh)	4/4
S Pietropaolo (Head of Internal Audit)	4/4
T Walter (M&A, Risk and Strategy Executive)	4/4
W Kinnear (EY)	1/2
K Ramnarian (PwC)	2/2
R Jacobs (PwC)	1/2

(1) *Refer page 103 for changes in directors' responsibilities and status.*

Philosophy

Adcock Ingram recognises the inherent exposure, with regards to the broad range of risks the Group faces, in pursuing and achieving sustainable growth. This has cultivated a philosophy which is not to entrench a compliance driven process, but rather to develop a culture which views Enterprise Risk Management (ERM) as a strategic enabler and ensures proactive and appropriate action is taken in mitigating risk exposure and taking advantage of opportunities.

Adcock Ingram acknowledges that risk can never be totally eliminated but is committed to ensure that the implemented ERM process aligns to best practices. This is to ensure that risk and control processes continuously evolve to improve decision making.

Processes have been designed and implemented to identify, assess, manage, monitor and report on the significant risks faced by each business segment and/or operational department individually, and the Group as a whole, on a continual basis. The Group views this approach as core in terms of achieving the appropriate balance between risk and reward. This enables management to protect the Group against avoidable risks, and develop mitigating controls and plans related to unavoidable risks.

Key activities

Risk governance

The ERM process is coordinated centrally by the Mergers & Acquisitions, Risk and Strategy Executive, as the Group's divisions have different product, market, operating and financial characteristics. The responsibility within the ERM process for identification of risks, vests largely with the divisional management structures.

The ERM process is conducted regularly in a systematic and formalised manner in a workshop type environment, using a "blue-sky" approach. At least annually this workshop is conducted without reference to prior work done. The workshops aim to:

- identify risks which may impact the achievement of strategic and business objectives; and
- identify other risks (such as operational risks) from various risk sources.

Once a risk is identified, the following is agreed:

- the likelihood of the risk materialising as well as the severity in the absence of control(s);
- the control(s) and plan(s) currently in place to mitigate the risk;
- the effectiveness of the control(s) and plans(s) currently in place;
- the residual risk related to the risk; and
- the identification of any additional control(s) and plan(s) if possible and/or where necessary.

Following the identification of risks, the purpose is to manage the risks, including compilation of registers of significant risks. Risk registers, containing key business risks, are compiled, reviewed and updated on at least a quarterly basis. Registers are presented and discussed at various management levels and forums before they are presented and discussed at the Committee.

The Company's response to the risks which were introduced or elevated as a result of COVID-19. has been included in the risk register starting on page 31.

Information and Technology (IT) governance

The Board embraces the principle that technology and information should be governed in a way that supports the Company in setting and achieving the Group's strategic objectives. The Board, through this Committee, is responsible for the governance of technology and information but the implementation and execution of effective technology and information management is delegated to management. The Operations and IT Executive regularly presents reports to the Committee on how these risks are approached and managed across the Group. Adcock Ingram has implemented a number of arrangements governing and managing technology and information including but not limited to putting in place a validation policy in terms of which technology and systems implementation are validated according to the Good Manufacturing Practices (GMP) and Pharmaceutical Inspection Co-operation Scheme (PICS) principles.

The effectiveness of technology and information management is monitored through a variety of internal systems including the following audit functions:

- Group Internal Audit performs audits on different parts of the Company to test the effectiveness of internal controls;
- Group Quality Assurance uses industry's best practices to ensure constant and continuous improvement of Adcock Ingram's quality systems, processes, technologies, infrastructure, regulatory compliance and technical support;
  - audits conducted by pharmaceutical companies that make use of Adcock Ingram facilities;
  - audits conducted by the External Auditors in accordance with the law; and
  - the Implementation of the Information Governance Policy.

Key areas of focus during 2020 were:

- full integration of the Genop business into the Adcock Ingram Oracle ERP environment;
- implementation and integration of the new Halfway House warehouse systems into the Adcock Ingram environment;
- systems integration to an external distribution company;
- increased focus on factory metrics, dashboards and reporting;
- completing application system enhancements and expansions, and infrastructure upgrades;
- continuous improvement of the cyber security environment;
- implementation of a laboratory management systems (currently in progress); and
- enabling a secure and efficient work from home environment.

Planned areas for future focus include:

- further enhancements to the IT security environment;
- finalising the laboratory management system;
- digitisation of business processes;
- upgrading the Oracle ERP system; and
- upgrading technical infrastructure.

Enterprise risk management

Three lines of defence

The Group manages risk by employing the three lines of defence strategy. This promotes transparency and accountability.

First

Divisional Management

- Day-to-day identification, management and monitoring of risks
- Design and implement the system of internal control with regard to each division's operations in response to risks
- Appropriate escalation of material risks via relevant governance structures

Second

Executive Management

- Challenging and overseeing activities of first line of defence
- Design and implementation of policies and procedures as well as strategy in response to material and/or Corporate risks

Third

Independent Assurance Providers

- Internal audit
- External audit
- Other independent service providers

The independent assurance providers objectively provide assurance regarding the activities of the first and second line of defence. Escalation by assurance providers to regulators as well as to the Board of Directors through the Risk and Sustainability Committee

Sections marked in blue relates to items which were elevated during COVID-19. The following table summarises the major operational and strategic risks impacting the strategic pillars as well as the Company's ability to transform the Capitals, and the controls in place to mitigate these risks:

Financial Capital

Strategic pillars impacted:

- Build on foundation
- Growth and expansion

Key Risks	Controls in place to mitigate the risks
Market share The action of any competitor or regulatory body can erode market share or impact growth	Each business unit employs a growth, innovation, sales and marketing strategy specific to the sector in which it operates. This autonomy allows focused and ongoing differentiation and extension of product lines and portfolios to adapt to customer requirements and competitor actions.
Foreign exchange The uncontrollable currency volatility and Rand weakness impacts the purchase price of the following, which are not locally available, and have to be sourced internationally: - active pharmaceutical ingredients (APIs); - specialised machinery; and - certain finished goods. This puts pressure on margins.	Forward cover is taken out on all confirmed orders. As a result of the extreme Rand volatility over the last financial year, international suppliers were approached to assist with price relief. Customers, where relevant, in non-regulated categories, were requested to accept price increases.
Supply and cost pressure A limited number of suppliers of APIs and finished goods exist. Indian government's restrictions on export of certain key APIs and finished goods	Ongoing focus on securing and maintaining dual or multiple sources of supply of key APIs. Maintaining sufficient safety-stock of strategic raw materials and finished goods to mitigate any potential supply disruptions. During the COVID-19 lockdown period, certain key lines were produced locally, in addition to relying on imports. Increased production and stockpiling of COVID-19 critical medicines.
Cost-push versus pricing pressure SEP (Single Exit Price) increases do not keep pace with the level of input cost increases.	Continuous improvement initiatives are in place to improve throughput and efficiencies in manufacturing facilities. Focus on improvement in procurement practices to reduce input costs of raw materials. Reduce overtime and/or number of shifts and consider right-sizing, should production requirements reduce. Review of sales and marketing practices in order to ensure that the investment made generates the highest possible value in terms of sales.
Economic environment Economic data indicates that the South African economy is currently in a protracted recession, with the recovery expected to take an extended time.	Ongoing pursuit of diversification of the product portfolio will reduce exposure to risk in any single sector of the economy that is performing weakly. Ongoing focus on increasing exports through distributorships in sub-Saharan Africa further reduces the exposure to the South African economy. Immediate implementation of margin protection, cost savings initiatives and headcount reduction.
Potential withdrawal of bank funding facilities	Ungeared balance sheet. Additional working capital facilities were negotiated and put in place through the Group's bankers.
Increased bad debts due to financial distress of customers	All major accounts underwritten by credit insurance provider. Monitoring of outstanding book and timeous action on any delinquent payers.

Blue text refers to COVID-19 actions

Human Capital

Strategic pillars impacted:

- Transformation

Key Risks	Controls in place to mitigate the risks
Human capital In a number of areas of the business, recruiting for critical skills and finding top talent is becoming increasingly difficult. The need to attract and retain top talent is intensified by the transformation strategy.	Maintaining competitive multi-faceted remuneration packages and incentive schemes, coupled with ongoing investment in our employees' skills development and creating a challenging and fulfilling work environment, contributes to our ability to attract and retain staff and maintain a sustainable talent pipeline.
Labour environment A significant number of employees are represented by trade unions. Labour disputes and work stoppages may disrupt business operations.	Ongoing employee engagement, including workplace forums and other specific initiatives to address employee requirements at each of the major sites are in place. Contingency plans are in place to minimise disruptions to production and distribution in the event of protracted labour disputes.
Occupational health and safety Occupational injuries of employees may occur. The threat of our employees contracting the COVID-19 virus has further exacerbated this risk.	A culture of safety is instilled across the work place, with safety practices continuously improved through stringent policies and procedures that are aligned to best practice. Appropriate screening, social distancing and hygiene protocols have been implemented at all Adcock Ingram sites in order to combat the spread of the COVID-19 virus.
Lower employee morale due to economic uncertainty and increased uncertainties over health.	Ongoing communication with staff from CEO, divisional executives and line managers. Clinics on larger sites and protocols in place to provide medical attention on satellite sites. Availability of ICAS counselling support for all staff.
Reduced productivity and outputs due to COVID-19 restrictions.	Line management monitoring productivity of staff to ensure outputs are met. Technological solutions implemented to assist with video conferencing, collaboration and instant messaging. Leave sacrifice implemented to compensate for work from home staff who are not able to be fully productive during lockdown.

Blue text refers to COVID-19 actions

Social and Relationship Capital

Strategic pillars impacted:

- Build on foundation
- Growth and expansion

Key Risks	Controls in place to mitigate the risks
Customer, supplier and partner relationships Customers are the cornerstone of our business. Customer relationship management has been and continues to be a key focus area. COVID-19 has changed the ways in which we engage with stakeholders, including customers and consumers, with many of these changes expected to be permanent.	Each of our business units has an ongoing focus on maintaining relationships with key stakeholders across their businesses. Increasing adoption of electronic communication methods to engage, communicate with and inform our stakeholders. Where appropriate, our employee structures and numbers have been adapted to reflect the new stakeholder engagement models planned for the post-COVID-19 environment.
Changes to the scheduling and classification of certain medicines Changes to the classification or scheduling of certain medicines by the Regulator can materially impact the sales and margins on related products. The exemption for Schedule 0 medicines with regards to the SEP legislation is reviewed by the regulatory authorities on a periodic basis, currently every three years. Removal of this exemption could place further pressure on margins. SAHPRA has also begun the process of requiring the registration of complementary and alternative medicines (CAMs). This process is expected to take two to three years to complete.	Schedule 0 SEP exemption has been granted until December 2021. We are proactively engaging with the Regulator on any potential changes to medicines scheduling. Where possible, alternate products are sourced to replace medicines that may be subject to scheduling changes. The process of registering existing CAMs with SAHPRA has begun and planning is underway to ensure that all product dossiers will be compliant before the deadline.
Exposure to codeine-containing medicines Adcock Ingram has a high exposure to medicines containing codeine. There is a global trend towards up-scheduling or further restricting the use of these products. SAHPRA has requested submissions regarding improvements to the supply and dispensing of these medicines, and is currently considering various options, including up-scheduling of codeine-containing medicines.	Adcock Ingram has launched a number of initiatives promoting the responsible sale and use of codeine-containing products. There is close co-operation with the law enforcement and regulatory authorities to assist in addressing irresponsible sales or use of codeine. Ongoing engagement with, and inputs to, the regulatory authorities regarding future policy formulation. Ongoing sourcing of non-codeine-containing products to provide alternate treatment options to codeine.
Proposed implementation of the National Health Insurance (NHI) scheme The NHI Bill was published for comment in early August 2019. The impact of NHI's implementation on Adcock Ingram is being assessed by the Company, and will undoubtedly have implications (both positive and negative) for the entire healthcare industry.	Ongoing assessment of the impact of NHI (and any proposed changes to the scheme) on Adcock Ingram. Adcock Ingram has made comments and submissions regarding the Bill through industry representative groups. Further actions and controls will be implemented as greater certainty is obtained regarding the timelines, procurement processes and funding of the NHI.

Blue text refers to COVID-19 actions

Intellectual Capital

Strategic pillars impacted:

- Build on foundation
- Growth and expansion

Key Risks	Controls in place to mitigate the risks
Regulatory The complex and ever-changing regulatory environment in which the Group operates, provides challenges which are common in the pharmaceutical industry	Operational and technical teams across multiple disciplines work closely together to ensure that compliance to industry and regulatory standards is maintained. This requires continuous monitoring, a rigid approach to quality control and assurance, and a prudent approach to business.
IT Infrastructure upgrades Adequacy and effectiveness of IT governance, the integration of IT systems and cyber security	The IT division employs best practice project management, and IT development and maintenance methodologies to ensure that the IT infrastructure remains up to date and able to serve the business' needs. Business continuity plans, including disaster back-up and recovery plans have been implemented across the business. As Adcock Ingram increasingly operates in an interconnected world, a strong focus has been placed on ensuring that the cyber-security infrastructure of the Group is able to provide effective defense against potential attacks or intrusions.

Natural Capital

Strategic pillars impacted:

- Build on foundation
- Growth and expansion
- Transformation

Key Risks	Controls in place to mitigate the risks
Interruption of supply by utility providers The deteriorating infrastructure in which we operate increases the risk of interruption of supply of water and electricity that could result in the suspension of production and compromising product supply.	Ongoing maintenance and upgrading of back-up power and water facilities, including upgrading storage tank and water purification capacities. Adcock Ingram's manufacturing sites are all designated National Key Points, which reduces the risk of water or electricity interruptions.

Manufactured Capital

Strategic pillars impacted:

- Build on foundation
- Growth and expansion

Key Risks	Controls in place to mitigate the risks
Product portfolio Parts of the product portfolio consists of relatively old molecules.	Ongoing focus on concluding partnerships with multinational principals in the Prescription, OTC and Hospital divisions to expand our product range. Continuing development and expansion into less-regulated product portfolios, particularly through the Consumer business.
Plant mechanisation Stock levels and order infill rates may be put under strain in the event of a critical plant breakdown.	Stringent ongoing maintenance plans, plant upgrades and, where possible, implementing contingency plans to produce key products at alternate sites in the Group.

COVID-19 pandemic

The COVID-19 pandemic has had a significant impact on the South African population and economy during the period under review. The Company has been involved in the Business for South Africa (BSA) Healthcare Procurement workstream that has worked to ensure that the required medicines and medical devices are secured.

Internally, Adcock Ingram has responded to the requirements for fighting the virus, by establishing a COVID Crisis Committee (CCC) that is co-ordinating the business' response to the pandemic, ensuring compliance with the regulations imposed by government, and implementing the necessary protocols to curb the spread of the virus and respond immediately to any potential infection.

The efficacy of these controls and protocols was tested earlier than hoped, when a member of the Hospital division tested positive for the virus. The response to the situation was rapid and prudent, with the staff-member placed in isolation and given medical attention, all known primary and secondary contacts tested and quarantined, the facility closed and sanitised, and up and running within 72 hours.

A further positive observation was that deliveries of Critical Care products continued uninterrupted from other distribution points in the logistics network during the temporary closure of the site. This experience was to prove invaluable in dealing with the increased number of infections that were to come at the peak of the pandemic.

The rapid rise in infections in South Africa since May, has required that the business be run on a quasi-war-footing, with tactical decisions having to be made daily to respond to circumstances as they have presented themselves.

The pandemic, together with the economic and social implications of fighting this virus have led to a range of new risks facing the business that might have seemed inconceivable at the start of 2020 – a true Black Swan event.

The nature and severity of these risks are evolving, but expected to stabilise as the extent and duration of the crisis is better understood. A number of these risks will cease to be material once the pandemic has passed, with the balance being incorporated into the standard Corporate and business unit risk registers.

Consumer

Our inputs

HUMAN CAPITAL

- **68** sales, marketing and administration employees
- **58** employees at Plush

INTELLECTUAL CAPITAL

Top brands include:

Panado	Bioplus
Compral	Probiflora
Viral Guard	Gummy Vites
Gyna Guard	Cepacol
Plush	

MANUFACTURED CAPITAL

Quality finished products are procured from the Adcock Ingram factories, including Clayville, Wadeville and Bangalore in India, as well as from local and international third-party contract manufacturers.

The split from these facilities is as follows:

Clayville	33%
Wadeville	1%
Bangalore	29%
Adcock Ingram	63%
Third party manufacturing	37%
	100%

Over 75% of third party contract manufacturers are locally based.

SOCIAL AND RELATIONSHIP CAPITAL

Memberships include:

- Cosmetic, Toiletry and Fragrance Association (CTFA)
- Pharmaceutical Society of South Africa (PSSA)

Regulatory bodies include:

- The Marketing Code Authority (MCA)
- The South African Health Products Regulatory Authority (SAHPRA)

Gail Solomon
Managing Director

Lauren Shimmin
Financial Director

A closer look at our operating model

Our business activities

The division is focused on the marketing, selling and distribution of Healthcare, Personal Care, and Homecare brands.

The range of products includes brands in the analgesic, energy, colds & flu, feminine hygiene, personal care, gut health, nutrition and vitamins & supplements categories. Our newly acquired brand, Plush, is an entry into homecare, and will form the base for additional growth within homecare.

The division's focus continues to be on growth opportunities in the non-regulated space, including acquisitions and new product launches within chosen categories.

Our distinct features

Market-leading brands are sold both in the pharmacy sector as well as the retail environment.

Consumer is structured to partner with a diverse group of customers, including corporate and independent pharmacies, pharmaceutical wholesalers, retailers and wholesaler cash & carry outlets. During the COVID-19 lockdown, many of the brands were moved to the online environment within the channels in which the division operates.

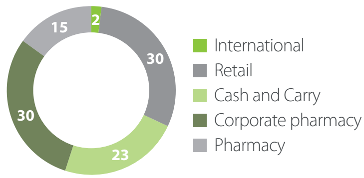
Our customers and markets

The division competes in the Fast Moving Consumer Goods (FMCG) market. Products are also distributed and marketed in modern and traditional trade outlets.

The business consists of four distinct channels:

- Pharmacy (includes corporate pharmacy, pharmaceutical wholesale and independent pharmacy customers);
- Wholesale (includes corporate wholesalers as well as local Independent Cash and Carry);
- Retail (comprises the majority of the large retailers as well as forecourts); and
- Online retail (includes Takealot, CBD Store and One Day Only), with this footprint growing rapidly.

Sales by channel
(%)



Our outputs

MARKET SHARE[1]

Category	AI Value Market Share %	AI Category position
Analgesics/Pain (S0)	37.2%	2
Probiotics	37.2%	1
Energy supplements	29.9%	2
Intimate care (Feminine Hygiene)	52.1%	1
Sun Care (Aftersun & Sun protection)	4.9%	3

(1) *IRI MAT June 2020 Modern Trade*

Pain

The Consumer Pain segment shows double digit growth with the Adcock Ingram pain portfolio growing ahead of the market. Panado ranks second in the Consumer market, but is the segment leader within the tablets format. Despite increasing pressure from generic and competitor brands, Panado continues to grow market share through investment in campaigns which drive trust, equity and awareness. Compral is the fifth biggest player in the market.

Gut/Probiotics

The Probiotics market is showing growth with Probiflora, the market leader, growing ahead of the market. Market growth is primarily driven by new entrants gaining traction in an increasingly competitive market.

Suncare

Island Tribe achieved growth ahead of the market and now ranks in the Top 3 suncare brands in South Africa. Market share gains can be attributed to improved sales focus, increased distribution and marketing support, including line extensions and new packaging.

Energy

The Energy market is split into Energy supplements and Energy drinks with both segments growing in double digits. Bioplus competes in both segments having achieved double digit growth.

Within the Energy supplements segment, Bioplus is the market leader in the Liquid Tonics format, whilst sales of the Effervescent format are growing. Bioplus Drinks has also performed positively due to increased sales and distribution focus across key channels.

(Source: IRI Modern Trade June MAT 2020)

Top 10 brands' turnover:
R802 million
2019: R723 million

Consumer

Current trends in our markets

- With the rise in private healthcare costs, **consumers are seeking more cost-effective** and **convenient solutions** to manage their healthcare needs. This has resulted in a shift in consumer behaviour towards **digital engagement**, as online doctor consultations and digital applications gain momentum.
- The fast-paced lifestyles of South African consumers continue to increase, resulting in **unhealthy lifestyle habits** which in turn increases the need for dietary supplements.
- With increasing health awareness, consumers are opting for **healthier lifestyles** and more **natural remedies** to their healthcare needs.

(Source: Insight Survey Market Research Analgesic Landscape Oct 2019)

- Consumer behaviour shifted during the COVID-19 pandemic to interest in products **maintaining health and wellness**.
- Brands with **local credentials** are well placed in South Africa as consumers seek products that they can see, **identify and trust**.
- Consumers will have **less to spend** due to the economic downturn, the upfront expenses of the pandemic and shifts to new purchases for preventative measures.

(Source: COVID 19 Nielsen Impact on FMCG reports Mar/April 2020)

- South African shoppers rapidly adopted an **online purchase behaviour**, seeing grocery retailers quickly amplify their online platforms, even offering "*Click and Collect*" services. Some retailers showed as much as 300% increase in online sales over the first few months of the pandemic.

(Source: KANTAR US and China Shopper Studies, and KANTAR SA Barometer March 2020)

- In response to COVID-19, South African consumers are shopping **local, trusted and close to home**:
  - 73% are choosing to shop nearer to home – avoiding crowds;
  - 63% aim to continue choosing the same brands they always buy – preferring trusted, reliable favourites; and
  - 45% pay more attention to the origins of the products they buy. Safety became a fear.

(Source: KANTAR US and China Shopper Studies, and KANTAR SA Barometer March 2020)

Consumers will have less money to spend due to the economic downturn. A shift is seen to purchases for preventative measures as health concerns and protecting their families take priority.

Analysing the outcomes

2020 achievements

Build on the foundation

- Overall, the financial objectives for the business have been achieved. It furthermore achieved the set objective of consolidating portfolios and adding to its current portfolios through acquisitions, and expanding into new channels with an entry into more online channels.
- Eight of the top 10 brands of the Division achieved sales growth with Panado, the Company's biggest brand achieving ex-factory sales in excess of R400 million, supported by additional uptake ahead of the COVID-19 lockdown.
- Market share growth has been achieved in the top 8 of brands within the business *(IRI Modern Trade June 2020).*
- During the year, efforts were focussed on finalising the reorganisation of the team structure, and embedding the culture in the team to serve our customers and offer excellence both in terms of our products and service delivery. The team, restructured for increased accountability, looking to deliver with passion, as we focus on diversity and inclusion in our pursuit of value creation.

Growth and expansion

- Adcock Ingram Consumer recently entered the Cannabidiol (CBD) market with ADCO CBD. The range consisting of ADCO CBD Pain, Stress and Daily, comprises of capsules, oils and a pain gel. ADCO CBD is made true to Adcock Ingram's good manufacturing practice with stability data making it a trusted, reliable and reputable product range.
- Acquisitions of businesses which fit within the three strategic pillars of homecare, healthcare and personal care, were concluded.

Lulu & Marula

- In February 2020, Lulu & Marula (L&M), a growing brand within the natural skin care sector in South Africa, was acquired by the division. L&M is a locally produced range of facial and body care products that creates conscious, scientifically formulated skin care products using only pure botanical and plant-derived ingredients.
- Globally, natural and organic, cruelty-free, sustainably produced cosmetics is the biggest growing sector within the beauty industry (Market Watch, 2019) and with L&M we have the opportunity to service to this growing demand for affordable yet reliable, quality skin care products by increasing access to the distribution channels.

Plush

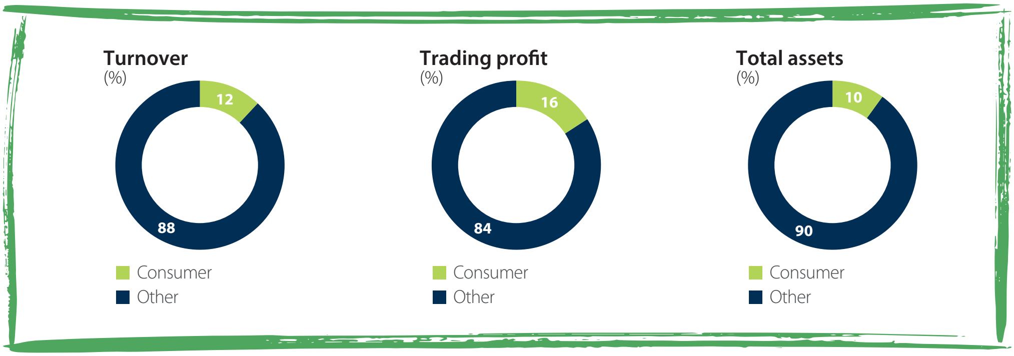
- In line with the division's strategy to pursue value-adding acquisitions, particularly in less-regulated areas of the market, the well-recognised South African brand Plush was acquired in June 2020. Plush has a proud heritage of over 55 years in the South African market and although the company's roots lie in shoe and leather care products, its product offering over the last 10 years has successfully diversified into a range of home care and cleaning products that now make up the majority of its revenue.

Transformation

- The division supported the Match Box Babies organisation, a not-for-profit company with the core purpose of providing temporary safe care for abandoned babies in South Africa. The initiative was supported through supply of CPR and First Aid training programs, sponsoring fire extinguishers and first aid kits, and most essentially baby care products.

Consumer

Contribution to the Company results



Future outlook

Build on the foundation

- Build on the base by consolidating, innovating and stretching the business into adjacent categories.
- Integrate Plush business.
- Achieve efficiencies in procurement.

Growth and expansion

Growth and expansion in the three areas of Healthcare, Personal Care & Homecare to be driven through:

- acquisitions and innovation;
- expansion of product offerings into new categories and channels;
- close portfolio gaps in existing categories; and
- focus on brand consolidation to drive mega brand strategy.

Transformation

The division will continue to support the Match Box Babies organisation in 2021.

Brands within the Consumer division will also be executing a local South African "*Home Grown Health*" campaign with the focus on providing support to underprivileged individuals and businesses. The division plans to partner with some of its customers to jointly support these causes.

Adding a new level of care

IN JUNE 2020, ADCOCK INGRAM ACQUIRED PLUSH PROFESSIONAL LEATHER CARE, DIVERSIFYING INTO A BROADER RANGE IN THE CONSUMER GOODS SECTOR

Plush is a proudly South African company, specialising in the sales and marketing of an extensive range of Shoe Care and Household Cleaning products. In operation for over 55 years, the Plush brand has become synonymous with affordable, superior, quality suede, leather and home care products.

From humble beginnings to a leading market player in the homecare industry

1964
The Plush Brand is founded

2000
RMB Corvest acquires a minority stake in the Business from the original founders

2010
The current executive management buy into the business and immediately launch the Plush Brand into formal retail

2011
First venture into the homecare segment with the launch of its multi-surface cleaning products

2012/13
The Business outsources all of its manufacturing activities

2019
Relaunched in-house manufacturing for its shoe care line of products

Leather and Shoecare

Suede Renew
Leather Renew and Dyes
Tekkie / Sports Shoe Cleaner
Polish
Liquid Polish
Shoe cream
Aerosols
Other Shoe Care Non-Aerosol

Home Care

Multi-Surface Cleaner
Furniture Care
Tile Cleaner
Floor Cleaner and Polish
Floor and All Purpose Cleaner

Household Cleaners

Household Cleaners
Carpet Cleaners
Pine Gel
All Purpose Cream
Dish Washing Liquid
Toilet Cleaners

Over the Counter

Our inputs

HUMAN CAPITAL

- **440** factory and laboratory staff
- **157** sales, marketing and administration employees

INTELLECTUAL CAPITAL

Top brands include:

Adco-dol®	Corenza C®
Allergex®	Citro-Soda®
Alcophyllex®	Adco-Napamol®
Scopex®	Betapyn®
Dilinct®	Adco-Mayogel®

MANUFACTURED CAPITAL

The Clayville facility, accredited with:

South Africa (SAHPRA);
Ghana (FDB);
Tanzania (TFDA);
Ethiopia (FMHACA); and
Zimbabwe (MCAZ).

Finished products are also sourced from:

- Adcock Ingram's facilities: Wadeville and Bangalore;
- Third party manufacturers; and
- International supply chain partners.

The split of purchases from these facilities is as follows:

Clayville	48%
Wadeville	4%
Bangalore	28%
Adcock Ingram	80%
Third party manufacturing	20%
	100%

Over 75% of third party contract manufacturers are based off-shore.

NATURAL CAPITAL

- 107 750 kilolitres of water utilised
- 20 932 696 kWh electricity utilised

SOCIAL AND RELATIONSHIP CAPITAL

Memberships include:

- Pharmaceuticals Made in South Africa (PHARMISA)

Regulatory bodies include:

- The Marketing Code Authority (MCA); and
- The South African Health Products Regulatory Authority (SAHPRA).

Sudier Ramparsad
Managing Director

Yudhveer Singh
Financial Director

A closer look at our operating model

Our business activities

The Over the Counter (AI OTC) division manufactures and supplies medication for patients and consumers predominantly in the self-medication category, mainly at Pharmacy level but also to a lesser extent in the FMCG channel. Its commercial focus in South Africa includes the private and public sectors with geographic reach expanding into a number of export markets.

2020 has been influenced by the unprecedented global pandemic caused by COVID-19. Although the circumstances and methods under which plans need to be executed may be different than before, AI OTC's main strategy of alignment with the Group's three strategic pillars, remains the same. The key to persevere through these challenging times to ensure availability of medicines to the country, are now even more important than ever. AI OTC has a history of market leadership, resilience and doing the right thing, no matter whether adversity beckons or when opportunity prevails. Just as our purpose guides us in these challenging times, it steers our vision for growth in better times.

AI OTC is the market leader in schedule 1 and schedule 2 in retail pharmacy with a market share of 18% by value and 27% by volume.

COVID-19 has forced a deep and critical look into how the division manages its existing supply chain partners, to remain sustainable and to be able to continue promoting its products.

Innovation and disruption have been mutually adopted at the division and demonstrated through the launch of The Adcock Ingram OTC Sponsors of Brave campaign.

HOPE • CARE • YOU MATTER • MAKE A DIFFERENCE

This platform was essentially an innovative approach by prioritising the division's promotional efforts in favour of a purpose and not exclusively on brands. The well-intended ambition to showcase the immense, heroic and brave behaviours of HealthCare Practitioners (HCPs) continues to reap rewards. HCPs are hailed and recognised by South Africans for their essential frontline services, especially during COVID-19. This campaign has allowed us to be agile in the ways we think, behave, do business, learn and go about our day-to-day responsibilities.

Refer to page 46 for more details on the initiative

Our distinct features

AI OTC comprises of deeply-seated legacy brands and competes in the following therapeutic categories:

	Revenue split
Pain	31%
Cough and cold	35%
Allergy	15%
Heartburn & Indigestion	18%
Energy	1%

AI OTC makes affordable over the counter medicines available in the country across the LSM spectrum.

Our outputs

MANUFACTURING CAPACITY

- **28 million** effervescent tablets
- **400 tonnes** effervescent granules and powder
- **12 million litres** oral liquids
- **5 million units** of ophthalmic products

MARKET SHARE[1]

- **Volume market position: #1**
- **Value market position: #1**
- **Value market share: 18%**
- **Volume market share: 27%**

[(1)] *IQVIA MAT June 2020 S1 and S2*

Our customers and markets

Our continued focus drives us to refine our processes on an ongoing basis and to introduce new innovative approaches to better serve the pharmacy sector, pharmaceutical wholesalers and other allied retail channels.

AI OTC's economic transformation initiatives are aimed at targeting consumers as the end-user, across a diverse demographic span with affordably priced brands.

Performance

Pain

Finding additional market share in this highly competitive market when you are the market leader in the category requires tremendous effort. The Adco-Pain OTC portfolio offers a full breadth of economy and premium brands allowing it to defend its market leadership. Such brands include Mypaid®, Adco-Napamol® and Spasmend®. AI OTC partners with a multinational pharmaceutical company which focuses on anti-inflammatory products, expanding its product basket further.

Cough and cold

The division constantly examines the competitor landscape in an effort to maintain market leadership in the cough and cold market across cold preparations, expectorants and cough sedatives. Providing greater customer value and satisfaction is made easier through a range of iconic winter brands.

During the advent of COVID-19, many of AI OTC's cough and cold products achieved inflated sales due to panic buying from consumers, suggesting that these brands have become household names and easily find shelf-space in the consumers' medicine cabinet. Corenza C® remains the market leader in the division's cough and colds basket with revenue of more than R200 million.

In an effort to ensure that consumer needs are consistently met, the reformulation of a number of the portfolio's cough syrups have been completed, allowing access to products with lower alcohol and sugar content.

But today you were still brave enough to take on the day

Over the Counter

Allergy

AI OTC's Allergy portfolio is worth R220 million[1], growing at 9.7%, ahead of the market growth of 8.5%, and offers a number of anti-histamine-based products with consumer-friendly appeal. The flagship brand Allergex®, is the market leader in this category, valued at R190 million[1], and growing at 15%. The allergy portfolio is supported across this therapeutic area with other brands such as Levogex® (levocetirizine), Ceticit® (cetirizine) and Adco-Desloratidine® (desloratidine) – providing the pharmacist with treatment options across multiple patient profiles.

Growth in this category is being fuelled by increasing consumer awareness of allergies and how to manage them, leaving consumers more capable of identifying their symptoms and empowering self-medicating.

In looking at the many social challenges we face in the country, Allergex® uses its leadership position to not only defend the brand and grow its market share, but also to support and raise awareness of social struggles like gender-based violence, through its marketing platforms.

[1] *IQVIA MAT June 2020*

Heartburn and indigestion

The AI OTC division competes in the heartburn and indigestion category with high efficacy brands such as Citro-Soda® and Adco-Mayogel®. This therapeutic area continues to benefit from the self-medication trend as consumers continue to research their ailments and seek treatment. Antacids account for two-thirds of this market. Citro-Soda® has become a household name in this category as it benefits from broad-based distribution. Adco-Mayogel® provides an additional offering in this segment, servicing a cost-conscious consumer.

As part of the division's commercial transformation journey to improve access to its products, AI OTC continues its journey to grow the Citro-Soda® brand into new channels, through education and creating awareness that it can be used for heartburn and indigestion.

Energy

Vita-thion® is the leading brand in the division's energy portfolio and continues to compete in a highly contested market. Vita-thion® enjoys strong above-the-line advertising exposure to protect its market position and to grow the brand across the spectrum of affordability.

Top 10 brands' turnover: R1 227 million

2019: R1 207 million

Current trends in our markets

- The challenging economic conditions, which worsened since the COVID-19 outbreak, resulted in consumers now having **reduced discretionary spend** for self-care which has negatively impacted the over the counter dispensing at retail pharmacy level.
- Convenience, access and affordability to medicines in specific channels, plays an important role in the consumer's choice.
- A **self-care discipline** is embraced at various levels by the consumer who is increasingly aware of day-to-day preventative therapies due to increased **access to information** in an ever-evolving **technologically** driven environment.
- Regulations are constantly evolving coupled with capacity limitations experienced at SAPHRA.
- Transformational access and affordability to medicines is particularly relevant as consumers attempt to balance daily living needs with those pertaining to their healthcare.

COVID-19 impact on the market[1]

- The progression of the disease will most likely increase supply pressure on over the counter medicines such as cough and cold and non-steroidal anti-inflammatory drugs (NSAIDs).
- Self-medication increases are envisaged.
- Pharmacists welcome regular contact from sales representatives, although not face-to-face.
- Innovation and disruption via the use of technology to reach customers became more important.

(1) *IQVIA Newsletter: COVID-19 Impact on South Africa*

Analysing the outcomes

2020 achievements

Build on the foundation

- Raised services levels to customers and retailers due to improved supply of products.
- Disciplined cost and expense management was exercised, mitigating risk during a volatile economic climate.
- Leveraged the strength of AI OTC's iconic brands to defend market leadership positions.
- Clayville achieved accreditation from the European Medicines Agency (EMA), for the HVL facility.
- Employee engagement initiatives lifted morale with a loyal workforce.

Over the Counter

Growth and expansion

AI OTC has partnered with multinational companies in an effort to improve self-care options to the consumer.

Innovation was leveraged based on existing brands' stature to launch the Adcock Ingram OTC Sponsors of Brave purpose-inspired campaign.

Introductory level digitisation was adopted in the promotion of a number of key brands.

Continue to investigate expansion into appropriate new markets and channels ensuring preferential focus on South Africa.

Transformation

Improved Employment Equity representation in middle and senior management.

Focused support of small- and medium-sized, female black-owned businesses.

Employee-driven support activities, aimed at the vulnerable during COVID-19, were undertaken by issuing face masks and a light meal.

AN INNOVATIVE, ENGAGING, UPLIFTING AND RELEVANT CAMPAIGN

Sponsors of Brave, a partnership between News 24 and Adcock Ingram OTC, is a digital FIRST initiative never done before at such a LARGE scale.

A DISRUPTIVE campaign in it's storytelling, execution, engagement and SCALE!

- Overall unique reach 4 668 151
- Total Youtube and FB video views 104 555
- Social media total impressions 1 623 881
  - Entries 3 797
  - Votes 17 473
  - Client audience bucket 437 280
- Total engagements 28 448

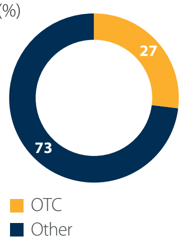
RE A LEBOHA
THANK YOU
SIYABONGA
BAIE DANKIE
SIYABULELA

adcock ingram otc
SPONSORS OF BRAVE

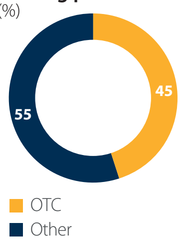
HOPE • CARE • YOU MATTER • MAKE A DIFFERENCE

Contribution to the Company results

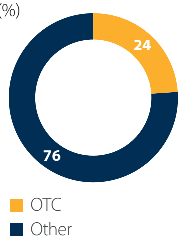
Turnover
(%)



Trading profit
(%)



Total assets
(%)



Future outlook

Build on the foundation

- Service delivery and consistent supply of product is essential to retain customer loyalty and maintain consumer support.
- Support the use of AI OTC products with the appropriate service and education.
- Continual review and addressing of performance with customers in an open and relevant way.
- Harness the brand equity attached by the AI OTC Sponsors of Brave campaign to inspire further purpose-driven initiatives.
- Prudent fiscal management accompanied by austere expense control.

Growth and expansion

- The OTC division will pursue strategic collaborations with global/regional OTC specialist companies to broaden its product range in South Africa, as well as increase its export opportunities.
- Further line extensions and product development initiatives will be introduced.
- Growth in the Public sector is targeted.
- Commission the Clayville Ophthalmic facility.

Prescription

Our Inputs

HUMAN CAPITAL

- **357** factory and laboratory staff
- **304** sales, marketing and administration employees

INTELLECTUAL CAPITAL

Top brands include:

Epimax	Genpayne
Adco-Zolpidem	Advantan
Trivenz	Synaleve
Urizone	Estrofem
Myprodol	

MANUFACTURED CAPITAL

- The Wadeville facility is accredited by South Africa (SAHPRA).
- Finished products are also sourced from the Adcock Ingram factories, as well as from a range of partner companies, both local and international.

The split from these facilities is as follows:

Supplier	Cost of goods
Wadeville	26%
Bangalore	9%
Adcock Ingram	35%
Third party manufacturing	65%
	100%

NATURAL CAPITAL

- 46 608 kilolitres of water
- 9 850 616 kWh electricity

SOCIAL AND RELATIONSHIP CAPITAL

Memberships include:

- Pharmaceuticals Made in South Africa (PHARMISA);
- The South African Generic Medicines Association; and
- Pharmaceutical Task Group (PTG).

Regulatory bodies include:

- The Marketing Code Authority (MCA); and
- The South African Health Products Regulatory Authority (SAHPRA).

Adisha Singh
Financial Director

Ashley Pearce
Managing Director

A closer look at our operating model

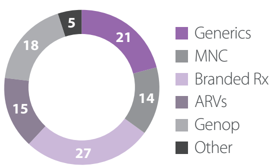
Our business activities

The division focuses on building and offering a broad range of medicines in targeted therapeutic areas for patients consulting healthcare professionals, where prescriptions are generally required. The business has a comprehensive portfolio of quality and affordable branded and generic medicines and also markets a range of innovator brands on behalf of multinational partners, including Leo Pharma, Novo Nordisk, Sandoz, Lundbeck, Takeda and Roche.

The antiretroviral (ARV) portfolio consists of a range of high-quality, cost-effective first- and second-line treatment options for people living with HIV, both adults and children, provided to both the private and public sectors.

The Genop Healthcare business is a specialised instrument, surgical and pharmaceutical products company focused on servicing the ophthalmic, optometry, skincare, aesthetic and plastic surgery segments in Southern Africa, and owns and markets the well-known Epi-Max skin care range.

Revenue split by segment
(%)



Our distinct features

The division offers a diverse portfolio of prescription brands, ranging from quality affordable generics to innovator brands, which include the Company's own intellectual property brands as well as those marketed on behalf of multinational partners. This comprehensive portfolio allows the division to offer full scale patient solutions in the therapeutic categories it represents, enabling the division to achieve market leadership in the Pain, Women's Health, Urology, Dermatology and Osteoporosis categories.

The scope in therapeutic offering, commercial footprint and coverage of key customers, positions the division as an attractive partner to multinational companies.

Our customers and markets

The Prescription division services specialists, general practitioners, hospitals and pharmacies across the country, in both the public and private sector.

Following the outbreak of COVID-19, and to manage the impact of the pandemic, the division has embarked on a number of digital initiatives to shift the way business is done, ensuring continuity in bringing life-saving treatments to market seamlessly. The division has adopted the IQVIA CRM platform to enable remote detailing of doctors, held a number of webinars and online events to remain connected with all customers, and facilitated a fully digital launch of the Company's first Biosimilar, Remsima. In addition, Genop embarked on a comprehensive online training program for its customers across the eyecare and skincare divisions. This included the use of internal resources and product specialists, as well as utilising the knowledge and experience of international partners.

In acknowledgement of the strain that the COVID-19 pandemic has placed on the country's front-line healthcare workers, particularly from a mental health perspective, the division has collaborated with the South African Depression and Anxiety Group (SADAG) and The Healthcare Workers Care Network (HWCN) to offer healthcare workers in the public and private sectors access to support, *pro bono* therapy, resources, training and psychoeducation via the Adcock Ingram Depression and Anxiety Helpline, helping them cope with the mental strain of the pandemic. This initiative is extended to doctors, nurses, community healthcare workers, field workers, hospital or clinic personnel, including hospital laundry staff, and porters.

HEALTHCARE WORKERS
CARE NETWORK
Carining for the Carers by the Carers

Adcock Ingram
Depression and Anxiety Helpline
0800 70 80 90

Our outputs

MARKET SHARE[1]

- **Volume market position: #2**
- **Volume market share: 13.6%**
- **Value market position: #4**
- **Value market share: 6.7%**

MANUFACTURING CAPACITY

- **6 million litres** oral liquids
- **500 tonnes** creams/ointments
- **2 billion** tablets and capsules

(1) *IQVIA MAT June 2020 excluding MNC*

Top 10 brands' turnover:
R937 million
2019: R942 million

Performance

Pain

The pain portfolio, includes leading, well-known brands such as Mypaid Forte, Myprocam, Synaleve, and Myprodol. The comprehensive portfolio offers healthcare professionals and patients effective pain solutions for mild to severe acute and chronic pain, including pain associated with cancer and auto-immune diseases, in a variety of dosage forms such as oral, topical, parenteral and transdermal.

Maintaining the position as the leading prescription pain franchise in the country, three of the division's pain brands feature within the top 10 brands within the non-narcotic analgesic market. Synaleve exceeded R100 million in sales for the first time in 2020, and both Synaleve and Rheumalef achieved double digit growth in a market declining by 3%.

Women's Health

Women's Health recognises and celebrates the uniqueness of women and the portfolio includes treatments for conditions that occur more frequently in women. These include symptoms related to menopause, vaginal dryness, urinary tract infections (UTIs) and osteoporosis. As the leading Women's Healthcare franchise in the country, with a 44% market share, the portfolio offers flexible, high-quality treatment options to meet the needs of South African women through specific stages of their journey through life, and empowering them to make informed decisions about their health. The Urology portfolio, which includes well-known brands such as Urispas and Urizone, is market leader in the treatment of Urinary Tract Infections, with a 36% market share, and exhibits growth of 12% in market, which is double that of the market it competes in.

Central Nervous System (CNS)

This franchise has established itself as a multinational partner of choice for CNS brands, promoting and distributing key brands such as Cipramil, Cipralex, Fluanxol and Rivotril on behalf of multinational partners Lundbeck and Roche. This portfolio is ranked fourth in the constructed market with 6.4% share and growing at 4.8%, compared to market growth of 2.7%, and offers treatments covering a range of central nervous system conditions, such as depression, anxiety, epilepsy, Alzheimer's and schizophrenia. Stresam, a treatment for anxiety, continues to show double digit growth.

Dermatology

With the successful integration of the portfolio of Bayer products acquired by Leo, the division is the leading prescription dermatology franchise in the country, with a market share of 21.5%. The portfolio is currently growing at 3.9%, in a market that is declining by 3.9%. Treatments are now offered for a wide spectrum of dermatological conditions, including eczema, psoriasis, both fungal and bacterial skin infections and emollients for dry skin. This leading dermatology franchise comprises well-known and class leading brands such as Advantan, Fucidin, Protopic, Dovobet, and SBR Repair and Lipocream.

The successful launch of Fucidin as an over the counter product, making it available to consumers on pharmacist recommendation, following the down-scheduling in 2019, has seen the brand grow by 42%. Expanded access and pharmacy campaigns have secured the brand a 20% value share and number two position in the competitive topical anti-infective bacterial segment

ARVs

The ARV portfolio includes a range of antiretroviral products indicated for the prevention and treatment of HIV, and is currently the fourth-largest ARV franchise in the private sector, with a 12.7% market share. The Dolutegravir-based combination, Nuvaco, an addition to the portfolio, was launched at the end of last year and provides HIV positive patients a newer treatment regimen in the fight against the disease.

While the portfolio had a poor year, this portfolio remains a key strategic pillar for the division, based on the Company's commitment to local manufacturing and international partnerships. This portfolio faces intense generic competition and pricing pressure from funders. The de-listing of Trivenz from the Discovery formulary, due to the aggressive price reductions required to retain formulary status, has had the biggest impact on the portfolio's performance. Trivenz holds the number 3 position in the TEE market, and further decline is being mitigated through strategic partnerships and alternative channels.

The portfolio's Adco-Emtevir, which is mainly used for the Prevention of HIV or Pre-Exposure Prophylaxis (PREP), is market leader in the class, with a market share of 29%.

Generics

This portfolio is the division's largest franchise, and comprises a robust portfolio of medicines that span the major therapeutic areas such as CNS, Cardiovascular and Pain and consists of brands which treat both acute and chronic diseases. The portfolio includes some of the division's leading brands such as Genpayne and Adco-Zolpidem, and has recently built on its product offering with the re-launch of Scopex Co and the launch of Quadriderm.

The portfolio, which is the division's largest portfolio, delivered in-market volume growth of 4.8% ahead of the market, at 1.62% (IQVIA MAT June 20). The division's commitment to remain one of the most affordable generic portfolio offerings in the country, resulted in lower margins due to the competitive generic landscape, coupled with increasing channel costs. The aim is to ensure a sustainable portfolio offering, through supplier negotiations for a reduction in costs on key brands and ensuring early market entry with new launches, without compromising patient access.

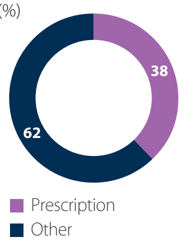
Genop

Epi-max continued to hold the number one position in value and volume in the emollient market in South Africa. As per IRI Data (MAT Value June 2020) Epi-max grew 22% in value over the year.

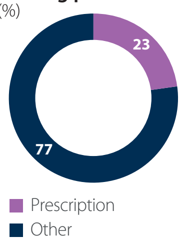
The business also represents a number of well-respected and market leading brands from its international partners, including Johnson and Johnson (J&J Vision and Neostrata), DORC, Nidek, Heidelberg, Oculus, BVI, Heliocare, Teoxane and Dermapen, amongst many others.

Contribution to the Company results

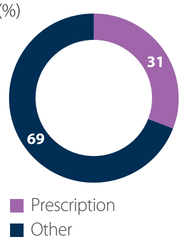
Turnover
(%)



Trading profit
(%)



Total assets
(%)



Current trends in our markets

- The introduction of **Biosimilar** medicines will expand access to these lifesaving molecules.
- Increased use of **digital health technologies,** such as machine learning, digital applications to manage wellness and diseases, as well as remote interactions with healthcare providers, will **transform how pharmaceutical companies engage** within the sector.
- Stabilisation of the country's regulator, **SAHPRA**, with regulatory process improvements and reduced registration timelines, is **expected to yield a higher number of new product registrations** in 2021.
- The **economic pressure** on the medical insurance market will result in more **aggressive implementation of formularies.**
- Growth in the number of corporate pharmacies and corresponding **house brand strategies** will **limit growth of generics** within this channel.

The COVID-19 pandemic is expected to impact the sector by having the following anticipated changes:

- **Shift in healthcare provider (HCP) engagement,** from traditional face-to-face (FTF) engagement, to a blend of multichannel communication modes, including remote detailing by sales representatives, webinars for HCP education, as well as FTF interactions.
- **Acceleration in digital transformation** within the sector including telemedicine and telehealth initiatives for management of traditional ailments.
- **Transformation of the traditional model of pharmaceutical sales forces,** characterised by smaller sales teams with more diverse, specialised skillsets to service health care providers.
- Buy-down in medical insurance or a **decline in medical scheme membership** altogether based on affordability, as the country suffers the economic and unemployment impact of the pandemic.
- Reduction in diagnosis and initiation of treatment for chronic disease conditions and oncology.
- **Reduction in the number of elective procedures** as patients and HCPs opt to delay procedures until the pandemic has subsided.
- **Delay** in new **launches.**
- **Potential disruptions** in pharmaceutical **supply chain** across the world.

The COVID-19 pandemic is expected to have a profound impact on the industry in the next 12 months.

Prescription

Analysing the outcomes

2020 achievements

Build on the foundation

- the prescription business has remained relatively stable in a rapidly evolving market, where downward pricing pressure from funders, increasing competitiveness within the growing corporate pharmacy channel and margin squeeze in the multinational partner portfolio, have presented a challenging environment for growth.
- In this environment, the business delivered modest revenue growth of 0.9% over the previous year, in a market reflecting a decline in value of 1.5% (IQVIA MAT June 20).
- The division continues to be the market leader in Pain.
- Successfully re-introduced Scopex Co to the market, indicated for the treatment of stomach cramps.
- Successfully (re)launched Adco-Etoricoxib, the first-to-market generic Etoricoxib indicated for the treatment of moderate to severe rheumatic pain.
- The ARV portfolio now includes two single tablet regimens for the treatment of HIV; Trivenz and more recently, the launch of Nuvaco, a Dolutegravir (DLT) based fixed-dose combination (FDC) treatment, offering patients customised HIV treatment options.
- The division remains committed to delivering value to its multinational partners, and during the year successfully renewed and strengthened existing partnerships in this segment.
  - In CNS, the agreement with Roche for the sales and marketing of Rivotril has been extended to March 2023 and Biocodex agreement for Stresam has also been renewed for a further two-year period.
  - In Gastroenterology, the Sales and Marketing agreement with Takeda for the promotion of Mezavant, used to treat ulcerative colitis, was renewed.
- Genop performed well during the year, despite the negative impact of COVID-19 on sales as some customers closed during the final quarter of the financial year, whilst lockdowns were enforced.

Growth and expansion

- Women's Health secured a five-year licensing agreement with Sandoz for the transdermal hormone patches, Estalis and Estradot, and the Osteoporosis drug, Aclasta, securing its portfolio leadership in Women's Health. Estalis and Estradot, are transdermal hormone patches that offer women an alternative to oral hormone replacement therapy. The business also attained the marketing authorisation for Boniva and Bondronat though a licensing agreement with Atnahs. With both Aclasta and Boniva in the Women's Health portfolio, the business is a market leader in the Osteoporosis segment.
- Dermatology successfully integrated the Bayer dermatology portfolio and team into the division, delivering on its commitment to our longstanding partner Leo Pharma, who gave Adcock Ingram the marketing rights to leading brands such as Advantan, Scheriproct, Travocort and Skinoren, after a global acquisition from Bayer Pharma last year. The dermatology footprint was further strengthened by acquiring the marketing and distribution rights for Quadriderm in South Africa, used to treat bacterial skin infections, fungal infections, eczema, folliculitis and furunculosis.
- Being a multinational partner of choice remains a key strategic pillar for the business growth, and while many existing partnerships were renewed, the business also acquired new partners this year.
  - In the CNS business, the portfolio offering will be expanded to the ADHD category, after concluding a licensing agreement with Medice earlier this year.
  - In Ophthalmology, a partnership with Johnson and Johnson was finalised for the commercialisation of the Blink range of Dry Eye brands. While the COVID pandemic has delayed the launch, we embrace a long-term partnership with J&J in the country.
  - In Women's Health, a licensing agreement with Theramex was concluded to boost the portfolio, strengthen the hormone replacement therapy (HRT) pipeline, and marking the divisions entry into reproductive health.
- This year has set-up the division for its entry into Biosimilars, with the launch of its first Biosimilar Infliximab, Remsima, in July 2020. Remsima is indicated for the treatment of ulcerative colitis, Crohns disease, rheumatoid arthritis, ankylosing spondylitis, psoriatic arthritis and psoriasis. Adcock Ingram's partnership with global leading biosimilar company, Celltrion Healthcare, will ensure expanded access to these life-saving medicines for the country.

Transformation

Financial support is provided to the following projects:

Witkoppen healthcare mobile clinic

The mobile clinic provides access to basic quality healthcare services for the Diepsloot and Msawawa informal settlements.

Hlokomela wellness project in Hoedspruit

Provides basic healthcare services in the community of Hoedspruit. It is available to farmers, farmworkers, sex workers, foreign migrants and local community members around the Hoedspruit area.

Future outlook

Build on the foundation

in the face of a highly evolving pharmaceutical market, overlaid with the economic and social impact that the COVID-19 pandemic will have on the economy and its people, the division aims to strengthen its focus and offering in the Generics business, ensuring that it continues to offer patients affordable, quality and relevant generic medicines.

To this end, the ARV portfolio remains a key focus for the business, as the Company aims to maintain its local manufacturing footprint, securing local supply of critical antiretrovirals in a period with high levels of supply chain uncertainty. The business remains committed to delivering on its commitment to the State for the supply of DLT and will pursue key strategic partnerships to drive growth in the competitive private sector.

Delivering on the Multinational strategic partnerships remains key for the upcoming year, with the major focus on continuing to deliver value to our partners that have confirmed their long-term partnership with the division, such as Roche, Takeda, Lundbeck, Novo, Biocodex, and Leo Pharma.

Growth and expansion

Achieving launch excellence will be the cornerstone of our focus, as we prepare for a number of first to market launches in the division, in the Biosimilar, CNS, Women's Health and Generic therapeutic areas.

Entry into the Speciality business segment has been a long-term strategic intent for the division, and the launch of the first Biosimilar Infliximab, marks the division's entry into this segment. The franchise will expand its offering in the Speciality segment with the launch of a second Biosimilar later in the year, as the business plans entry into Biosimilar and Chemotherapy Oncology markets.

Building on offering comprehensive patients' solutions in the therapeutic categories we service, we intend to expand our CNS offering into the ADHD segment, with the launch of a novel treatment alternative to the existing treatment.

In Women's Health, the division is set to build a robust family planning portfolio, further empowering women to make key decisions on their health and contraceptive choices.

The Pain portfolio plans to expand their offering in the transdermal pain category, with the launch of a second product for the treatment of neuropathic pain.

Transformation

Continued support towards the two key projects where the division is already involved.

Hospital

Our inputs

HUMAN CAPITAL

- **750** factory employees
- **120** sales, marketing and administrative employees

INTELLECTUAL CAPITAL

- Only medical grade LVP plastic manufacturer on the continent

MANUFACTURED CAPITAL

- Our **Aeroton** facility, accredited with:
  South Africa (SAHPRA); and
  Kenya (PPB).
- Finished products are also sourced from third parties. The split of purchases is as follows:

Aeroton	48%
Third party manufacturing	
Local	10%
Overseas	42%
	100%

NATURAL CAPITAL

- 184 321 kilolitres of water
- 16 183 600 kWh electricity
- 4 755 tonnes industrial coal

SOCIAL AND RELATIONSHIP CAPITAL

Regulatory bodies include:

- Pharmaceuticals Made in South Africa (PHARMISA)
- The Marketing Code Authority (MCA)
- The South African Health Products Regulatory Authority (SAHPRA)

A closer look at our operating model

Our business activities

Adcock Ingram Critical Care (AICC) is a leading manufacturer and supplier of hospital and critical care products in Southern Africa. Products are offered through multiple portfolios and across wide-ranging customer channels. The business is a fully integrated operation which spans through regulatory, R&D, manufacturing, marketing, sales and distribution. Beyond its world-class commercial capability, AICC manufactures an extensive range of products in its unique dual process factory which comprises a comprehensive plastics extrusion plant together with a fully accredited pharmaceuticals manufacturing facility.

Mohamed Mangel
Financial Director

Colin Sheen
Managing Director

AICC is a progressive healthcare company with ever-evolving and broadening portfolios. At the core, AICC holds a solid market leadership position in intravenous solutions, renal therapies and blood transfusion therapies where it is the largest supplier of blood collection bags to the South African National Blood Services. Other business portfolios include: small volume injectables, infusion systems, anaesthesia, nutrition, haemophelia, specialised pharmaceuticals, sport science and a vast range of hand and surface disinfectants.

In its efforts to maintain its leadership position, AICC continues to expand into adjacent portfolios which includes growth in oral and injectable analgesia, additional injectable pharmaceuticals, immunosuppressants, enteral nutrition, wound-care, orthopaedics and expansion in sports medicine.

Our distinct features

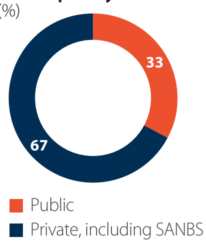
AICC is a uniquely positioned medical, pharmaceutical and healthcare manufacturer servicing in the main, specialist channels across hospital, clinics and front-end healthcare professional service providers. AICC provides products and services that cut across several broad adjacencies, from the most severe debilitating condition to human movement solutions directed to the consumer.

Our customers and markets

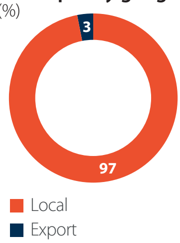
Our customers remain the core essence of our existence, and apart from assisting patients in various forms of need, AICC directly services hospitals, pharmacies, doctors, renal centres, clinics, blood centres, physiotherapists, biokineticists and kinesiologists.

Our core operating domain remains South Africa, although sales territories include parts of Sub-Saharan Africa.

Sales split by channel
(%)



Sales split by geography
(%)

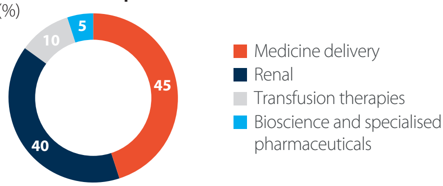


Our outputs

Total capacity per annum:

- **35 million** units of large volume parenterals
- **35 million** units of small volume parenterals
- **4 million** pour bottles
- **1 million** blood collection bags
- Extrude more than 1 900 metric tons of PVC sheeting and tubing per annum

Net revenue split
(%)



Medicine delivery

AICC has manufacturing independence and benefits from a fully integrated manufacturing facility – both plastics and pharmaceuticals – supporting the local manufacturing of various products used in infusion therapies. The division is also the largest supplier of large volume parenterals (LVPs) within Southern Africa and remains the market leader in regional anaesthesia. LVPs have seen some growth following the increased penetration of hospitals in the private market.

Through its strategic alliance with Pharma Q, AICC has a solid market leadership position in SVPs (injectable pharmaceuticals) across multiple therapeutic areas including anti-infectives, oncology, anti-emetics, respiratory, analgesia and hypnotics and continues to grow its own share of the small volume parenteral (SVPs) market, mainly through increased awards in various tenders.

An increased demand, as a result of COVID-19, was seen in the disinfectants range as well as for medical devices and related consumables.

Renal

National Renal Care (a joint venture between Netcare and AICC) remains the single largest service provider for renal services in South Africa. AICC remains the largest supplier of goods and services within peritoneal dialysis (PD), haemodialysis (HD), continuous renal replacement therapy (CRRT) and renal pharmaceuticals. 2020 has seen the further anchoring of the innovative cycler for PD (Claria) which allows healthcare professionals to monitor dialysis patients remotely and become a new standard of care. Although the HD demand remained static during the year, an increased demand was seen for PD as well as CRRT.

Transfusion therapies

AICC is the largest manufacturer and supplier of blood bags in South Africa. The business has forged a close association with the South African National Blood Services (SANBS) with whom it has enjoyed more than a 50-year relationship and increased its market share this year following an increased award in the SANBS tender.

The business continues to enjoy its manufacturing independence capitalising on its own intellectual property and manufacturing facility, herewith supporting the local manufacture of blood bags and tubing.

AICC is also the largest supplier of free-flowing leucodepletion sets. Through its alliance with Applied Sciences in the USA, AICC has successfully installed the largest fleet of blood mixer/scales in Southern Africa.

Bioscience and specialised pharmaceuticals

AICC remains a leader in the supply of product for haemophilia and a leading supplier in speciality pharmaceuticals including sodium polystyrene, heparin and 1 alpha hydroxylase.

Top 10 brands' turnover:
R980 million
2019: R902 million

Hospital

Current trends in our markets

- Funding pressure is experienced across the entire sector as private health insurers grapple with the **tough operating climate,** inflationary pressures, COVID-19 and a members' base which potentially will reduce.
- With a few hospital groups and a few medical schemes dominating the environment, the use of formularies and **formulary compliance** keeps on increasing in an attempt to manage costs with regards to pharmaceuticals, devices and medical consumables.
- Funders placing **increased pressure** on hospitals with regard to patient admissions and patient stays resulting in reduced hospital bed days and reduced admissions.
- Increased regulations, including those now required in the previously unregulated device environment.
- **Increased cost controls** as hospital groups tighten up on "non-funded" expenses.
- **Increased use of day clinics and homecare** as consumers/patients continue to manage hospital, surgical, pharmaceutical and specialised price inflation.
- **Increases in managed care interventions** which focus on comprehensive care, including preventive, promotive, rehabilitative and curate care.

COVID-19

- Significant increase in **demand for personal protective equipment (PPE) and sanitisers**.
- Quick shifts in healthcare **treatment protocols relating to COVID-19**.
- **Economic pressure impacting** patients where co-pays are required and **electives** are more carefully considered, with the deferral of most electives because of COVID-19.

The COVID-19 pandemic is placing enormous pressure on the healthcare system and is the main driving factor behind most of the trends currently experienced in the market.

Analysing the outcomes

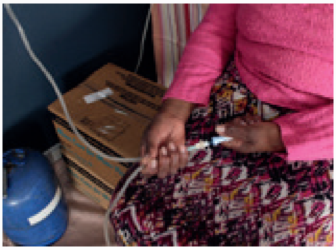
2020 achievements

Build on the foundation

- Growing market shares across various portfolios.
- Adcock Ingram Critical Care has once again been successful in extending its supply agreement with SANBS and in so doing further entrenching a relationship which has spanned > 50 years.
- Continue the home-delivery service to over 1 700 home-dialysis patients countrywide.

Case study






Renal dedicated home delivery service

Unique to AICC, and a global leading initiative, the **renal dedicated home delivery service** (RDHDS) offers home delivery of lifesaving peritoneal dialysis supplies for kidney failure patients on peritoneal dialysis (PD). This customer-centric delivery service provides an extensive delivery network throughout South Africa, tailored directly to over 1 700 patients' homes every month for as long as the patient remains on home dialysis. The life supporting pharmaceuticals and consumables are delivered by a team of over 70 drivers, who diligently cover the geography of our country, regardless of terrain or circumstance.

The drivers are trained to assist the patients with receiving the stock as well as helping with the management of the peritoneal dialysis stock-observation, discussion and pro-active engagement. A driver and "customer service" feedback loop has been established to assist the dialysis facilities and respective dialysis nursing staff to better manage the patient's treatment outcome and has become a valuable resource for streamlining home dialysis, from prescription to delivery.

Patients regularly provide compliments on this unique service, for example, *"the delivery was received in good order, and the drivers from Adcock Ingram are always friendly and helpful"* according to a patient in Durban; a patient in Germiston reported that *"the driver was very helpful in stacking the boxes neatly and diligently"*; whilst a patient from Helen Joseph (Johannesburg) remarked *"the delivery was received well and the staff was very friendly".*

The RDHDS program not only assists patients to achieve their dialysis and health goals, but also empowers a host of employees and ancillary support who assist in saving and fulfilling lives – *Because it Matters.*

Hospital

Growth and Expansion

AICC has progressed several innovations through the 2020 year which supports ambitions beyond its anchor business and aspirations into adjacent categories.

These include:

- Sports Medicine, Rehabilitation & Recovery – 2020 has seen the integration of a distinct range of physiotherapy products acquired through a collaboration with Physio Wellness. The business has initiated and implemented an industry unique operating model which sees personalised and real-time delivery of product to customers. The initiative realised immediate adoption and rapid market-share uptake – temporarily hampered as COVID-19 lockdown Level 5 restrictions hindered initial operations. Following the introduction of Level 3, this business reinitiated its operations.
- Disinfectants – AICC expanded on its range of hand and surface disinfectants. Housed under the Adco-Hygiene brand, AICC has once again expanded several unique formulations which vary in size, scent, texture, colour and blend. The range is accredited with standards authorities and fulfils criteria of anti-bacterial, anti-viral and anti-fungal. This range has been successfully adopted through the COVID-19 pandemic and demand remains robust. All products in this range are intended for home and professional use.

Transformation

- The MyWalk joint venture with Netcare was officially launched in February 2020, which saw the donation of 1 300 pairs of school shoes to all the learners at Chivirikani Primary School in the South of Johannesburg.

The initiative was to see over 25 000 pairs of shoes donated this year, but unfortunately with the advent of COVID-19, the project has been temporarily halted.

Case study

How drip bags are turned into new school shoes

An Adcock Ingram Critical Care and Netcare initiative to turn single-use PVC drip bags, oxygen masks and associated tubing into school shoes

1. Dispose

Staff at participating Netcare hospitals dispose of non-hazardous, uncontaminated PVC drip bags, oxygen masks and associated tubing into dedicated MyWalk bins.

2. Collect

Southern Basadi staff members collect the PVC products from the hospitals in a custom-made MyWalk trailer, and sort the products.

3. Wash

Southern Basadi transports the products collected in the dedicated MyWalk trailer to the MyWalk recycling plant where the products are washed and granulated into smaller pieces.

4. Melt

These pieces are melted at very high temperatures, mixed with additives to colour them black, and turned into small black pellets.

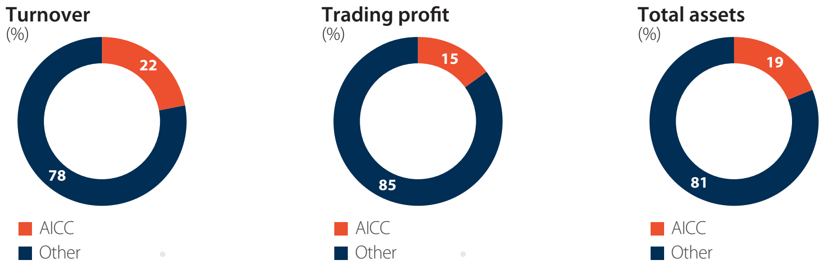
5. Process

Pellets are processed by MyWalk's shoe making equipment.

6. Produce

Brand new school shoes, made from 100% recycled material and 100% recyclable, are produced. Shoelaces are added and the shoes are packed, ready for distribution to learners.

Contribution to the Company results



Future outlook

Build on the foundation

AICC will maintain its close relationship with government and support national communities in providing quality healthcare products affordable to all. AICC will maintain close relationships with all stakeholders to build trust, demonstrate commitment and deliver to expectation. AICC will continue to concentrate efforts on nurturing focussed portfolios with key attention on product mix, line extensions, process efficiencies and people. AICC will maintain its uncompromising attention to customer service in supply, delivery, service and communications.

Growth and expansion

AICC will continue to grow its market-leading position in both established as well as newly penetrated therapy areas, and will expand into adjacent categories through licensing, partnerships and strategic alliances.

Transformation

The MyWalk joint venture with Netcare will be rejuvenated once lockdown levels reduce to the point where learners are again able to go to school and the aim is to increase the issue of school shoes each year.

Remuneration

In line with best practice (King IV code on corporate governance) on remuneration policy as well as the JSE Listings Requirements this year's Remuneration report encompasses three sections:

Section 1	Section 2	Section 3
Background and context setting with material matters dealt with by the Committee	The remuneration philosophy and policy which gets tabled at the annual general meeting (AGM) for a non-advisory vote by the Group's shareholders.	The implementation report explaining how the remuneration policy was applied in the financial year with specific disclosures on the remuneration of the Group's executive directors. Refer to page 200.

In order to strengthen the relationship with shareholders there is ongoing engagement by the Company with shareholders on remuneration matters prior to tabling the remuneration report at the AGM and feedback received from these engagements is implemented where warranted.

The shareholder voting results, accepting the remuneration resolutions, over the past three years were as follows:

	2017	2018	**2019**
Remuneration policy	65.11%	98.41%	**95.97%**
Implementation report	66.38%	98.72%	**97.21%**
Non-executive directors (NED) remuneration	95.77%	95.72%	**98.58%**

Short-term incentive payments in September 2019

As reported in the 2019 Integrated Report, the Company will disclose the STI performances achieved on a historical basis and targets would include both financial and non-financial metrics. The performance outcome is shown below:

Commercial divisions (OTC, Prescription, Hospital and Consumer) were measured against the following:

- Trading profit (65% – 85% weighting; in the case of managing directors, the weighting was 65%);
- ROFE (15% weighting), only payable if the trading profit target had been achieved; and
- For managing directors, an additional performance metric (20% weighting) was introduced, based on the individual's position and included targets for market share, new business development and factory performance, as examples.

For the commercial divisions the following payments were made in September 2019, based on performance for the financial year to June 2019:

Business Unit	Trading Profit	ROFE	Additional Performance Metrics	Amount Paid R'm	Number of beneficiaries
Prescription	Achieved stretched target	Achieved	Achieved	6.0	11
OTC	Not achieved	Not achieved	Not achieved	–	–
Hospital	Achieved stretched target	Achieved	Partially achieved	3.8	7
Consumer	Achieved target	Achieved	Partially achieved	2.9	7

Corporate employees were measured against the following:

- Trading profit (55%–85% weighting; in the case of executive directors the weighting was 65%);
- ROFE (15% weighting), only payable if the trading profit target had been achieved; and
- For executive directors an additional performance metric (20%–30% weighting) was introduced and included targets for transformation and headline earnings per share (HEPS).

For Corporate employees the following payments were made in September 2019, based on performance for the financial year to June 2019:

Business Unit	Trading Profit	ROFE	Additional Performance Metrics	Amount Paid R'm	Number of beneficiaries
Corporate	Achieved target	Achieved	Achieved	15.0*	20*

* *This includes the executive directors*

For the Distribution department, the financial and non-financial metrics differ from the commercial divisions. Distribution was measured against the following:

- Controllable costs (50%);
- On-time delivery (25%), only payable if the controllable costs target had been achieved; and
- Order infill rate (25%), only payable if the controllable costs target had been achieved.

The performance outcome is listed below:

Business Unit	Controllable costs	On-time delivery	Order in fill rate	Amount Paid R'm	Number of beneficiaries
Distribution	Not achieved	Achieved	Achieved	–	–

Section 1: Background statement

Adcock Ingram remains focussed on developing and implementing robust remuneration strategies and plans that best serve shareholder interest through sustainable growth. We continually monitor developments in the healthcare sector, best practice and related changes in the market that may have an impact on our approach to remuneration, and regularly canvass input from stakeholders for consideration.

The Group continued engaging an independent external remuneration consultant to ensure that our remuneration practices remain relevant and fit for purpose in a dynamic and changing environment and aligned to the achievement of our strategies. In particular, our remuneration policy is key to our ability to attract, motivate, develop and retain talent in a market where the battle for talent is fierce.

Governance mandate, Committee composition and meeting attendance

The Company's single Human Resources, Remuneration and Nominations Committee was constituted as two separate committees on 22 November 2019, a Human Resources and Remuneration Committee (RemCom) and a Nominations Committee (NomCom).

The RemCom consists of four non-executive directors. The majority are independent as required by King IV and in terms of the Board approved terms of reference has been delegated responsibility for overseeing the Group's approach to remuneration, including policy, to ensure fair, transparent, equitable and responsible remuneration in support of the Group's strategy.

Three scheduled meetings are held per year and when necessary, special meetings are held. In the year under review, although there were three scheduled meetings, one did not meet quorum requirements and thus members did not convene. The Chief Executive Officer (CEO) and the Executive Director (ED): Human Capital and Transformation are permanent invitees to the meetings but do not vote, and are not present when their own remuneration is discussed.

The NomCom consists of four non-executive directors, the majority of which is independent, and is chaired by the Chairman of the Board. The NomCom operates in accordance with its terms of reference which were approved by the Board and plays an important role in the nomination and appointment of new and suitable directors as well as the identification and removal of underperforming or unsuitable directors. Before nominating a candidate for election, the NomCom considers the collective knowledge, skills and experience required, diversity of the Board and whether the candidate meets the fit and proper criteria.

Although the Committee has three meetings scheduled annually, it only convenes when it is necessary to consider business that relates to its mandate. All the changes that were effected to the Board were considered and recommended to the Board by the NomCom. The Chief Executive Officer (CEO) and the Executive Director (ED): Human Capital and Transformation are permanent invitees to these meetings but do not vote.

The RemCom's and NomCom's composition, and meeting attendance during the year under review were as follows:

RemCom members[1]	Meeting attendance
Chairperson	
L Boyce	2/2
Members	
M Haus	1/1
N Madisa	1/1
C Manning	2/2
L Ralphs	1/1
Invitees	
A Hall (CEO)	2/2
B Letsoalo (ED: HC & Transformation)	2/2
C France (21st Century)	2/2
M Phillips (21st Century)	1/2

NomCom members[1]	Meeting attendance
Chairperson	
L Ralphs	1/1
Members	
M Haus	1/1
N Madisa	1/1
C Manning	1/1
L Boyce	1/1
Invitees	
A Hall (CEO)	1/1
B Letsoalo (ED: HC & Transformation)	1/1

[1] *Refer page 103 for changes in directors' responsibilities and status.*

Independent and external advice during the year

During the current year, the RemCom enlisted the services of independent remuneration advisers, 21st Century, to advise and assist with various remuneration trends and market benchmarks including review of variable incentives, implementation of a *"Malus and Clawback"* provision in incentive schemes, providing data for NED fees, and benchmarking remuneration for executive directors and executive management. RemCom is satisfied that the services rendered by 21st Century, were independent and objective.

Key activities of the RemCom for the reporting period

During the year under review in addition to the standard agenda items, the following actions were actioned:

- implemented and incorporated a "Malus and Clawback" clause in the standard operating procedure (SOP) of the short-term incentive (STI) scheme, as well as in the performance-based long-term incentive scheme (PBLTIS);
- reviewed all variable incentives and compared them to the market best practice, as well as current and future viability of the schemes;
- continued to monitor the effectiveness of the current variable incentive schemes in the context of attracting, retaining and incentivising participants;
- considered the phantom share-allocation for the retention of key talent;
- reviewed succession planning and development plans for the executive directors and the executive management team;
- reviewed and recommended to the Board the increased STI quantum for executive directors, the Company Secretary and Head of Internal Audit for implementation in FY2021;
- approved the remuneration report (including the policy) and implementation report before publication in the integrated report;
- reviewed its terms of reference to ensure alignment with King IV principles and recommended them to the Board for consideration and approval;
- reviewed and agreed the PBLTIS awards for the executive directors and commercial managing directors;
- reviewed and recommended to the Board the fees proposal for the Chairman, Lead independent director and non-executive directors for shareholders' approval at the AGM;
- approved and recommended inclusion of additional non-financial metrics (strategy and innovation) for all PBLTIS participants for implementation in FY2021;
- evaluated and recommended to the Board the annual increase for total guaranteed pay (TGP) employees in December 2019 including the executive directors, Company Secretary and Head of Internal Audit;
- reviewed the Company wellness program to improve employee well-being; and
- deliberated on additional non-financial performance metrics for the STI scheme.

The RemCom is satisfied that it has fulfilled its responsibilities in accordance with its mandate for the 2020 financial year and that the remuneration philosophy achieved its objectives.

Forward-looking approach

During the next financial year, the RemCom and management will focus on the following:

Item	Forward-looking approach
Retention of critical skills	Continue to review the variable incentive schemes of critical and key employees in order to ensure that these employees are remunerated in line with the market and receive appropriate incentives for purposes of retention.
Succession management	Prioritise the leadership pipeline for the executive directors and the executive management team and development plans for potential successors to the executive management team.
PBLTIS metrics	Ensure inclusion and implementation of a fourth PBLTIS metric namely, strategy and innovation.
Internal pay equity	In line with its philosophy on remunerating fairly and responsibly, to continue conducting wage gap analyses to address internal pay discrepancies, if any.
Employee well-being	Review the Company wellness strategies to support and improve employee wellness with special focus on mental and financial matters.

Section 2: Remuneration policy* and philosophy

Remuneration policy

At the heart of our business, our purpose is to add value to our stakeholders, including employees and shareholders. This is supported by rewarding our employees with a total remuneration mix that drives passion, commitment, value and collaboration which are key enablers of business success.

The remuneration policy is aimed to achieve alignment between the Group's business strategy and the behaviours of all employees against values of the Group. The policies recognise and reward individual responsibility, performance and behaviour in the achievement of the business areas goals. The remuneration policy is focussed on achieving a fair and sustainable balance between guaranteed pay, and variable pay (STI and LTI) for the employees. The fair and responsible application of the remuneration policy is guided by King IV principles relating to fair and responsible remuneration.

In the event that either the remuneration policy or implementation report, or both, were voted against by 25% (twenty five percent), or more, of the voting rights exercised, the Board will, as required in terms King IV, soon after the AGM convene a meeting of the dissenting shareholders, to ascertain their reasonable and legitimate concerns. Where necessary explain issues which may not have been clear to them and the steps to be taken to address those issues.

Remuneration philosophy

The purpose of Adcock Ingram's remuneration philosophy is to establish sustainable, fair and equitable reward levels that will attract, motivate, engage and retain high talented employees.

This philosophy is integrated across all employee levels to ensure that we only reward actions that advance shareholders' interests. This is in line with the Group culture and values, whilst ensuring continued alignment of remuneration with shareholders' interests and best practice in the healthcare sector.

The desired outcomes of our remuneration philosophy are to:

- provide competitive, equitable and responsible remuneration based on expertise, performance and contributions to the Group;
- attract and retain exceptional talent necessary to achieve the Group business objectives;
- ensure equal pay for equal work specifically addressing any income disparities based on gender and/or race;
- ensure good corporate governance, ethical and transparent practices in the application and measurement of reward schemes; and
- instil a culture of high performance by allowing for differentiation by rewarding and recognising different levels of performance.

* *This constitutes the full remuneration policy*

Benchmarking

Adcock Ingram continuously monitors the competitiveness of employees' total remuneration through external benchmarking. The Company uses 21st Century to benchmark the remuneration offering of executive directors, executive management and generic roles. To benchmark specific pharmaceutical roles, the Company utilises the services of Deloitte Consulting Services.

The total guaranteed package (TGP) is targeted at the market median of the national market TGP data. A premium to the median TGP may be considered for the retention of employees with scarce skills, niche experience, consistent outstanding performance and transformation consideration. Remuneration for management was benchmarked against the national market data incorporating size and complexity; and the outcome was compared to data from a group of JSE listed companies of similar size and complexity to Adcock Ingram, as well as to available data from an industry comparator group.

The RemCom annually reviews and approves the salary increases of the executive directors, Company Secretary, and Head of Internal Audit. The RemCom provides the authority to the CEO to review and approve the salary increases of the Executive Committee and management.

Adcock Ingram aspires to pay variable pay at the market upper quartile (75th percentile) taking into account the following factors:

- affordability;
- performance;
- transformation;
- industry skills; and
- internal equity.

Non-executive director (NED) fees

The remuneration of NEDs is reviewed annually by the RemCom and the Board after a benchmarking exercise. These fees remunerate the NEDs for their time, responsibilities and commitment to Adcock Ingram. NED fees have been independently benchmarked by 21st Century against the national market data incorporating size and complexity. Fees are required to be competitive but not necessarily in the top quartile of the market median. The factors that influence the NED remuneration include amongst others:

- the Company remuneration philosophy; and
- responsibility of the role.

Recommendations for increases are made to shareholders at the AGM for consideration and approval. NEDs do not qualify for any STI or LTI scheme.

The terms and conditions applicable to the appointment as a NED are contained in a letter of engagement which, together with the Board Charter and respective Committees' terms of reference, form the basis of the director's appointment. The Board recently adopted a resolution and directors who have reached a nine (9) year tenure, should automatically retire from the Board, subject to appropriate succession and Board composition requirements being in place. The Company's memorandum of incorporation (MOI) provides that at least one-third of the non-executive directors retires by rotation every year and, if eligible, may offer themselves for re-election by shareholders.

In light of the depressed economic environment, the Board resolved not to propose remuneration for the Nominations Committee, after it was constituted as a stand alone Committee. The Board will review this decision in future.

Remuneration framework

Our remuneration framework has been designed to achieve a fair and sustainable balance between financial rewards and non-financial rewards to drive and deliver a high-performance culture. This framework is made up of two elements, total guaranteed pay (TGP) and variable pay (short-term and long-term incentives) as illustrated below:

Remuneration component (WHAT?)		WHO?	Purpose (WHY?)
Guaranteed pay	Basic salary	All employees	To offer competitive market related salaries and suite of benefits that attract, develop and retain high calibre of talent with a skill set capable of shaping and executing the business strategy.
	13th cheque		
Benefits	Provident fund		
	Group life insurance		
	Disability cover		
	Medical aid		
	Wellness		
	Long service award		
	Learning and development opportunities		
	Fringe benefits	Band / position dependant	
	Vehicle insurance		
	Shift allowance		

Mechanics (HOW?)		
Reviewed annually against market data taking into consideration:		
Job content and level	Internal parity	External competition
CPI	Affordability	Individual competence and transformation imperative
Salary increases are awarded in December each year for non-bargaining unit/TGP employees and July each year for bargaining unit employees.		
Guaranteed for bargaining unit employees. TGP employees are given a degree of flexibility to structure their guaranteed package to include a 13th cheque.		
Choice of different provident funds, but membership of one is compulsory. Flexibility on percentage contribution.		
Compulsory.		
Compulsory.		
Medical aid membership is a choice for all employees. For bargaining unit employees, the Company subsidises 50% of the membership costs.		
Free access to the employee wellness programme, administered by ICAS, that provides free counselling and support to employees on a variety of issues such as trauma counselling, onsite counselling, mental health, financial advice, managerial referrals, etc. Gym facilities at Midrand and Aeroton. Clinics at Wadeville, Clayville, Aeroton and Midrand that offer primary care and occupational health services.		
Long service awards for 5 years (10% of monthly pensionable salary (MPS)), 10 years (25% of MPS), 15 years (50% of MPS), 20 years (75% of MPS), 25 years (100% of MPS), 30 years (150% of MPS), 35 years (200% of MPS) and 40 years (300% of MPS).		
Study assistance available to employees to improve their competencies to study for relevant qualifications.		
Use of fuel cards, car allowance, cell phone allowance and/or cell phone, where relevant.		
Vehicle insurance for an employee's primary car.		
Shift allowance for shift workers.		

TGP – Total guaranteed pay

MPS – Monthly pensionable salary

Remuneration framework (continued)

Remuneration component (WHAT?)		WHO?	Purpose (WHY?)
Short-term incentives (STI)	Sales incentives	Sales staff	To motivate and reward sales staff to achieve sales targets.
	Annual performance incentive paid on the achievement of predetermined financial and non-financial targets for the year.	Key senior employees Commercial divisions (OTC, Prescription, Hospital and Consumer) Distribution Corporate, including executive directors	To motivate and reward employees for the achievement of the Group's short-term/one year financial and non-financial objectives in areas they can influence.

Mechanics (HOW?)

For the achievement of sales targets, sales incentives are paid to qualifying sales employees on a quarterly basis.

Number of participants = 518

The Company aims to ensure that a well-balanced set of measurable performance targets are designed for each level. Targets are tailored annually in line with the strategic direction of the Company recognising the economic and trading conditions

Performance conditions	Trading profit	Return on funds employed (ROFE)	Additional performance metrics (APM)
Weight	**65% – 85%** Depending on weighting of APM	**15%** Only payable on achievement of trading profit target	**0% – 20%** Includes targets such as market share, new business development and factory performance

Number of participants = 36

Performance conditions	Controllable costs	On time delivery	Order infill rate
Weight	**50%**	**25% each** – only payable if controllable costs target has been achieved	

Number of participants = 2

Performance conditions	Trading profit	Return on funds employed (ROFE)	Additional performance metrics (APM)
Weight	**55% – 85%** Depending on weighting of APM	**15%** Only payable on achievement of trading profit target	**0% – 30%** Includes targets such as transformation and headline earnings per share

Number of participants = 13

Remuneration framework (continued)

	Remuneration component (WHAT?)	WHO?	Purpose (WHY?)
Long-term incentive scheme (LTI)	Tiger Brands Black Managers Trust (BMT)	Black managers	Retention of black managers through the Tiger Brands Limited B-BBEE transaction implemented in 2005.
	Phantom options	Key skilled employees	Retention of critical employees and key skills by the annual allocation of options.
	Performance-based long-term incentive scheme (PBLTIS)	Executive directors and commercial managing directors	A performance-based long term incentive scheme that aims at incentivising and retaining critical employees and increase management equity.

Mechanics (HOW?)

Adcock Ingram black managers who were employed prior to Adcock Ingram been separately listed on the JSE, form part of the scheme. Vested rights were issued subject to various lock-in periods.

Number of participants = 145

In accordance with the rules of the Phantom scheme, the vesting of options is as follows:

- 33⅓ % in respect of each tranche after the 3rd (third) year from the offer date;
- a further 33⅓ % in respect of each tranche after the 4th (fourth) year from the offer date; and
- a further 33⅓ % in respect of each tranche after the 5th (fifth) year from the offer date.

Options granted will not expire for a period up to six years after the grant date.

Number of participants = 42

The granting of conditional annual awards to identified employees is based on the following aspects:

- critical nature of the role;
- necessity to retain the individual;
- ability of the individual to drive strategy and performance; and
- size and complexity of the role.

Performance period and vesting date

Vesting of the conditional share awards is subject to performance conditions being satisfied over the performance period (three years). To the extent the performance metrics have been met, the conditional share awards will vest as follows:

- 75% of the awards vest after three years; and
- 25% of the awards vest after four years

Performance conditions:

- 50% of the vesting of the award will be subject to achievement of HEPS growth against set targets;
- 25% of the vesting of the award will be subject to achievement of ROFE against set targets; and
- 25% of the vesting of the award will be subject to the Company's B-BBEE scorecard against set targets.

If none of the performance conditions have been fulfilled, no conditional share award will vest.

Number of participants = 7

Capital outcomes

Social, Ethics and Transformation Committee Report

The Social, Ethics and Transformation Committee (SET) is a statutory committee appointed in terms of the Companies Act (71 of 2008). The Committee's focus is to assist the Board in setting the tone for an ethical organisational culture, as well as to ensure that fair labour practices are applied across the business, that there are plans in place to contribute to Social and Economic Development and that we don't only utilise our natural resources responsibly but also work towards minimising the impact on the environment in the long term.

The Committee functions within the ambit of an annually reviewed Board approved Terms of Reference and meets three times a year.

The Committee subscribes to the global sustainable development goals, which are the blueprint to achieve a better and more sustainable future for all. These goals amongst others are aimed at poverty reduction, promotion of justice, eradication of inequality and protection of the environment.

Composition and meetings

The Committee consists of two Independent Non-Executive Directors and one Executive Director. The CEO, Executive Public Affairs, Head of Internal Audit, Corporate Communications Manager and representatives from Marsh Risk Advisor are invited to attend all meetings of the Committee.

The attendance of the Committee meetings are as follows:

Committee members[1]	Meeting attendance
Chairperson	
A Mokgokong	2/2
C Manning	2/3
Members	
S Gumbi	1/1
B Letsoalo	3/3
Invitees	
A Hall (CEO)	3/3
N Mthethwa (Public Affairs Executive)	1/1
D Nabarro (Marsh Risk Advisor)	3/3
S Pietropaolo (Head of Internal Audit)	3/3
K Singh (Corporate Communications Manager)	2/3

(1) *Refer page 103 for changes in directors' responsibilities and status*

Key activities of the Committee for the reporting period

This year, the Committee reviewed the following issues to ensure that there is adherence to compliance, and ethical leadership and integrity.

Manufacturing	Human capital	Intellectual	Natural	Social
Monitored: • site forums performance against mandate • actual factory expenses against set targets • recovery to expense ratios achieved in the manufacturing plants • compliance to Health and Safety standards • allegations made via the ethics line Tracked factory performance and sustainability measures	Tracked talent management performance Evaluated: • succession management for critical skills • learning and development programmes Monitored: • Employment Equity (EE) plans against set targets for the year • the Group's progress against the five-year EE plan, up to November 2020 • employees wellness programme Assessed: • the B-BBEE progress, risks and mitigation plans • equal pay for equal work disparities in terms of race and gender Reviewed the Code of Ethics, and Conflict of Interest policies	Tracked: • the total number of adverse event reports • interaction with regulatory bodies Monitored: • submissions of product applications and amendments • regulatory compliance • compliance to advertising standards • new medical device listings • dossier compliance to guidelines and regulations	Tracked plastic (PVC) recycling project Monitored: • the long-term impact of projects such as borehole performance and water-recycling • an environmental scorecard for the factories and distribution sites with regards to water and energy consumption and carbon footprint	Reviewed the Stakeholder Management Policy Evaluated the validity of CSR Programme in relation to COVID-19 Monitored the: • implementation of the Youth Employment Services (YES) Programme • Group media exposure • implementation of the My Walk Project, a partnership between Netcare and Adcock Ingram Critical Care Reviewed and monitored the Group's Public Investment Score Undertook tours to various of Adcock Ingram's CSR Programmes Assessed: • the impact of commercial transformation projects in society • COVID-19 impact on the Group and on small and medium business suppliers

Forward-looking approach

- Evaluate the B-BBEE scorecard targets with specific focus on enterprise development and supplier development
- Assess the relevance of CSR programmes in relation to the impact of COVID-19
- Ensure remuneration fairness annually across the Group with reference to gender and race
- Strengthen the impact of the My Walk project on communities
- Ensure existence of robust health and safety protocols
- Monitor stakeholder engagement for business continuity
- Set EE targets for the period up to 2025

Human capital

"Empowering our people"

Introduction

As a group, Adcock Ingram is faced with a turbulent economic environment, a South African recession and changing consumer demands. Our continued relevance depends on our ability to harness talent and unleash the potential of our people in order to be able to continue to meet the needs of our customers and to ensure business sustainability. In light of this, the Group's human capital has remained focused on creating an environment in which our employees continue to be engaged and contribute to value creation and strategy. We regularly enhance our employee value proposition (EVP) as we strive to ensure that we retain, motivate and develop our talent and attract new and the best talent to the Group to deliver on long-term growth.

To realise this objective, we have prioritised the following:

- Building a diverse talent bench to deliver our business strategy.
- Developing leadership capabilities and succession management for business viability and longevity.
- Inculcate agile and ethical culture that encourages innovation and entrepreneurial mindset.
- Elevate performance across the business through rewards and new ways of working.
- Leverage and integrate technology as a competitive advantage into all aspects of our people agenda.

2020 performance at a glance

Achievements

1

Improved our B-BBEE rating from Level 3 to **Level 1**

Invested **R37 million** in training which is **3.2%** of payroll

Appointed **7.5%** YES graduates against a DTI target of **2.5%**

Developed working from **home guidelines** to ensure **business continuity**

Rolled out a **wellness initiative** to each site to improve **well-being and productivity** levels of our employees

Conducted a **COVID-19 survey** to determine and **address employee concerns** during the lockdown period

Reviewed **Employee Value Proposition** (EVP) in line with the impact of COVID-19 to determine relevancy and competitiveness

Employee diversity
86% black
50% female

Improved executive successor pool:
67% black (2019: 60%)
33% female (2019: 33%)

Conducted **equal pay** for **equal value** of work exercise to **determine pay disparities**

YES – Youth Employment Services

Challenges experienced

The onset of COVID-19 presented challenges to the people strategy, which include:

- fear of contracting the virus;
- job losses and right-sizing as a result of slow and weak trading conditions;
- curtailment of learning and development initiatives due to the skills levy holiday payment implemented by Government;
- unable to implement second intake of YES programme due to affordability; and
- an increase in mental health issues and reduced productivity.

Adcock Ingram Employee value proposition (EVP)

What's in it for employees (WIIFE)?

	Company programme offering	Gaps
Compensation	Market-related salaries | Salary benchmarking | Remuneration philosophy of: Pay for performance/ just and fair pay/affordability/Transformation imperative | Annual salary reviews | Total guaranteed package matched at national market median | Variable pay at 75th percentile of the national market median	Variable | Scope of STI limited to critical positions only
Benefits	Provident Fund | Insurance | Travel allowance | Funeral benefits | Medical Aid | Gym | Clinics | Employee wellness program | Study assistance | Development opportunities | Free parking | Breastfeeding areas	Sabbatical leave not offered | Annual leave quantum for sales reps
Career	Succession management | Job enlargement | Deployment stretch assignments | Acting opportunities | Mentoring | Coaching | Individual development program	None
Work environment	Fair and non-discriminatory policies | Secure and safe workspace | Recognition of hard work | Promotion of health and safety | Sports programmes | Reasonable accommodation | Braai facilities and pause areas | Non-tolerance to mediocre performance | Clear glass and open plan offices to support our values (transparency) | Wellness initiative | Flu vaccines, blood drive, HIV testing | Canteen	Daycare | ATMs | Laundry
Culture	Fun at work | Quality of leaders | Ongoing communications | Corporate citizen and proudly South African | Empowering culture | Existence of entrepreneurial mind-set | High performance | Flexible working arrangements | Quality and compliance orientated | Collegiality	None

INTERACT AND RETAIN

ENJOYMENT AND SENSE OF BELONGING

INSPIRE

* *Changes to be affected as a result of new normality*

Employee engagement

Regular interaction with our employees is critical in creating an engaged workforce. We engage and collaborate with our employees through several channels which enable communication from management and forums which our employees can use to provide feedback and remain committed and focused physically, cognitively and emotionally. The following are strategies that are in place to encourage and improve employee engagement:

- **flexible remote working** – working from home has reduced employee travelling cost and stress level linked to the amount of time they spent in traffic. This has resulted in a healthier, more motivated and engaged workforce;
- the Company **newsletter**, AdcoSay, and other divisional newsletters such as Ubuntu and YouMatter as well as various internal communications, keep employees informed and provide a line of sight across the organisation. These also result in employees feeling valued since they contribute to activities and business stories that are displayed and published in internal newsletters;
- **employee site forums** where the purpose is to engage employees through consultation, enabling them to contribute to the success of the business. Site forums provide leadership with an opportunity to provide feedback about business matters and gain commitment from employees. Site forums meetings were held quarterly during the year under review;
- **employee events** including annual year-end functions and long service awards were held, to celebrate success, express gratitude to teams and employees, and recognise and reward loyalty to the business;
- **employee surveys** which are conducted annually to address any issues concerning employee morale, productivity, well-being and remuneration. Two primary surveys were conducted this year, an engagement survey and a COVID-19 survey. Actions plan were developed and implemented, following issues raised from these surveys. The COVID-19 survey revealed the following concerns:

Infecting family members or family members contracting the virus	57%
Self-infection and personal health (including mental health)	49%
Children's education	45%
Job security	42%

Directly linked to the above concerns are employees' fears about the impact on their finances. In the event of any of them, or their close relatives, contracting the virus, the need for medical screening and any other COVID-19 support to their families has also been expressed.

The Company culture and values encourage transparency, an entrepreneurial mindset, open communication and fair and non-discriminatory practices in all our policies and processes. This type of collegial culture promotes constructive discussion, diversity of thinking and working conditions that are safe and encourages fun in the workplace.

adcock ingram consumer

UBUNTU NEWS

A MONTHLY PUBLICATION PROVIDING THE INFORMATION TO SUPPORT OUR TEAM

ISSUE No.2 MAY 2020

EDITORS NOTE TIPS WHAT'S NEW? LOCKDOWN COMPETITION

EDITORS NOTE

With the Covid-19 outbreak being one of the toughest challenges we have had to face in our lifetime, never more so, has the spirit of Ubuntu emerged with random acts of care for one another, of kindness that inspires and showing that as a united nation we can overcome anything.

At the forefront of this pandemic, are our health care professionals, who are selflessly providing care to their patients and to these heroic individuals, we want to express our gratitude and thanks.

Living up to our core purpose – Adding Value to Life, as part of our Consumer Team Community Initiative, during the month of May, the Consumer Division Pharmacy reps will be thanking their pharmacists for their hard work, perseverance and support during the National Lockdown by personally providing them with hampers containing hand sanitisers, gloves and healthy snacks.

In addition to the COVID-19 Consumer Care packs for the Pharmacists, we will also be handing out over 10 000 masks to the Independent Pharmacy Channel as well as the Smollans Merchandisers as a "Thank You" These masks are branded Panado and Viralguard and will be valuable to all to "Keep safe and Save Lives"

THE FIVE EMOTIONAL STAGES OF LOCKDOWN

The five emotional stages of lockdown and how to cope with each one in the face of COVID-19 - so which one are you in?

Team, I was reading an article by Anne Marie Collins who is the President of the Australian Association of Psychologists and resonated with this article as she described the 5 stages of emotions that people are experiencing during lockdown and thought I would share it with you.

Many of us have these emotions right now but we do not always acknowledge or share our emotions with other people so thought I would share some of her article with you.

DISBELIEF
STAGE 2 ANGER
5 STAGES
STAGE 5 OPTIMISM
STAGE 3 SADNESS
STAGE 4 ACCEPTANCE

THE FIVE STAGES OF EMOTION DURING LIFE IN ISOLATION

1. DISBELIEF: A profound sense of loss will trigger sensations of denial. COVID-19 has caused sudden loss of structure and social life, so the first emotion we experience is often disbelief that this is actually happening.

CORONAVIRUS (COVID-19) UPDATE

IT MATTERS WHAT WE DO

BECAUSE YOUR HEALTH MATTERS - KEEPING YOU AND SA HEALTHY

Dear all,

Rest assured that as the Covid-19 situation changes minutely, and we all experience changes in our business and lifestyles, we at AICC are thinking about your health and safety. By working together, we can each play our very important part in society as well as in the healthcare sector, and minimise the spread!

BECAUSE YOUR HEALTH MATTERS, we have implemented some extra health precautions at AICC to keep you safe. You may have noticed some of these changes already. While the AICC environment has always had a high standard of hygiene, health and safety, we are taking extra precautions to keep you, our valued employees safe.

BECAUSE YOU MATTER to our business, we want to make sure that you fully understand the measures that are being put in place to keep AICC and YOU safe.

- We have assigned **Hygiene Ambassadors** to our facility. This is a dedicated team in charge of hygiene, who will be moving around the facility.
- We have onboarded an **Infection Control Specialist**. We believe we need experts to guide us on this journey.
- We will conduct **training sessions** on Covid-19. Knowledge is power! We want to keep everyone up-to-date and empowered with information on this pandemic.
- We have implemented **temperature monitoring** in our facilities, as a severe fever is one of the most common symptoms of Covid-19.
- There will be on-going **awareness campaigns** and we will be giving our staff hand sanitisers to keep you safe at home, while you are commuting and at work.
- Mounted **disinfectant sprays** will be installed throughout our facility. Please disinfect as often as you can.
- Entry for non-essential visitors will be restricted.
- Visitors that do need to access our facilities, will also undergo temperature screening and will need to use the disinfectant provided at the boom.
- Posters and **communication updates** will be placed around the facility. You may have seen some posters already.

This is all **BECAUSE YOU MATTER** and **BECAUSE WE MATTER** and collectively, we need to keep ourselves healthy and productive in order to serve our nation.

PLEASE REMEMBER TO REACH OUT TO DANIEL IF YOU HAVE ANY QUESTIONS OR CONCERNS DURING THIS TIME.

Colin Sheen

BECAUSEYOUMATTER

If you feel ill and need to stay home, please contact our on-site nurse and supervisor/manager

AICC Contact Daniel Matabane - Head of Human Capital
Call or WhatsApp +27 82 738 4054 Email Daniel.Matabane@adcock.com

Labour relations

We are committed to a harmonious and collaborative working environment, and a workplace free from discrimination, compliant with all the relevant labour statutes and centred on open communication channels. This ensures that workplace grievances are avoided or speedily resolved. Disciplinary and grievance policies, which are on the intranet and available on request, govern the standard of expected behaviour within the organisation. Policies are reviewed regularly or following changes in the market and/or legislation.

Our employees have full freedom of association, with 48.6% (1 161) of employees in South Africa belonging to a bargaining unit, with membership split is as follows:

GIWUSA	CEPPWAWU	SACWU
46%	38%	16%

In 2020, there was no contraventions of labour standards, thus no fines were paid for any breaches. No labour industrial action took place during 2020.

Learning and development

Learning and development, as an integral part of Adcock Ingram Human Capital's strategic priorities, strives to grow our employees and to maintain a strong pipeline of skills in order to remain competitive and relevant.

Learnerships remain a critical part of the development strategy as they build the talent pipeline and provide unemployed people an opportunity to gain a qualification. Young talent as part of the talent pipeline, ensures effective implementation of succession to meet short- and long-term needs.

R37 million

Investment in **Learning and Development**

R3.3 million

Received from CHIETA in **Mandatory** and **Discretionary** Grants

42

Black people **participating in Learnerships, Apprenticeships** and **Internships**

61

JOBLESS

Previously unemployed Black people participating in **Learnerships, Apprenticeships** and Internships

14

Employees who completed the **Management Advance Programme** with Wits Business School

1 610

Employees participating in **online e-learning, including mandatory training**

10

YES graduates permanently employed

41

YES graduates employed on a contract basis after YES contract concluded

Talent pipeline

Realising that we operate in the pharmaceutical sector racked with scarce skills, Adcock Ingram has embarked on a journey of developing a "talent pipeline", which entails a multi-pronged strategy of building talent through internships, mentorship, graduate development, apprenticeship and learnerships. This talent pipeline is intended to address the transformation needs of our business while also providing a consistent supply of skills needed in the healthcare sector.

		Rationale
Programme	***Apprenticeship***	The country has a dire shortage of artisans and South Africa needs about 40 000 artisans at any given time, but produces only 13 000 per annum. Adcock Ingram has taken up the challenge to have our Wadeville, Clayville and Aeroton sites officially registered as apprentice workplace training sites with registered mentors. Adcock Ingram trains nine unemployed apprentices at any given time and currently has two full time employees who are also following the programme. Where possible, the apprentices would be absorbed after completion of the programme. Adcock Ingram concentrates on fitters and turners as well as electricians.
Duration	3 years	
Number of participants	9	
Race composition	89% African 11% Coloured	
Gender composition	78% male 22% female	
Programme	***Graduate development programme***	The graduate programme provides meaningful experience and training to new graduates which makes them more marketable if not retained by Adcock Ingram. They serve as an incubator for critical and scarce skills.
Duration	12 months	
Number of participants	46	
Race composition	100% African	
Gender composition	50% male 50% female	
Programme	***Pharmacy internship***	Adcock Ingram provides internship for pharmacy graduates under the tutelage of Adcock Ingram's tutors registered with the Pharmacy Council. The interns follow the Pharmacy Council prescribed curriculum in the pre-registration year, and consists of a minimum of 12 months. This year is of extreme importance for the pharmacy graduates as it provides an opportunity to gain practical experience and knowledge. After successful completion of the internship, the intern may register as a pharmacist for the purposes of performing community service in a public sector facility before he/she can practice independently as a pharmacist.
Duration	12 months	
Number of participants	10	
Race composition	80% African 10% Coloured 10% Indian	
Gender composition	50% male 50% female	

Skills development expenditure statistics

Training expenditure as a percentage of leviable amount	**3.2%**
Total training spend (females)	**R17.8 million**
Total training spend (males)	**R19.3 million**

"Creating a cadre of employable people"

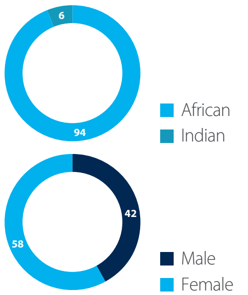
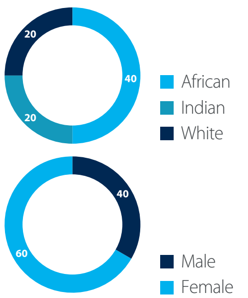
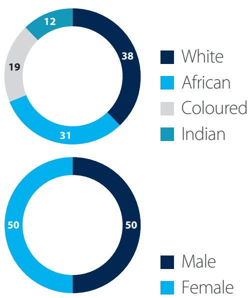
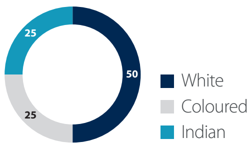
		Rationale
Programme	***Junior pharmacist***	Adcock Ingram decided to implement a Junior Pharmacist Programme in 2018 with the aim to develop and retain young, newly registered pharmacists. This programme serves as an incubator for critical skills within Adcock Ingram. Each Business Unit mentors, trains and exposes the pharmacist to all the areas of the business in the Business Unit. To date we had 100% absorption of all the Junior Pharmacists. Where possible Adcock Ingram appoints the Pharmacy Interns after completion of their community service and registration as part of this programme.
Duration	12 months	
Number of participants	5	
Race composition	60% African 20% Indian 20% Coloured	
Gender composition	40% male 60% female	
Programme	***Youth Employment Services (YES)***	This programme is a 12-month quality work experience that gives unemployed youth a dignified first opportunity in the workplace, which equips them with a toolkit to be a beacon of hope for their families, households and communities. The programme recognises the critical role the youth play in shaping our economy and our country. Youth unemployment is a problem that cannot be ignored as six million young people are currently shut out of the economy.
Duration	12 months	
Number of participants	133	
Race composition	95% African 4% Indian 1% Coloured	
Gender composition	34% male 66% female	
Programme	***Learners living with disabilities***	Part of our development strategy focuses on developing the unemployed, living with disabilities, through learnerships. Adcock Ingram believes in the empowerment of employees and living the values of the organisation by employing disabled individuals to attend a Project Management NQF4 learnership for the duration of a year, whilst being integrated into roles within the workplace.
Duration	12 months	
Number of participants	14	
Race composition	93% African 7% Coloured	
Gender composition	29% male 71% female	

Adult education and training (AET)

In line with the pharmaceutical sector's National Skills Development Strategy and to improve employees' literacy levels, employees are offered AET programmes, with 13 active participants currently.

Leadership development

Adcock Ingram recognises the role that management and leadership play in the organisation. Hence, the development of employees at various management levels is critical to ensure empowerment of managers and leaders. On the job coaching and mentoring is a crucial element in this development, but over and above this, Adcock Ingram also provides specific interventions to enhance management and leadership capabilities within the organisation.

Programme	Rationale	Duration	Number of Participants	Composition of Current Group
General Management NQF 3	Equip First Line and Junior Managers with the necessary management skills to manage their teams effectively Completed in Oct 2019	12 months	16	
Leadership Coaching	Enhance leadership skills through coaching	4 months	5	
MAP	Enable transition from Junior to Middle Management 14 Graduated in Nov 2019	9 months	14	
MBA	Prepare employees for senior management roles in business	3 years	4	

Mandatory programmes

Employees are regularly required to attend mandatory training courses to ensure they remain up to date with regulations and compliance standards. During the period under review, the following training has been attended by Adcock Ingram employees:

Programme	Designated attendees
Good Manufacturing Practice (GMP)	Factory employees
Good Laboratory Practice (CLP)	Laboratory employees
Good Warehousing Practise (GWP)	Distribution employees
Occupation Health and Safety (OHS) standards	Health and safety employees
Competition law	All employees in contact with suppliers and customers
Pharmacovigilance	All employees
Marketing code authority	Marketing and sales employees
Product-related training and other programmes	Sales employees
Standard Operating Procedures	Factory and distribution employees

Employee wellness

Adcock Ingram's employee wellness programme is outsourced to Independent Counselling and Advisory Services (ICAS), a specialist for mental health wellness.

The aim of the employee wellness programme is to enhance Adcock Ingram's health and wellness strategy, to inform, empower and provide employees with the skills to take ownership of their wellbeing. The wellness programme supports employees with the necessary interventions and self-management tools to better manage their lifestyles, and to make informed decisions regarding their health. ICAS offers the following key services to Adcock Ingram's employees:

- Access to a 24-hour, 365 day-per-year, toll-free helpline.
- Access via SMS and "please call me" service.
- Counselling and consultation (face-to-face and/or telephonic counselling).
- Trauma management services including on-site management, should the need arise (for groups or individually).
- Provision of communication and health promotion information.
- Appropriate referral and managerial services.
- Family care advice and resources.

For the year under review, the main problems reported via ICAS were:

- relationship issues;
- stress;
- personal development;
- organisational issues; and
- child and family care.

The on-site clinics situated at Clayville, Wadeville, Midrand and Aeroton provide occupational health (17% of the time) and primary care (83% of the time) services to all employees on site. HIV/AIDS testing is available and the clinics play an invaluable role monitoring chronic conditions of employees on a monthly basis. Yearly flu vaccines are made available to all employees at no cost.

During the year under review, Adcock Ingram focused on employee wellness and wellness days, which were conducted at the Clayville, Wadeville and Aeroton sites. The results of the wellness days were provided to the clinic to support employees whose tests have shown the following health conditions:

- Hypertension.
- Increased sugar levels.
- High cholesterol.
- Elevated body mass index.
- HIV.

High blood pressure is a high risk factor for between 20% and 50% of the employees who took part in the wellness evaluations. Blood pressure is being monitored at all the clinics on a continuous basis. The clinics have provided the following additional services during the COVID-19 pandemic:

- screening of employees and referring them for testing if needed;
- assisting with the track and trace of close contacts when an employee tested positive;
- following up on the wellbeing of positive employees when in self-isolation; and
- assisting with the training and awareness of employees of COVID-19 protocols.

Health and safety

Employees

No fatalities (injuries on duty resulting in death) occurred during the current and prior year.

Lost time injuries (injuries on duty leading to at least one lost day) decreased to 16 for the current year compared to 24 cases in the prior year, a reduction of 33.3%. Details below:

South African operations	2020 No. of injuries	2020 LTIFR	2019 No. of injuries	2019 LTIFR
Total	**16**	**0.20**	24	0.38

LTIFR = lost time injury frequency rate

There were 39 medical cases (injury on duty leading to medical treatment without losing a day's work) in the current year compared to 42 medical cases in the previous year, a reduction of 7.1%.

South African operations	2020 No. of medical cases	2020 RIFR	2019 No. of medical cases	2019 RIFR
Total	**39**	**0.88**	42	1.30

RIFR = recordable injury frequency rate (includes medical cases and lost time injuries)

There were 271 first aid cases in the current year, compared to the 300 cases in the previous year, a decrease of 9.7%.

Management continued to focus on health and safety at the various sites with a view to reduce the number of injuries, irrespective of the seriousness thereof. Hence, Health and Safety Committee meetings take place monthly as opposed to the minimum of four meetings per annum provided for by the Occupational Health and Safety Act, 85 of 1993.

Facilities

Marsh Proprietary Limited continued to conduct annual risk control standards grading audits at all Adcock Ingram sites. In conducting these audits, the sites are assessed in terms of:

- preparedness and their performance with regard to risk control organisation;
- fire defence;
- security;
- emergency planning;
- occupational health and safety; and
- motor fleet.

COVID-19 impacted these audits in that two sites have not yet been audited to date. Those already audited achieved ratings between 96.4% and 99.3%. Minor shortcomings, where identified, were resolved.

During the environmental risks control audits Adcock Ingram's sites are rated in regard to:

- their performance in environmental leadership;
- environmental management implementation;
- operational management;
- monitoring and review; and
- specific operations.

Unfortunately, these audits were also impacted by COVID-19 with the result that only two sites were audited to date, each awarded a rating of 98%.

Due to travel restrictions as a result of COVID-19, no risk or environmental audits could be conducted at the Company's site in Bangalore, India.

Ethics

Organisational ethics are monitored through an independently operated whistle-blowing facility called Tip-Offs Anonymous line (Ethics Report) and is quarterly tabled to the Board through the SET Committee. This whistle-blowing facility is available 24 hours per day, 365 days per year. All complaints lodged through this service are investigated and where appropriate disciplinary action is instituted. Where weak controls are identified, appropriate improvements are introduced to remedy the identified weaknesses.

Transformation

Our transformation journey is embedded in our business strategy, values and desire to improve the quality of life for our employees and communities.

We see the advancement of Broad-Based Black Economic Empowerment (B-BBEE) as a key driver of economic and social inclusivity. In November 2019, we achieved an independently verified B-BBEE score of 95.28 and Level 2 contributor status, upgraded to Level 1 due to the successful implementation of the YES programme. This is up from 93.69 in 2018, as illustrated in the table below.

B-BBEE element	2019	2018
Equity ownership	23.73	23.97
Management control	15.37	13.84
Skills development	17.80	17.54
Enterprise and supplier development	33.38	33.34
Social-economic development	5.00	5.00
Total points	**95.28**	93.69
B-BBEE Status Level	**Level 1**	Level 3

Workplace transformation, diversity and inclusion

Our Human Capital and Transformation strategy is anchored in our values and observes the principles prescribed by the relevant legislation, such as the Employment Equity Act, Skills Development Act and Labour Relations Act. The strategy is also in line with the International labour organisation principles. We value diversity and inclusion and we are committed to non-sexism and non-racism across our policies, beliefs, practices and daily interactions. It is important for us, as a Group, to continue to focus on our transformation initiatives and to continuously evolve them so that we remain relevant and remain a truly transformed employer.

In addition to our overarching commitment to transformation, diversity and inclusion, each business unit has a key focus on transformation that is determined by the context relevant to the market segment in which it operates.

Employment equity

Adcock Ingram is committed to promoting and embracing equal opportunities, fair treatment of all employees regardless of gender, race, sexual orientation, religion, language and age. Our group employment equity plans are geared at eliminating discrimination and implementing internal measures to redress disparities, and remove any systematic barriers faced by designated groups in order to ensure their equitable representation in all occupational categories.

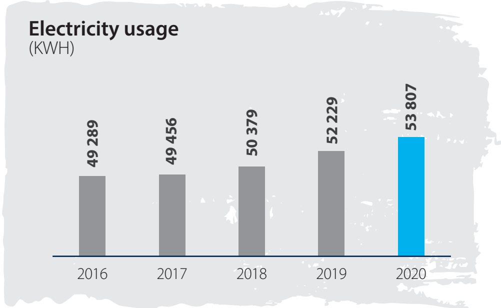
In the Group, previously disadvantaged employees' representation is **71%** of total management of which **1%** are senior and top management, **29.5%** middle management and **69.5%** at junior management. Women represent **48.8%** of previously disadvantaged permanent employees.

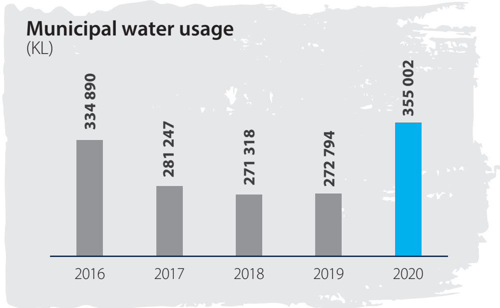
Staff composition of employees in South Africa*	2020	2019
Total amount of employees at year-end	**2 388**	2 614
Gender profile		
Male	**50%**	52%
Female	**50%**	48%
Racial profile		
African	**63%**	64%
White	**15%**	14%
Indian	**9%**	9%
Coloured	**13%**	13%
Ethnic and gender profile		
Black male	**44%**	52%
White male	**6%**	6%
Black female	**42%**	40%
White female	**8%**	8%
Remuneration type profile		
Total guaranteed package	**54%**	52%
Bargaining unit	**46%**	48%
Number of employees with disabilities	**52**	67
Number of contract/temporary employees	**140**	312

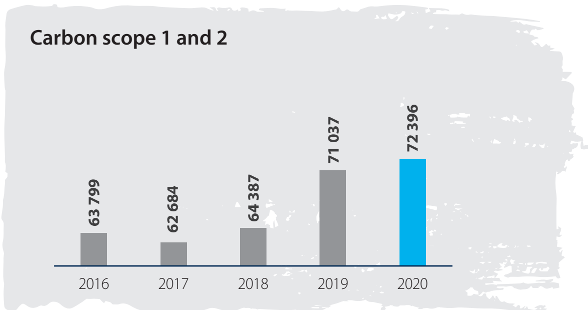
** The employee numbers above exclude 59 employees from Plush who joined the Group from 1 June 2020*

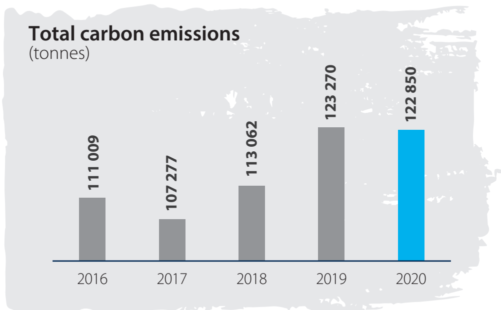
Natural Capital

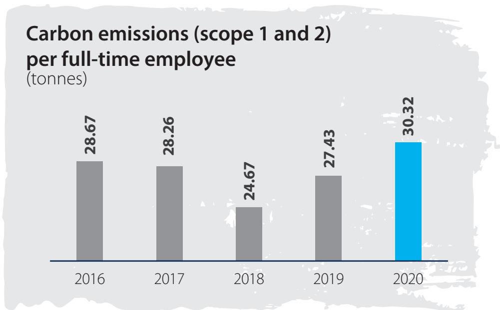
Being a responsible citizen, includes the protection of the environment in which we operate. As a manufacturer of pharmaceutical products, the regular above inflation increases of energy and other utility costs, have a major impact on Adcock Ingram and the Group continually seeks ways to minimise its impact on natural resources without compromising on the quality of our products and a safe and healthy workplace for employees. In the current year, there was a slight decrease in our carbon footprint, especially Scope 3, related to the COVID-19 impact on our working environment.











The Group's carbon footprint in South Africa, determined by "Carbon Calculated", is as follows:

		30 June 2020 Tonnes	30 June 2019 Tonnes	% Change	Variance
	Scope 1				
	Equipment owned or controlled	**13 842**	13 655	1	187
1	Air conditioning and refrigeration gas refills	**540**	384	41	156
2	Vehicle fleet	**2 055**	2 618	(22)	(563)
	Scope 1 total	**16 437**	16 657	(1)	(220)
	Scope 2				
3	Electricity	**55 959**	54 380	3	1 579
	Total scope 1 and 2	**72 396**	71 037	2	1 359
	Scope 3				
4	Business travel	**1 388**	2 217	(37)	(829)
5	Employee commute	**4 035**	4 740	(15)	(705)
6	Transportation and distribution of raw materials and sold goods	**19 926**	23 019	(13)	(3 093)
	Packaging materials	**11 642**	11 452	2	190
7	Consumption of office paper	**77**	102	(25)	(25)
	Total waste (landfill and recycled)	**3 843**	3 597	7	246
8	Water and wastewater	**544**	372	46	172
	Electricity transmission and distribution losses	**5 428**	5 275	3	153
	Total scope 3	**46 883**	50 774	(8)	(3 891)
	Total scope 1, 2 and 3	**119 279**	121 811	(2)	(2 532)
9	Outside of scopes	**3 571**	1 459	145	2 112
	Grand total	**122 850**	123 270	(0)	(420)
10	**Number of full-time employees**	**2 388**	2 590	(8)	
	Carbon emissions (scope 1 and 2) per full-time employee	**30.32**	27.43	11	
11	**Area in m²**	**147 258**	153 133	(4)	

(1) Wadeville used materially more gas refills during FY2020. Air-conditioners, refrigerators and fire-extinguishers/suppressants are refilled when needed.

(2) Reduced sales representative travelling from March to June due to COVID-19.

(3) Increase in kWh is linked to increased production.

(4) Flights decreased by 47% in air kilometers linked to COVID-19 and reduced travel as a result of cost-cutting measures.

(5) Saving in commuting mainly due to employees working remotely, aided by a reduced employee headcount.

(6) More efficient transport and distribution took place since the transfer of distribution activities to RTT.

(7) Decrease in tonnes of paper for all facilities linked to COVID-19 and consequent reduced printing.

(8) Clayville increased municipal water useage due to poor quality of borehole water not being suitable for production and there was increased use related to sanitation at manufacturing facilities consequent to COVID-19 and regulatory requirements.

(9) Linked to freon gas compressor refills at Clayville which have been scoped out of Carbon footprint reporting.

(10) Decrease in employee numbers linked to retrenchments and staff moving with AVL.

(11) Area decrease due to the Genop business move into Midrand facilities.

Intellectual Capital

Drug management and development

Adcock Ingram's Drug Management and Development (DMD) Department is a nucleus for Medical Affairs (MA), Regulatory Compliance (RC) and Group Quality Assurance (GQA), and also certain Research and Development (R&D) activities.

Knowledge and skills set

The department showcases an exceptional group of professionals with areas of expertise in the fields of medicine, pharmacy, pharmaceutical development, chemistry, and business management.

The Group's Responsible Pharmacist with the overall mandate to enforce the Medicines and Related Substances Act 101 of 1965 across Adcock Ingram resides within this department, as well as two Medical Doctors and two Doctors of Philosophy with speciality in Advanced Drug Delivery Systems and Biopharmaceutics, respectively.

Additionally, the DMD team has 13 pharmacists and 20 scientists to further complement the expertise base of the team.

The department is the centre of Adcock Ingram's institutional knowledge through which technical and professional support to the business units is provided to ensure a unified and harmonious functioning of their commercial activities.

Trademarks and proprietary processes

Adcock Ingram's proprietary knowledge is protected through a number of licensing agreements and Confidentiality Disclosure Agreements.

Adcock Ingram is currently a proud holder of 1 371 registered trademarks, in South Africa, with another 82 pending registration. The Group has 470 registered products which are marketed. This excludes dormant products, CAMS, foodstuff, cosmetics and medical devices.

Restricted access to propriety knowledge in formulation and process design ensures that the Company's intellectual property is well protected.

The GQA function which is centrally managed also ensures that knowledge management is well controlled through its Quality Management Systems.

Policies and procedures

The DMD department develops and maintains a framework of policies and processes which govern the execution of ethical, scientific and risk-based decision-making.

Critical scientific intellectual property is generated from implementation of function-specific procedures within each department which adds value to the needs of multiple internal and external stakeholders.

- The dossiers provide medicines regulatory authorities with the evidence of the quality, safety and efficacy of Adcock Ingram products to support the approval and maintenance of registration and allow sale in regions of jurisdiction.
- Product quality review reports identify variation in manufacturing processes to drive proactive interventions to mitigate risk to product quality.
- Pharmacovigilance and medical information reports form part of post-marketing surveillance activities which are pivotal in ensuring the appropriate and safe use of Adcock Ingram products.
- Quality-by-design-inspired development reports translate into cost- and time-efficient regulatory approval, technology transfer and the routine commercial manufacture of products of consistent quality.

Systems and software

The use of **eCTD DocuBridge®**, enhances efficiencies in electronic management of dossiers by streamlining the cross-referencing and decision-making processes for all stakeholders reviewing the information therein.

Minitab® statistical software is currently used for stability assessments and shelf-life predictions which accelerate the pharmaceutical development process and direct pre-emptive actions in management of the Stability Programme of Adcock Ingram.

The additional utilisation of **Minitab®** to generate quality control charts and process capability indices for evaluation of manufacturing process efficiencies and consistencies as well as product trends for product quality review reports is currently being explored. This would allow proactive solutions to be formulated to guide the need for process optimisations or amendments.

The Group's roll-out and use of **Caliber® QAMS**, a validated electronic Quality Management System (QMS) enables the cross-functional assessment of individual components of the QMS, thus ensuring that all stakeholders are consistently involved in decision-making and the related outcomes, while maintaining effective records.

Innovation and portfolio stability

The South African-based R&D operations are actively involved in supporting the generics innovations pipeline that accelerates pharmaceutical development for the local market.

In addition to facilitating the innovation pipeline, sustainability of the current portfolio is promoted through a continuous lifecycle management approach that incorporates technological advancements in pharmaceutical development and ensures that the portfolio is compliant to transitions in the regulatory environment.

The R&D department further aids sustainability of the current portfolio by providing cost-effective solutions that further enhance the bottom-line and supports risk mitigation through dual sourcing.

Collaboration between the GQA function and the R&D function also ensures further sustainability of the current Adcock Ingram portfolio by enabling adequate knowledge transfer to internal and contract manufacturing facilities.

The Regulatory Compliance function supports packaging innovation and further sustainability of Adcock Ingram's product portfolio as per the Code of Marketing practice with an aim to achieve market relevance while ensuring regulatory compliance.

Relationship management

Through contacts with industry experts, Adcock Ingram has access to a wide pool of knowledge, skill and experience which extends well beyond its own human capital.

The Regulatory Compliance team's active membership of professional associations such as the South African Association of Pharmacists in Industry provides a platform for converging ideas for effective lobbying of regulatory bodies to best serve the interest of patients in accessing affordable quality medicines.

The GQA department regularly interacts with current Good Manufacturing Practice (cGMP) specialists of international acclaim through training as well as by hosting, leading and observing cGMP audits. A diverse set of these shared experiences may thus be utilised to improve or enhance the knowledge, policies and procedures in Adcock Ingram which drive the quality of products.

World-renowned local and global physicians are invited by the Medical Affairs department to form Advisory boards for new product launches to add credibility to the scientific product information disseminated to health professionals.

To maintain high standards of technical performance and to contribute to ensuring the provision of medicines to treat priority diseases in low income countries, the R&D department participates in World Health Organisation Programmes which promote an increase in the availability of high-quality medicine testing services.

Membership of various professional bodies and institutions

Human Capital

Health and Welfare Sector Education and Training Authority (HWSETA)

Labour Affairs Association of the Pharmaceutical Industry (LAAPI)

National Bargaining Council for the Chemical Industry (NBCCI)

The Chemical Industries Education and Training Authority (CHIETA)

Transport Education and Training Authority (TETA)

South African Rewards Association (SARA)

Intellectual Capital

Board of Healthcare Funders (BHF)

College of Medicine of South Africa (CMSA)

Health Professions Council of South Africa (HPCSA)

Industry Task Group (ITG)

Pharmaceutical Society of South Africa (PSSA)

Pharmaceutical Task Group (PTG)

Society of Cosmetic Chemists SA (COSCHEM)

South African Association of Pharmacists in Industry (SAAPI)

South African Pharmacy Council (SAPC)

Social and Relationship Capital

Institute for Strategic Relations South Africa

Marketing Code Authority (MCA)

Pharmaceutical Crime Task Group

Proudly South Africa

Public Relations Institute for Southern Africa (PRISA)

Financial Capital

Chartered Institute of Management Accountants (CIMA)

Financial Reporting Investigations Panel (FRIP)

Independent Regulatory Board for Auditors (IRBA)

Information Systems Audit and Control Association (ISACA)

Institute of Internal Auditors South Africa (IIA)

South African Institute of Chartered Accountants (SAICA)

South African Institute of Professional Accountants (SAIPA)

Manufactured Capital

Cosmetic, Toiletry and Fragrance Association (CTFA)

Pharmaceuticals Made in South Africa (PHARMISA)

Social and Relationship Capital

At Adcock Ingram, we continuously examine our stakeholders' needs and expectations concomitant with our aspirations and formulate mutually satisfying responses. Hence, we developed a comprehensive stakeholder management relations policy, as a framework for upholding our commitment to social and relationship capital.

- Our valuable partnerships with employees, customers, consumers, research bodies, healthcare professionals, industry peers/associations and suppliers are built to last.
- Healthy trusting relationships with governments, regulatory authorities, fence-line communities, NGOs and trade unions are well established.
- Instil confidence for investors, shareholders and the media to the Adcock Ingram value proposition.

PURPOSE: Build lasting partnerships.

Method of engagement : Personal visits, conferences, continued professional education, surveys, advertising, corporate website, intranet, plasma screens, posters, newsletters, commercial business reviews training and development, routine meetings, virtual meetings and through emails.

Employees | Customers | Consumers | Suppliers | Multinational partners | Organised labour | Professional bodies | Researchers

PURPOSE: Maintain healthy trusting relationships

Method of engagement : Face-to-face and online virtual meetings, direct position statements or through industry associations, corporate social responsibility (CSR) projects.

Governments | Regulatory authorities | Communities | Industry bodies | NGOs/NPOs

PURPOSE: Build confidence in our corporate governance and citizenship

Method of engagement : Press releases, stock exchange news service (SENS), face-to-face and virtual meetings, media interviews and responses.

Investor community | Media | Shareholders

Our engagements are reinforced by business strategy, therefore recognising that the long-term sustainability of our success depends on sound investments in social and relationship capital. Furthermore, we recognise the fact that we operate in an unpredictable environment, with complex social challenges and often ambiguous or opposing expectations from stakeholders. Our stakeholder engagement policy mandates a constant communication of the vision, values, meaning and purpose of what we do to our employees, customers and consumers.

In the midst of the devastating COVID-19 pandemic outbreak, Adcock Ingram responded with empathy to give care and hope. The response included, amongst others, setting up a COVID-19 Crisis Communication Committee for strategic policy guidelines to protect employees' safety and wellness in the workplace; donating ICU hospital beds with respirators; providing food parcels and face masks to fence-line communities in need; processing early payments for small medium enterprises (SMEs) suppliers; with all directors (executive and non-executive) and some senior managers sacrificing a portion of their salary for three months in aid of the COVID-19 Solidarity Fund or as a cost saving to their business.

Our transparent engagement with all levels of governments, local suppliers, authorities and fence-line communities safeguards the dialogue and discourse. The success with stakeholder engagement is centered around the Company's integrity to take full responsibility and accountability as relevant and hold our partners equally accountable to their commitments.

Suppliers and Small Medium Enterprises (SMEs)

Adcock Ingram has a range of suppliers of services and raw materials, ranging from SME businesses to well established corporations. All suppliers are treated equally with dignity, transparency and with ethical practices. SMEs have a vital role to strengthen the economy and job creation at local community level. SME suppliers were paid two weeks in advance, during the COVID-19 lockdown, to assist them in overcoming the economic hardship and honor their financial obligations. Furthermore, Adcock Ingram reached-out to all SME suppliers to establish their financial well-being and ability to continue rendering their services to the Company.

Social partnership highlights:

My Walk Corporate Social Responsibility (CSR) project officially launched on 5 February 2020 at Chivirikani Primary School in Katlehong, south-east of Johannesburg.

- Millions of used, non-hazardous hospital PVC drip bags, oxygen masks and associated tubing destined for **landfill**, can be **recycled** into premium-quality school shoes.
- **A target of 25 000 pairs of school shoes** for learners was set to be made from recycled hospital drip bags in 2020.
- An **innovative partnership** between Adcock Ingram Critical Care and Netcare represents a long-term **sustainable** initiative, with environmental benefits, enterprise development and job creation opportunities.

The Over-The-Counter (OTC) Division of Adcock Ingram celebrates all healthcare professionals who go above and beyond their call of duty to show courage and brave compassion in improving the health and wellbeing of patients and community.

adcock ingram otc

SPONSORS OF BRAVE

HOPE • CARE • YOU MATTER • MAKE A DIFFERENCE

Winners of the Brave campaign

Nontutuzelo Sibango, popularly known as Ntutu, is a pharmacy owner in Mthatha, Eastern Cape. She established her first pharmacy 19 years ago and uses her influence to give back to her community. Her kindness is well known for local sports charities and fun-runs to encourage healthy living and support talented young athletes. Ntutu mostly hopes to inspire and uplift young black girls and women to realise possibilities that they have for their future.

Dr Hugo Tempelman started working at Moutse Valley in Limpopo in 1994. The Ndlovu Medical Centre expanded into a Non-Profit-Organisation, Ndlovu Care Group, to address healthcare, child and youth needs, water sanitation and hygiene, infrastructure support and research for improved community development. The well-known as Ndlovu Youth Choir started as a sanctuary and medical centre healing initiative for vulnerable children in the area. The vocal powerhouse group achieved international fame at the 2019 America's Got Talent competition. Templeman is known as a generous and compassionate pillar of hope and strength.

At Adcock Ingram, we focus on the competitive business world and equally within societies. We have accelerated our efforts in Transformation, Diversity and Inclusivity, Social and Economic Development, Good Corporate Citizenship and Public Health and Safety.

Our mission is to provide quality products that improve health and lives of people in the markets we serve. However, we are also committed to improve the escalating youth unemployment levels, small and medium enterprise development, and the overwhelming task to empowering communities to become self-sufficient – we can only achieve these national priorities through collaborative efforts with government, regulatory authorities and other key stakeholders.

As a leading pharmaceutical company, we do more than producing quality products. Throughout the operations of the business, we are also focused on our ethos of 'Adding Value to Life' to all South Africans.

We integrate the needs of our stakeholders into our business while we deliver on our commitments. Our social and relationship capital is purposefully built on solid historic relationships we established with key stakeholder groups. We actively engage all stakeholders to ensure we progress on strategy and to realise effective resolutions on challenges encountered.

Stakeholder Group

Method of engagement	*Needs and expectations*	*Contribution to value creation*
Customers and consumers		
Personal visits to and virtual meetings with customers by sales personnel, managers and executives. Other interactions include continuing professional education, customer surveys, a customer call centre; advertising, the corporate website, consumer focus groups and education campaigns.	Supply of safe, quality, efficacious and affordable medicines through appropriate channels. Ethical, factual and professional interactions with healthcare practitioners. Improving our service levels. A business partnership, supportive for sustainable businesses.	Business growth through premium service levels and brand loyalty. Customers provide extensive footprint through their expansion initiatives. Prescribers loyalty to our products.
Employees and organised labour		
The Adcock Ingram intranet has relevant news that employees can access as well as policies and procedures. Training and development initiatives. Communication through plasma screens, screensavers, newsletters and corporate emails. Site management/shop steward meetings, site forum employment equity meetings, trustee meetings and conferences.	Employees expect the following: • Stimulating and rewarding work environment. • Prospects of career growth. • Health, wellness and safety at the work place. • Diversity and inclusivity. • Equal pay for equal roles.	A well-motivated employee base, acting in line with the Adcock Ingram values, forms the foundation of our success as an organisation. Employees taking pride in the Company's contribution to society.
Government and regulatory authorities		
Government engagement strategies are in place for dialogue with national, provincial and local government leaders as well as the South African Pharmacy Council (SAPC). Engagement with South African Health Products Regulatory Authority (SAHPRA) is key to facilitate efficient product registration and compliance in all aspects, including manufacturing.	Participate, influence and contribute towards a sustainable pharmaceutical industry that continues to serve the healthcare needs of South Africa. Compliance with all applicable legislation and regulations. Growth and social upliftment of the communities in which we operate.	Regulatory body provides us with licence to operate and manufacture in line with a regulatory framework. Supply quality and affordable medicines in order to promote access to medicines for the benefit of society. Support investment, empowerment, transformation and Corporate Social Responsibility initiatives.

Stakeholder Group

Method of engagement	*Needs and expectations*	*Contribution to value creation*
Communities		
Engagement through the Company's Corporate Social Responsibility programmes and initiatives undertaken by each operating division.	Continuous support towards projects addressing the interests and needs of the communities in which we operate.	Engagement with communities affords us an opportunity to understand and contribute to their needs.
Shareholders, Investor, Community and Financial Institutions		
Communicate through the Johannesburg Stock Exchange, press releases and face-to-face or virtual meetings.	Open and transparent communication. Implement business strategy and structure for sustainable returns whilst managing risk, identify growth opportunities and follow good governance practices. Update on organisation's financial and operational performance.	Shareholders are encouraged to attend Adcock Ingram's Annual General Meeting and to discuss relevant issues with management.
Multinational partners and licensors		
Attendance and promotion at conferences and congresses to share best practice with relevant parties. Commercial reviews with partners.	Building brands using our marketing expertise, sales and distribution network offering a flexible service that reaches healthcare professionals. Achievement of commercial goals, alignment with international best practice standards for product promotion and regulatory adherence.	Partnerships are founded on marketing and distribution agreements. Allows the Company to enter or expand into new therapeutic categories.

Stakeholder Group

Method of engagement	Needs and expectations	Contribution to value creation
Suppliers and service providers		
Personal or virtual contact and consistent interaction at operational and management levels.	Conduct business in an open, honest and transparent manner. A mutually beneficial and sustainable relationship, including timeous payments and fair terms. Timeous payments to support small medium enterprises (SMEs).	Providing good quality raw materials and finished products fitting pharmaceutical standards. Assist in avoiding stock-outs of products. Suppliers aligned to the country's B-BBEE imperatives and also focus on emerging enterprises and black, women-owned businesses to assist with transformation objective.
Industry bodies		
Membership in Pharmaceuticals Made in South Africa (PHARMISA); the Pharmaceutical Task Group (PTG), the Marketing Code Authority (MCA) and Industry Task Group (ITG).	Membership in good standing, participation to contribute towards industry position statements and respond on regulatory issues and health policy matters.	Influence policies to create a sustainable local manufacturing pharmaceutical industry that serves the healthcare needs of South Africa. Updated regulatory and industry issues so that the Company can have a relevant position on matters.
Media		
Press releases, SENS announcements, media interviews and responses.	Good corporate citizenship through transparent and responsible reporting and disclosure.	Brand reputation and awareness of new products.

Annual financial statements

for the year ended 30 June 2020

Directors' responsibility for and approval of the annual financial statements

The Board of directors (Board) of the Company are required by the Companies Act 71 of 2008 to prepare annual financial statements that fairly present the state of affairs and business of the Company and of the Group at the end of the financial year and the profit for the year then ended. The annual financial statements are prepared in terms of International Financial Reporting Standards (IFRS) and include disclosures as required by the Companies Act. Suitable accounting policies have been used and applied consistently and reasonable and prudent estimates and judgements have been made.

The Board is responsible for the maintenance and integrity of the annual financial statements of the Company and consolidated subsidiaries, joint ventures and special purpose entities, and the objectivity of other information presented in the integrated report. The fulfilment of this responsibility is discharged through the establishment and maintenance of sound management and accounting systems, the maintenance of an organisational structure which provides for the delegation of authority and clear established responsibility, together with the constant communication and review of operational performance measured against approved plans and budgets.

The directors acknowledge that they are ultimately responsible for the system of internal financial control and regard a strong control environment important. Management and employees also operate in terms of a code of conduct and ethics approved by the Board. The code requires compliance with all applicable laws and maintenance of the highest levels of integrity in the conduct of all aspects of the business.

The Board, in its assessment of the going-concern status of the Company and Group, considered the following factors: the current financial position of the Group, the sustainability of each of the business units and their operating models, available financial resources at 30 June 2020, the budget and cash flow forecast to September 2021, the current regulatory environment and potential changes thereto, the economic outlook, as well as the impact of COVID-19 on its operations and the economic environment. The overwhelming majority of the Group's activities, and those of most of its customers, are regarded as essential services and have been operating throughout all levels of lockdown. However, as the disease spread, the prevalence of infections amongst employees increased, putting certain of the operations at risk of not being able to operate on a fully uninterrupted basis. All factories and distribution centres had to close intermittently for certain periods of time to allow for additional sanitising procedures and employees were isolated or quarantined as appropriate, but all customers were serviced despite these interruptions. The Board is satisfied that the Company and Group will each be able to continue as a going concern in the foreseeable future and has therefore continued to adopt the going-concern basis in preparing the annual financial statements.

Each of the directors, confirm that to the best of their knowledge, the Company and Group annual financial statements for the year ended 30 June 2020, which were prepared in accordance with IFRS, give a true and fair view of the financial position and performance of the Company and Group.

The Company and Group annual financial statements, were approved by the Board of directors on 25 August 2020 and signed on its behalf by:

Andrew G Hall
Chief Executive Officer
25 August 2020

Dorette Neethling
Chief Financial Officer

Certificate by Company Secretary

I, the undersigned, Ntando Simelane, in my capacity as Company Secretary, certify that the Company has lodged with the Companies and Intellectual Property Commission all such returns as are required to be lodged by a public company in terms of the Companies Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

NE Simelane
Company Secretary
25 August 2020

Audit Committee report

This report is presented by the Audit Committee (Committee), appointed by the Board of directors (Board) and endorsed by shareholders in respect of the year ended 30 June 2020. The report is prepared in accordance with the requirements of the Companies Act and the recommendations of King IV and describes, how the Committee discharged its obligations in terms thereof, including the fulfilment of those duties assigned to the Committee by the Board during the reporting period.

Committee composition and meeting attendance

The Committee complies with King IV, which provides that all members should be independent non-executive directors, all of whom are suitably skilled and experienced. The Committee's composition, qualifications and meeting attendance during the year under review were as follows with members of management, representatives from internal audit, the external auditors and the majority shareholder, are invited to attend all meetings:

Committee members	Qualifications	Meeting attendance[1]
Chairperson		
D Ransby	CA(SA)	4/4[2]
Members		
L Boyce	CA(SA), MCom (Fin Mgt)	4/4
M Haus	MB ChB, MD, DCH, FCFP, FFPM	4/4
Invitees		
AG Hall *(CEO)*		4/4
D Neethling *(CFO)*		4/4
S Pietropaolo *(Head of Internal Audit)*		4/4
R Essa *(Corporate Finance Director)*		4/4
W Kinnear *(EY)*		1/1[3]
K Ramnarian *(PWC)*		2/2[3]
C West *(PWC)*		2/2[3]
R Jacobs *(PWC)*		1/2[3]
K Wakeford *(non-executive director)*		3/3
L Berrington *(Head of Internal Audit: The Bidvest Group Limited)*		3/3
M Steyn *(CFO: The Bidvest Group Limited)*		2/3

(1) *The attendance reflects the number of scheduled meetings. No additional meetings were held during the financial year. One regular scheduled meeting was held after the year end, before publication of the report.*

(2) *Prof Haus acted as the Chairperson of the Committee before D Ransby was appointed to chair it in August 2019.*

(3) *EY was replaced by PWC as external auditor of the Company at the AGM on 22 November 2019.*

Role and function of the Committee

The role and responsibilities of the Committee are governed by a formal charter which is reviewed annually and approved by the Board. A formal evaluation of the Committee is also carried out annually and the Board is satisfied that the Committee has fulfilled all its statutory duties, including those duties assigned to the Committee by the Board during the year under review, the relevant information in each case, detailed below.

Execution of functions during the year

COVID-19

On 11 March 2020, the World Health Organisation officially declared coronavirus 2019 (COVID-19), the disease caused by a novel coronavirus, a pandemic. The Committee is closely monitoring the evolution of this pandemic and effect on the Group, the economy and the general population. Whilst the Committee is aware of cases of COVID-19 infection among the Company's staff, the outbreak has not had a significant impact on the Group's operations to date as the business was regarded as an essential service provider and no lockdown was imposed on the operations.

Management currently has an appropriate response plan in place and the Committee will continue to monitor and assess the ongoing developments and respond accordingly.

Internal audit

The Committee has reviewed and approved the internal audit charter and the annual internal audit plan, including compliance therewith, and concluded that the planning, processes and application of internal audit, including the quality of their reporting on internal audit outcomes and related matters was inclusive and comprehensive. Having regard to the reports and assessments presented by internal audit, the Committee is satisfied that the internal financial controls are effective and that there were no material breakdowns in the Group's systems and internal controls. The Committee is similarly satisfied that the Head of Internal Audit possesses the appropriate expertise and experience to meet the responsibilities of his position and that the internal audit department is effectual and adequately resourced with technically competent personnel.

External audit

At the AGM in 2019, shareholders confirmed the appointment of PricewaterhouseCoopers (PwC), as independent external auditor until the 2020 AGM, the Committee and the Board approving and endorsing their terms of engagement and their fee structures. The designated registered audit partner presently responsible for and who undertook the Group's audit is Mr Keeran Ramnarian. The Committee considered the information detailed in paragraph 22.15(h) of the JSE Listings Requirements and asked questions in relation to any issues of concern. The Committee was satisfied with the explanation provided by the external auditor. The Committee was also satisfied with the quality of the external audit process and the team assigned to the audit. No matters of concern were noted by the Committee regarding the performance of the external auditors.

The overall audit process includes a private open dialogue between the external auditor and the Committee. Matters typically discussed, include the external auditor's assessment of their audit interactions with management, whether any limitations were placed by management on the scope and execution of the audit, including any special matters that need to be brought to the Committee's attention. The Committee can report that its working relationship with the PwC designated partner is professional and functional.

The Committee determined the fees to be paid to the external auditor and agreed to the terms of their engagement and audit plan in consultation with executive management. The audit fee for the year ended 30 June 2020 has been disclosed in note 7.1 of the annual financial statements. The Committee is also responsible for determining the nature and extent of non-audit services that the external auditor may provide and, in such circumstances, the Committee approves or in limited circumstances pre-approves proposals for such non-audit services.

The Committee assessed the quality and effectiveness of the external auditor by reviewing the audit plan, changes thereto as well as the robustness with which they handled key accounting issues and audit judgements. The Committee received the detailed external audit report for the year ended 30 June 2020 and was satisfied with the conclusions that both the consolidated and separate annual financial statements were fairly presented in all material respects and no material issues were raised.

The Committee remains cognisant of the developments in the audit profession. The external auditors continue to have unrestricted access to the Committee and its Chairperson.

Significant matters

The Committee has considered the appropriateness of the key audit matters reported in the external audit opinion. These were addressed by the Committee as follows:

Significant matter	How the Committee addressed the matter
Impairment assessment of goodwill and indefinite life intangible assets	The Committee reviewed and discussed the report from the CFO regarding the carrying values, value in use, the level and appropriateness of impairments, and related key judgements in determining the carrying value of goodwill and intangible assets.
Plush Professional Leather Care Proprietary Limited business combination	The Committee reviewed and discussed the valuation report prepared by management, including the methodology and judgements used in calculating the intangibles and subsequent goodwill.

Reporting

The Committee:

- deliberated on the impact of COVID-19 on the Group, the economy and the general state of the consumer, with specific reference to any possible financial reporting implications, including:
  - possible loss of revenues;
  - impact on inventory levels and related provisions;
  - accounts receivable and related provisions;
  - liquidity levels;
  - restructuring plans; and
  - assessing the impact on key areas of judgement applied in the financial statements;
- considered and concurred with the adoption of the going-concern premise in the preparation of the financial statements;
- reviewed the appropriateness of the financial statements, other reports to shareholders and other financial announcements made public;
- considered whether the annual financial statements fairly present the financial position of the Company and of the Group as at 30 June 2020 and the results of operations and cash flows for the financial year then ended;
- considered the solvency and liquidity of the Company and considered and made recommendations to the Board on the dividend declarations;
- considered accounting treatments, the appropriateness of accounting policies adopted and the effectiveness of the Group's disclosure, controls and procedures;
- satisfied itself with the appropriateness of the expertise and experience of the CFO;
- is satisfied that the Company has established appropriate financial reporting procedures and that these procedures are operating as designed;
- considered whether any concerns were identified regarding significant legal, tax and other matters that could have a material impact on the financial statements;
- reviewed the external auditor's audit report;
- considered and noted the key audit matters as determined by the external auditor;
- reviewed the representation letter, signed by management;
- confirmed that it has considered the findings contained in the "Proactive monitoring report of financials in 2019", issued by the JSE in February 2020, when the annual financial statements for 30 June 2020 were drafted; and
- reviewed the quality and integrity of the integrated report and the sustainability information before publication.

Internal financial and accounting controls

The Committee is responsible for reporting on the Group's systems of internal financial and accounting controls. The Committee has accordingly considered the reports from both internal and external audit on such matters and is satisfied that both reports confirm the adequacy and effectiveness of the Group's systems of internal control and that there were no material breakdowns in internal control during the financial year.

The Committee confirms that it did not receive any concerns or complaints relating to the accounting practices and the internal audit of the Company, the content or auditing of the Company's financial statements, the internal financial controls of the Company or any other related matter during the year under review.

Expertise and experience of financial director and the finance function

The Committee, after a formal review remains satisfied that the Chief Financial Officer is suitably experienced, diligent and has the qualifications and expertise to meet the responsibilities of her position. The Committee also concluded that the finance function is effectual and appropriately resourced with competent personnel.

Technology and information governance

The Committee and the Board recognise the advances and economic value of technology and that failure to maintain the Group's accounting and administrative IT applications, is potentially disruptive and a significant operational risk. Accordingly, technology and information systems form an essential part of the Group's strategic and business processes and are intentionally managed by an Information Technology Executive team.

A key focus during the current reporting period included continuous enhancements to the IT applications and the cyber security environment, and upgrading the technical infrastructure when required. The IT operations and applications of Genop Healthcare Proprietary Limited and the new Halfway House logistics facility are now fully integrated into the Company's IT environment. The Committee is also mindful of King IV's emphasis on IT matters, with nominative reference to periodic assessments, independent assurances and cybersecurity.

Combined assurance

The Committee, in conjunction with the Board Risk and Sustainability Committee, has formulated a broad risk matrix for appropriate risk assessment and deduction. All risks are ranked and rated by category and importance. Internal Audit substantially coordinates this discipline in parallel with its internal audit function, the assessment and management of the more material risks being reported on where relevant and appropriate in each case. The aim is to provide management, the Committee and the Board with a clear understanding of all business risks, how each is managed, controlled and/or mitigated and the consequences and cogency of such actions. The Committee can confirm that it has satisfied itself that the combined assurance model is effective and sufficiently robust for the Board to be able to place reliance on it.

Compliance

The Committee is obliged to report any material breach of a relevant legal and/or regulatory requirement in the conduct of the Group enterprise. No evidence or indication of any such breach or material non-compliance has been brought to the attention of the Committee by either the internal or external auditors or any other party.

Conclusion

The Committee is satisfied that it has complied with all its legal, regulatory and other responsibilities for the year under review.

Following our review of the annual financial statements for the year ended 30 June 2020, we are of the opinion that, in all material respects, they comply with the relevant provisions of the Companies Act and International Financial Reporting Standards, and present fairly the results of operations, cash flows and the financial position of the Company and the Group. The Committee therefore recommended the consolidated and separate annual financial statements of Adcock Ingram Holdings Limited for approval to the Board. At the forthcoming Annual General Meeting the annual financial statements will be presented to shareholders.

On behalf of the Committee

D Ransby

Chairperson

25 August 2020

Directors' report

The directors have pleasure in submitting their report to shareholders, together with the audited annual financial statements for the year ended 30 June 2020, which have been prepared under the supervision of Ms Dorette Neethling (CA(SA)), Chief Financial Officer and audited by PwC in compliance with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the requirements of the Companies Act, 71 of 2008 (as amended), and the JSE Listings Requirements.

COVID-19

The Board recognises the negative impact of the COVID-19 pandemic on society, the economy and financial markets.

The Group was regarded as an essential service provider and no lockdown was imposed on the operations. In the wake of the COVID-19 outbreak an initial unprecedented demand was seen for certain Consumer, OTC and Hospital products in March and April, as consumers opted to increase safety stock levels. This was however followed by subdued demand from May onwards.

As the pandemic increased in both magnitude and duration, the Group has experienced conditions associated with a general economic downturn, which includes but are not limited to, significant cost push due to Rand weakness, global supply chain disruptions, and declines in consumer discretionary spending.

A number of measures were taken to reduce the financial and non-financial impact of COVID-19 on the Group, including:

- A COVID-19 Crisis Communication Committee (CCC) was immediately established to consider, plan and react to matters related to the pandemic. The CCC, chaired by the Executive Director: Human Capital & Transformation consists of human capital, medical, legal, commercial, operations, IT, distribution, M&A, communications and finance executives and managers. The CCC meets regularly, at least on a weekly basis, to consider challenges that are being experienced in the business, and ensures Group-wide and consistent operational and communication strategies in response to the virus.
- Operational continuity - in that all employees, who could work from home, were supplied with the necessary tools to continue working remotely with additional IT measures put in place for remote working. Employees in manufacturing facilities and distribution centres continued to work on site, to ensure continuity of medicine supply;
- Government programs – support towards initiatives and broader industry-wide participation across various initiatives;
- Liquidity – credit facilities with banks were increased from R850 million to approximately R1 billion to ensure adequate access to funds if needed;
- Health and safety – various occupational health and safety measures were put in place to provide additional protection for all employees as production continued across the facilities;
- Supply chain – increased inventory levels through securing additional supply of certain raw materials and finished goods which are essential in the production of the Group's products and the country's needs. The Group's current policy for the management of foreign exchange is to cover 100% of foreign currency commitments with forward exchange contracts when a firm commitment for any order is in place. As a result, all material foreign liabilities were covered by forward exchange contracts at year-end;
- Risks - a review of the Group's current risks was undertaken and a process was put in place to identify new COVID-specific risks including an assessment of the probability, impact and controls or mitigating procedures implemented in relation to each of the risks; and
- Governance – ensuring ongoing statutory and regulatory compliance despite the various levels of lockdown and the constantly evolving regulatory environment.

Although at this stage, the impact on the Group's results is limited, the continuation of these circumstances could have a prolonged negative impact on the Groups financial results.

Principal activities and nature of the business

Adcock Ingram is a leading South African healthcare group, operating in two geographical areas, namely Southern Africa and India. The Southern African business consists of four principal divisions:

- a Consumer division selling a range of healthcare, personal care and homecare products mainly through FMCG retailers;
- an Over the Counter (OTC) division selling a range of OTC medicinal products that can be purchased without a prescription mainly through pharmacies;
- a Prescription division selling a range of branded and generic prescription products including specialised instrumentation and surgical products; and
- a Hospital products and services division.

Business combinations

Acquisitions

In May 2020, the Group acquired Plush Professional Leather Care Proprietary Limited, a well-established company offering an extensive range of homecare, cleaning and leather care products in South Africa and certain other Southern African countries (note 1).

No material acquisitions were concluded in the 2019 financial year.

Share capital

Details of the authorised and issued share capital are set out in note 21 to the annual financial statements and in the statement of changes in equity.

Details of ordinary treasury shares held by Group entities are as follows:

	2020 R'000	2019 R'000
Adcock Ingram Limited	**8 299 201**	4 285 163
Mpho ea Bophelo Trust*	**–**	5 168 592
Adcock Ingram Holdings Limited Employee Share Trust (2008)	**600**	39 031

* *Previously held shares indirectly, but following the cancellation of the B-BBEE scheme in July 2019, the shareholding has terminated.*

Shareholders

Dividend policy

The Board intends to declare a distribution on at least an annual basis.

Since its listing in 2008 it was the policy of the Company to cover dividends between two to three times by headline earnings.

During the current financial year, shareholders were advised that the Board approved a change to the Company's dividend policy, to cover dividends between two to 2.5 times by headline earnings.

2020

An interim dividend of 100 cents per share was declared and paid in relation to the six-month period ended 31 December 2019.

No final dividend was declared for the year ended 30 June 2020.

2019

An interim dividend of 100 cents per share was declared and paid in relation to the six-month period ended 31 December 2018.

A final dividend of 100 cents per share was declared and paid following the results for the year ended 30 June 2019.

Shareholder spread

On 29 July 2019, The Bidvest Group Limited (Bidvest) became Adcock Ingram's majority shareholder, with minority shareholders owning 49% of the Company. Closer interactions are now taking place between Adcock Ingram and Bidvest, following the appointment of an additional Bidvest representative to the Adcock Ingram Board of Directors.

Please refer to the shareholder analysis section for more details.

Directors

The names of the directors who presently hold office are set out on the Company's website.

Changes to directors' responsibilities and status

The following changes to the Board were effected during the year under review:

13 August 2019

Ms Debra "Debbie" Ransby and Dr Sibongile Gumbi were appointed as independent non-executive Board members.

27 August 2019

Mr Lindsay Ralphs was appointed to the HR, Remuneration and Nominations Committee and Ms Nompumelelo Madisa resigned from this Committee but remained a permanent invitee thereto;

Mr Ralphs was appointed as the Chairperson of both the Nominations Committee and the Acquisitions Committee; and

Prof Matt Haus was appointed as the Chairperson of the Risk and Sustainability Committee.

Ms Debbie Ransby was appointed as the Chairperson of the Audit Committee and a member of the Risk and Sustainability Committee;

Dr Sibongile Gumbi was appointed as a member of the Risk and Sustainability Committee;

Mr Kevin Wakeford was appointed to the Board as a non-executive director and as a member of the Acquisitions Committee and a permanent invitee to the Audit Committee.

22 November 2019

Dr Anna Mokgokong resigned as the Chairperson of the Social, Ethics and Transformation (SET) Committee and Dr Claudia Manning was appointed as Chairperson; and Dr Sibongile Gumbi was appointed as a member of the Committee.

The Human Resources and Remuneration Committee was constituted as a stand-alone Committee, with the following membership:

a) Ms Lulama Boyce (Chairperson);
b) Dr Claudia Manning;
c) Mr Lindsay Ralphs; and
d) Prof Matt Haus.

The Nominations Committee was constituted as a stand-alone Committee, chaired by the Chairman of the Board;

The following directors were appointed as members of the Nominations Committee:

a) Mr Lindsay Ralphs (Chairman);
b) Ms Lulama Boyce;
c) Dr Claudia Manning; and
d) Prof Matt Haus.

29 February 2020

Dr Anna Mokgokong retired from the Board.

Directors' shareholding

No director (or his/her associates) holds 1% or more of the ordinary shares of the Company.

There has been no change in the holdings since the end of the financial year and up to the date of approval of the annual financial statements.

Details of the directors' shareholdings are reflected below.

Director	Number of shares 2020	Number of shares 2019
A Hall (directly held)	**21 433**	21 433
A Mokgokong* (indirectly held)	**–**	3 445 642

* *Dr Mokgokong holds a 50% share in CIH Projects Proprietary Limited which in turn held a 26.67% share in Ad-izinyosi (the B-BBEE shareholder of the Group). Following the cancellation of the B-BBEE scheme in July 2019, the scheme shares held by Ad-izinyosi were returned to the AdBEE security holders. Refer to Annexure B for more details.*

Directors' and key management remuneration

Full details regarding non-executive and executive directors' and key management remuneration are set out in note 7.3 and 7.4 and in the Remuneration Implementation Report (Annexure J).

Retirement funds

Details in respect of the retirement funds of the Group are set out in Annexure C.

Events after 30 June 2020

Refer to note 34.

Subsidiaries and joint ventures

Information concerning the names and holdings of subsidiaries and joint ventures of Adcock Ingram Holdings Limited is set out in Annexure H to the annual financial statements.

Details regarding the financial performance of joint ventures are given in Annexure F.

Independent auditor's report

To the Shareholders of Adcock Ingram Holdings Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Adcock Ingram Holdings Limited (the Company) and its subsidiaries (together the Group) as at 30 June 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Adcock Ingram Holdings Limited's consolidated and separate financial statements set out on pages 112 to 206 comprise:

- the consolidated and company statements of financial position as at 30 June 2020;
- the consolidated and company statements of comprehensive income for the year then ended;
- the consolidated and company statements of changes in equity for the year then ended;
- the consolidated and company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Certain required disclosures have been presented elsewhere in the document titled "Adcock Ingram Holdings Group Annual Financial Statements for the year ended 30 June 2020", rather than in the notes to the financial statements. These are cross-referenced from the consolidated and separate financial statements and are identified as audited.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards).

Our audit approach

Overview

Overall group materiality

- *Overall group materiality: R46,500,000, which represents 5% of consolidated profit before taxation.*

Group audit scope

- *Full scope audits were performed over 4 financially significant components in South Africa.*
- *Specified audit procedures were performed on certain account balances and transactions for a further 4 components, 2 of which are joint ventures that are equity accounted in the consolidated financial statements.*
- *Analytical review procedures were performed on the remaining components.*

Key audit matters

- *Impairment assessment of goodwill and indefinite life intangible assets.*
- *Plush Professional Leather Care Proprietary Limited business combination.*

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	*R46,500,000*
How we determined it	*5% of consolidated profit before taxation*
Rationale for the materiality benchmark applied	*We chose consolidated profit before taxation as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.*

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Our scoping assessment included consideration of financially significant components, based on indicators such as the contribution to consolidated assets, consolidated revenue and consolidated profit before taxation. Based on this assessment we identified 4 financially significant components, on which full scope audits were performed. Specified audit procedures were performed on certain account balances and transactions for a further 4 components, 2 of which are equity-accounted joint ventures, as a result of significant account balances and transactions within those components. In order to obtain sufficient audit evidence in respect of non-significant components, the group engagement team performed analytical review procedures on their financial information. These components have been assessed to be financially inconsequential to the Group.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group's engagement team, and other audit firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The group engagement team met with the component auditors of the most significant audit components and engaged with the remaining component auditors by means of discussing pertinent matters and reviewing reporting documents submitted to us as the group engagement team.

This together with additional procedures performed at the group level, including testing of consolidation journal entries and intercompany eliminations, gave us the evidence we needed for our opinion on the consolidated financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We communicate the key audit matters that relate to the audit of the consolidated financial statements of the current period in the table below. We have determined that there are no key audit matters in respect of the separate financial statements for the current period to communicate in our report.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill and indefinite life intangible assets *Refer to Annexure I Accounting Policies, (Impairment of non-financial assets) and note 13 (Intangible Assets) to the consolidated financial statements.* This key audit matter applies to the consolidated financial statements only. Indefinite useful life intangible assets amounting to R586 million and goodwill amounting to R283 million, represents a significant portion of the Group's consolidated total assets. The Group performs annual impairment tests over the recoverability of goodwill and bi-annual impairment tests over the recoverability of indefinite life intangible assets. These tests are subjective in nature due to management's judgements and assumptions relating to the Cash Generating Units (CGUs). Management estimated the recoverable amount of the CGUs using the value-in-use method as required by International Accounting Standard (IAS) 36 - *Impairment of assets*. In assessing the goodwill and indefinite life intangible assets for impairment, management applied the following key assumptions that gave rise to estimate uncertainty in determining the recoverable amount: - revenue growth rate; - gross margin; - discount rates; and - terminal growth rate estimates. Impairment charges related to indefinite useful life intangible assets amounted to R16 million for the current financial year and have been recognised in the Group's consolidated statement of comprehensive income. No impairment was recognised for goodwill. The valuation of these assets, and the quantum of the associated impairment charges recognised by the Group, remains inherently sensitive to changes in the underlying key assumptions. We considered the impairment assessment of goodwill and indefinite life intangible assets at the group level, to be a matter of most significance to the current year audit due to the following: - the judgement and estimates applied by management in performing the impairment assessment; and - the magnitude of these balances in relation to the consolidated financial statement	We obtained the Group's impairment assessments and tested the mathematical accuracy of the calculations and the reasonableness of the key assumptions, including revenue growth rate, gross margins, discount rates and terminal growth rate estimates and discount rates by performing the following procedures: We evaluated management's allocation of assets to cash-generating units (CGUs) for testing goodwill and indefinite useful life intangible assets by assessing the requirements of IAS 36 against management's assessment of the CGUs and found this to be in line with the requirements of IAS 36. We evaluated the forecasting period used by management against the requirements of IAS 36 and whether the 10 year forecasting period could be justified based on the requirements of IAS 36. Based on the work that we performed, we accepted management's rationale for an extended forecasting period. We used our valuation expertise to assess the valuation methodology applied by management against generally accepted valuation methods and IAS 36. For the value-in-use calculations performed, we obtained management's cash flow forecasts and: - Agreed these forecasts to approved budgets. - Tested the mathematical accuracy of management's impairment assessments and noted no material differences. - Assessed the reliability of the forecasts by comparing current year actual results with the prior year budgeted results and noted that management had adjusted their budgets for any material variances noted, where required. - Compared the revenue growth and gross margin projections applied by management to historically achieved growth rates and noted no material variances in management's calculations. - We used our valuation expertise to compare the terminal growth rate estimates used by management to long-term consensus inflation rates obtained from independent sources and found no material variances to the outcome of the impairment tests performed. Utilising our valuation expertise, we recalculated a range of discount rates, considering inputs for similar entities, industry data and entity-specific data. Where differences in discount rates were noted, we included this in our sensitivity analysis to consider whether this would lead to an impairment charge being recognised. No material impact was noted. We performed our own independent sensitivity calculations on management's impairment assessments, with respect to the key assumptions which included the revenue growth rate, gross margin, discount rate and terminal growth rate. We discussed these with management and considered the likelihood of such changes occurring. Based on the work that we performed, we accepted management's key assumptions as applied in the models.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
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Plush Professional Leather Care Proprietary Limited business combination

Refer to note 1 (acquisition of business) to the consolidated financial statements.

This key audit matter applies to the consolidated financial statements only.

The Group acquired 100% of Plush Professional Leather Care Proprietary Limited on 27 May 2020 for a total purchase consideration of R323 million.

Management determined the transaction to be an acquisition of a business as defined in International Financial Reporting Standard (IFRS 3) -– *Business Combinations*.

In an acquisition of a business, IFRS 3 requires the recognition of identifiable assets, liabilities and contingent liabilities in a business combination at fair value, at the date of acquisition, with the excess of the purchase consideration over the fair value of the net identifiable assets acquired and liabilities assumed recognised as goodwill or a gain on bargain purchase. The transaction gave rise to goodwill of R107 million.

The identification and measurement of the identifiable assets in this transaction required a significant amount of management estimation, particularly in relation to the measurement of intangible assets. Management made use of the multiple excess earnings method to value the associated brand. The key assumptions used by management included revenue growth, gross margin, the discount rate and terminal growth rate.

We considered the acquisition of Plush Professional Leather Care Proprietary Limited to be a matter of most significance to the current year audit due to the following:

- The measurement of the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values, and the determination of goodwill, which required the exercise of significant management judgement relating to the identification and measurement of intangible assets and significant estimation relating to the measurement of the brand.

Note 1 (acquisition of business) to the consolidated financial statements sets out the key management assumptions regarding the transaction.

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We inspected the underlying acquisition agreements for the transaction and evaluated whether the transaction contained inputs, processes and outputs that qualify the transaction to be accounted for as the acquisition of a business as defined in IFRS 3. We also evaluated the effective date of the transaction, where control was obtained, against the requirements of IFRS 3. Based on the work that we performed, we accepted management's accounting treatment of the transaction.

We focused our testing on the identifiable assets and liabilities and on the key assumptions made by management. Our audit procedures included the following:

- We inspected the signed contracts and at acquisition financial information to identify all the assets acquired and liabilities assumed as part of the acquisition and evaluated these against what was identified by management. We found no material differences in this regard.
- We made use of our valuations expertise in performing the following procedures:
  - critically evaluating whether the model used by management to calculate the fair value of the brand acquired and the residual goodwill recognised complies with the requirements of IFRS 3;
  - evaluating the completeness of the intangible assets recognised by comparing management's assessment to the requirements of IFRS 3;
  - evaluating the reasonability of the discount rate used for the brand by testing the assumptions against market data and widely applied risk premiums; and
  - evaluating the reasonability of the terminal growth rate used for the brand against the long-term consensus inflation rates obtained from independent sources.
- We obtained management's purchase price allocation calculations for the brand and subjected the key assumptions to our own independently calculated sensitivity analyses;
- We compared the projected cash flows used for the valuation of the brand, including the assumptions relating to revenue growth rates and gross margin to historical performance. No material differences were noted to management's calculations.

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Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Adcock Ingram Holdings Group Annual Financial Statements for the year ended 30 June 2020", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the document titled "Adcock Ingram Integrated Report 2020", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going-concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Adcock Ingram Holdings Limited for 1 year.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Keeran Ramnarian
Registered Auditor
4 Lisbon Lane, Waterfall City

25 August 2020

Consolidated statements of comprehensive income

Continuing operations	Notes	2020 R'000	2019 R'000
Revenue from contracts with customers	4	**7 346 558**	7 078 438
Cost of sales		**(4 607 502)**	(4 289 332)
Gross profit		**2 739 056**	2 789 106
Selling, distribution and marketing expenses		**(1 263 723)**	(1 318 830)
Fixed and administrative expenses		**(531 053)**	(514 855)
Trading profit	7	**944 280**	955 421
Non-trading expenses	5	**(82 099)**	(71 884)
Operating profit		**862 181**	883 537
Finance income	6.1	**5 278**	6 756
Finance costs	6.2	**(38 764)**	(18 404)
Dividend income		**3 825**	3 864
Equity-accounted earnings		**97 489**	90 714
Profit before taxation		**930 009**	966 467
Taxation	8	**(247 815)**	(269 435)
Profit for the year from continuing operations		**682 194**	697 032
Loss after taxation for the year from discontinued operation	3.1	**–**	(1 609)
Profit for the year		**682 194**	695 423
Other comprehensive income which will subsequently be reclassified to profit or loss		**118 300**	(16 221)
Exchange differences on translation of foreign operations:	23	**40 619**	7 391
Continuing operations		**4 801**	279
Joint venture and associate		**35 818**	4 342
Discontinued operation		**–**	2 770
Movement in cash flow hedge accounting reserve, net of tax		**77 681**	(23 612)
Other comprehensive income reclassified to profit or loss			
– Associate	5	**–**	1 607
– Discontinued operation	3.2	**–**	(18 960)
Other comprehensive income which will not be reclassified to profit or loss	23	**665**	733
Fair value of investment, net of tax		**43**	27
Actuarial profit on post-employment medical liability, net of tax		**622**	706
Total comprehensive income for the year, net of tax		**801 159**	662 582
Profit attributable to:			
Owners of the parent		**676 366**	687 986
Non-controlling interests		**5 828**	7 437
		682 194	695 423

	Notes	2020 R'000	2019 R'000
Total comprehensive income attributable to:			
Owners of the parent		**795 331**	655 145
Non-controlling interests		**5 828**	7 437
		801 159	662 582
Continuing operations:			
Basic earnings per ordinary share (cents)	9.1	**398.0**	414.8
Diluted basic earnings per ordinary share (cents)	9.1	**398.0**	414.8
Headline earnings per ordinary share (cents)	9.1	**417.5**	421.7
Diluted headline earnings per ordinary share (cents)	9.1	**417.5**	421.6
Total operations:			
Basic earnings per ordinary share (cents)	9.2	**398.0**	413.8
Diluted basic earnings per ordinary share (cents)	9.2	**398.0**	413.8
Headline earnings per ordinary share (cents)	9.2	**417.5**	422.8
Diluted headline earnings per ordinary share (cents)	9.2	**417.5**	422.8

Consolidated statement of changes in equity

		Attributable to holders of the parent						
	Notes	Issued share capital R'000	Share premium R'000	Non-distributable reserves 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 2018		17 146	666 356	223 875	3 000 743	3 908 120	2 413	3 910 533
Movement in treasury shares*	21.2, 22	(4)	(2 342)			(2 346)		(2 346)
Movement in share-based payment reserve*	23			5 314		5 314		5 314
Total comprehensive income				(32 841)	687 986	655 145	7 437	662 582
Profit for the year					687 986	687 986	7 437	695 423
Other comprehensive income				(32 841)		(32 841)		(32 841)
Dividends	10.1				(270 801)	(270 801)	(7 088)	(277 889)
Balance at 30 June 2019		**17 142**	**664 014**	**196 348**	**3 417 928**	**4 295 432**	**2 762**	**4 298 194**
Share issue	21.2, .22	**2**	**777**			**779**		**779**
Movement in treasury shares*	21.2, .22	**3**	**2 205**			**2 208**		**2 208**
Movement in share-based payment reserve*	23			**(2 133)**		**(2 133)**		**(2 133)**
Share repurchase	21.2, 22	**(401)**	**(156 642)**			**(157 043)**		**(157 043)**
Loss of control of owner driver subsidiaries	2.1						**842**	**842**
Total comprehensive income				**63 114**	**676 366**	**739 480**	**5 828**	**745 308**
Profit for the year					**676 366**	**676 366**	**5 828**	**682 194**
Other comprehensive income				**118 965**		**118 965**		**118 965**
Reclassified to cost of inventory – not included in other comprehensive income				**(55 851)**		**(55 851)**		**(55 851)**
Dividends	10.1				**(342 941)**	**(342 941)**	**(6 713)**	**(349 654)**
Balance at 30 June 2020		**16 746**	**510 354**	**257 329**	**3 751 353**	**4 535 782**	**2 719**	**4 538 501**

* *Relate to equity and BMT option schemes.*

Consolidated statements of financial position

	Notes	2020 R'000	2019 R'000
ASSETS			
Property, plant and equipment	11	**1 528 541**	1 538 198
Right-of-use assets	12	**264 274**	–
Intangible assets	13	**928 518**	609 444
Deferred tax	14	**6 385**	8 671
Other financial assets	15	**26 570**	29 627
Investment in joint ventures	16	**545 178**	506 236
Loans receivable	17	**17 861**	–
Non-current assets		**3 317 327**	2 692 176
Inventories	18	**1 909 767**	1 312 551
Trade and other receivables	19	**1 625 246**	1 787 025
Cash and cash equivalents	20	**316 825**	448 252
Taxation receivable	29.4	**12 585**	10 789
Current assets		**3 864 423**	3 558 617
Total assets		**7 181 750**	6 250 793
EQUITY AND LIABILITIES			
Capital and reserves			
Issued share capital	21.2	**16 746**	17 142
Share premium	22	**510 354**	664 014
Non-distributable reserves	23	**257 329**	196 348
Retained income		**3 751 353**	3 417 928
Total shareholders' funds		**4 535 782**	4 295 432
Non-controlling interests		**2 719**	2 762
Total equity		**4 538 501**	4 298 194
Long-term portion of lease liability	24	**281 295**	–
Post-retirement medical liability	25	**14 852**	15 637
Deferred tax	14	**153 507**	102 333
Non-current liabilities		**449 654**	117 970
Trade and other payables	26	**2 014 408**	1 683 923
Short-term portion of lease liability	24	**28 986**	–
Cash-settled options	27	**21 097**	18 699
Provisions	28	**129 104**	132 007
Current liabilities		**2 193 595**	1 834 629
Total equity and liabilities		**7 181 750**	6 250 793

Consolidated statements of cash flows

	Notes	2020 R'000	2019 R'000
Cash flows from operating activities			
Operating profit before working capital changes	29.1	**1 245 557**	1 237 405
Working capital changes	29.2	**(164 655)**	(208 600)
Cash generated from operations		**1 080 902**	1 028 805
Finance income received	29.5	**5 394**	7 350
Finance costs paid	29.6	**(38 479)**	(20 109)
Dividend income received	29.7	**99 474**	41 953
Dividends paid	29.3	**(349 654)**	(277 889)
Taxation paid	29.4	**(271 757)**	(274 147)
Net cash inflow from operating activities		**525 880**	505 963
Cash flows from investing activities			
Acquisition of business (Plush)	1	**(308 979)**	–
Purchase of property, plant and equipment – Replacement		**(129 453)**	(122 858)
– Expansion		**(24 086)**	(92 626)
Cash foregone on loss of control of owner-driver subsidiaries	2.2	**(13 866)**	–
Purchase of intangible assets	13	**(2 578)**	–
Proceeds on sale of investment		**6 125**	–
Proceeds on loan receivable	17	**2 310**	–
Proceeds from sale of interest in BMT	29.9	**1 085**	2 655
Proceeds on disposal of property, plant and equipment	29.10	**836**	1 288
Disposal of Zimbabwean business	3.3	**–**	15 940
Proceeds on disposal of investment in associate		**–**	2 156
Net cash outflow from investing activities		**(468 606)**	(193 445)
Cash flows from financing activities			
Proceeds from issue of share capital		**779**	–
Share repurchase		**(157 043)**	–
Treasury shares bought for equity option scheme	29.8	**(7 363)**	(21 818)
Settlement of Mpho ea Bophelo equity options		**(6 081)**	–
Repayment of lease liabilities		**(21 270)**	–
Net cash outflow from financing activities		**(190 978)**	(21 818)
Net (decrease)/increase in cash and cash equivalents		**(133 704)**	290 700
Net foreign exchange difference on cash and cash equivalents		**2 277**	1 800
Cash and cash equivalents at beginning of year		**448 252**	155 752
Cash and cash equivalents at end of year	20	**316 825**	448 252

Accounting policy elections

Corporate information

The consolidated financial statements of Adcock Ingram Holdings Limited (the "Company") and Adcock Ingram Holdings Limited and its subsidiaries, joint ventures (equity accounted) and structured entities (the "Group") for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the directors on 25 August 2020.

Adcock Ingram Holdings Limited is incorporated and domiciled in South Africa, where its ordinary shares are publicly traded on the Securities Exchange of the JSE Limited.

Basis of preparation

The consolidated and separate annual financial statements (annual financial statements) are presented in South African Rands and all values are rounded to the nearest thousand (R'000), except where otherwise indicated.

The annual financial statements are prepared in accordance with the Listings Requirements of the JSE Limited, International Financial Reporting Standards (IFRS), its interpretations adopted by the Accounting Standards Board (IASB), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, and the Companies Act. The annual financial statements have been prepared on the historical cost basis, except for the following items in the statements of financial position:

- financial assets and liabilities at fair value through profit or loss or at fair value through other comprehensive income, and liabilities for cash-settled share-based payments that are measured at fair value; and
- post-employment benefit obligations are measured in terms of the projected unit credit method.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except where the Group has adopted IFRS and IFRIC interpretations and amendments that became effective during the year.

IAS 19: Employee Benefits – Plan Amendment, Curtailment or Settlement – Amendments

The amendments to *IAS 19 Employee Benefits* address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendment, effective from 1 July 2019, did not have an impact on the Group.

IFRS 16: Leases

The Group has adopted IFRS 16 Leases retrospectively from 1 July 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of single discount rates to be applied to portfolios of leases with reasonably similar characteristics;
- excluding leases with a remaining lease term of less than 12 months as at 1 July 2019 and accounting for these agreements as short-term leases; and
- excluding low-value assets which comprise leases with a value below R100 000.

Liabilities

At 30 June 2019, the Group recorded operating lease commitments of R504.7 million, in accordance with leases classified as 'operating leases' under the principles of IAS 17 Leases.

On 1 July 2019, these liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's weighted average incremental borrowing rate (as obtained from the Group's bankers) of 9.6%, over the term of the lease, resulting in the Group recognising a lease liability of R328.5 million, in accordance with IFRS 16.

A reconciliation from operating leases commitments disclosed at 30 June 2019 to the lease liability disclosed under IFRS16 at 1 July 2019 is shown below:

	R'm
Operating lease commitments at 30 June 2019	**504.7**
Discounted using incremental borrowing rate of 9.6% at the date of initial application:	
Lease liability recognised at 01 July 2019	**328.5**
Split and disclosed as follows:	
Current lease liability	**47.9**
Non-current lease liability	**280.6**

Refer to note 24 for details on the lease liability as at 30 June 2020.

At the same time, a decrease in "other liabilities" of R28.2 million was recorded with the release of the straight-lining of leases balance at 30 June 2019, which was offset against the "right of use" asset on adoption.

Assets

The Group initially recognised the associated "right of use" (ROU) asset of R300.4 million, at a value equal to the lease liability, adjusted by the release of the straight-lining of leases balance. The net book value of the ROU asset at 30 June 2020 was R264.3 million (refer to note 12).

Profit or loss

During the current financial year, depreciation on the ROU assets of R39.2 million (refer to note 12) and interest costs of R29.7 million (refer to note 6.2) on the lease liabilities have been expensed in profit or loss.

The impact of IFRS 16 on segmental trading profit and earnings per share is immaterial.

Change in initial impact assessment

The decrease in the lease liability and the ROU assets (R7.9 million) in comparison to the impact assessment disclosed in the 30 June 2019 annual financial statements, is due to a payment holiday granted on one warehousing facility subsequent to the initial assessment.

IFRIC 23: Uncertainty over Income Tax Treatments – Interpretation

In June 2017, the IASB issued IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* which clarifies the recognition and measurement requirements of IAS 12 *Income Taxes* when there is uncertainty over income tax treatments.

The interpretation specifically addresses the following:

- whether an entity should consider uncertain tax treatments separately or together;
- an entity should assume that a taxation authority with the right to examine any amounts reported to it, will examine those amounts and will have full knowledge of all the relevant information in doing so;
- how an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates as the entity has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing:
  - if the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings; and
  - if the entity concludes that it is not probable that a particular tax treatment is accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty; and
- that an entity has to reassess its judgements and estimates if facts and circumstances change.

The standard, effective from 1 July 2019, did not have an impact on the Group.

Notes to the group financial statements

1. ACQUISITION OF BUSINESS

On 27 May 2020, Adcock Ingram Healthcare Proprietary Limited acquired 100% of Plush Professional Leather Care Proprietary Limited (Plush), a well-established company offering an extensive range of homecare, cleaning and leather care products, which are sold through most major retailers in South Africa and selected Southern African countries.

The acquisition of Plush is in line with the Group's strategy to expand into less regulated segments of the market, including homecare.

The multi-period excess earnings method was used to value the Plush brand included in the business combination. The following key assumptions were used in the valuation of the brand:

- Revenue from customers/(Turnover) growth of between 4% and 10%
- Gross margin of 47%
- Discount rate of 16.86%
- Terminal growth rate of 0.5%

The fair value of the identifiable assets based on a provisional purchase price allocation, as at the date of acquisition, was:

	2020 R'000
Assets	
Inventories	31 643
Trade and other receivables	34 180
Property, plant and equipment	6 407
Trademarks and brands	235 218
Cash and cash equivalents	13 701
	321 149
Liabilities	
Trade and other payables	37 486
Provisions	675
Deferred tax	66 406
Tax payable	1 077
	105 644
Total identifiable net assets at fair value	215 505
Goodwill arising on acquisition	107 175
Purchase consideration	322 680
Net cash acquired with the business	(13 701)
Net cash consideration	308 979

1. ACQUISITION OF BUSINESS (continued)

Transaction costs of R1.9 million have been expensed and are included in non-trading expenses.

The fair value of the trade receivables equalled the net amount of trade receivables and amounted to R34.0 million.

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 factor that contributed to the recognition of goodwill includes, but is not limited to a business with strong capabilities in innovation.

From the date of acquisition, Plush contributed R18.9 million towards revenue and reported a profit before income tax of R2.6 million.

If the Plush acquisition took place at the start of the financial year, the revenue would have been R224.0 million and profit before income tax would have been R22.1 million.

	2020 R'000
Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	**(1 924)**
Net cash acquired with the business (included in cash flows from investing activities)	**13 701**

2. LOSS OF CONTROL OF SUBSIDIARIES

Due to a change in strategy to outsource distribution, on 1 March 2020, Adcock Ingram Healthcare Proprietary Limited signed a cession agreement, transferring its rights, title, interest and obligations in the contracts with the owner-driver companies to RTT Proprietary Limited, resulting in the Group losing control over these companies. As part of a cession agreement, RTT Proprietary Limited will settle the outstanding loan receivables, previously due from the Owner-driver companies.

		2020 R'000
2.1	**Reconciliation of net assets at date of loss of control**	
	Property, plant and equipment	**18 075**
	Long-term loan	**(20 171)**
	Trade and other receivables	**11 547**
	Cash and cash equivalents	**13 866**
	Taxation	**15**
	Trade and other payables	**(4 900)**
	Net assets	**18 432**
	Non-controlling interest	**842**
	Net loss	**19 274**
2.2	**Cash impact of loss of control**	
	Net cash outflow on loss of control	**(13 866)**

	2019 Six months R'000

3. DISCONTINUED OPERATION

During the previous financial year, the Group disposed of its interest in Pharmalabs (Jersey) Limited, the owner of Datlabs Proprietary Limited (Datlabs) in Zimbabwe. The results of Datlabs are presented below.

3.1 Statement of comprehensive income

Revenue from contracts with customers	86 261
Cost of sales	(61 165)
Gross profit	25 096
Selling, distribution and marketing expenses	(11 374)
Fixed and administrative expenses	(8 803)
Trading profit	4 919
Non-trading expenses	(1 821)
Profit before taxation	3 098
Taxation	(1 115)
Profit for the year from discontinued operation	1 983
Loss on disposal of the discontinued operation (note 3.2)	(3 592)
Loss after taxation for the period from discontinued operation attributable to owners of the parent	(1 609)

3.2 Reconciliation of net assets at disposal date:

Property, plant and equipment	45 764
Inventories	25 968
Trade and other receivables	54 166
Taxation receivable	1 038
Cash and cash equivalents	20 245
Deferred tax	497
Trade and other payables	(85 890)
Provisions	(3 051)
Net assets	58 737
Consideration received	(36 185)
Other comprehensive income reclassified to profit or loss	(18 960)
Loss on disposal of the discontinued operation	3 592

3.3 Cash inflow on disposal

Consideration received	36 185
Net cash disposed of with the discontinued operation	(20 245)
Net cash inflow	15 940

3.4 Cash flow statement

Included in the Group's consolidated statement of cash flows are cash flows from the Zimbabwean discontinued operation. These cash flows are included as follows:

Cash outflow from operating activities	(3 631)
Cash outflow from investing activities	(7 264)
Net cash outflow	(10 895)

4. REVENUE FROM CONTRACTS WITH CUSTOMERS BY CHANNEL

Most of the Group's revenue from contracts with customers is recognised at a point in time. Refer to accounting policy for disaggregation of revenue.

	Private R'000	Public R'000	Export and foreign R'000	Total R'000
30 June 2020				
Southern Africa	**6 106 703**	**1 061 305**	**141 329**	**7 309 337**
OTC	**1 834 574**	**154 947**	**28 420**	**2 017 941**
Prescription	**2 324 832**	**374 125**	**59 581**	**2 758 538**
Hospital	**1 054 279**	**532 233**	**41 006**	**1 627 518**
Consumer	**880 070**		**12 322**	**892 392**
Other – shared services	**12 948**			**12 948**
Rest of Africa*			**53 583**	**53 583**
Research and development services in India*			**24 944**	**24 944**
Less: Inter-company sales*			**(41 306)**	**(41 306)**
	6 106 703	**1 061 305**	**178 550**	**7 346 558**
% split	**83,1%**	**14,5%**	**2,4%**	
30 June 2019				
Continuing operations:				
Southern Africa	5 969 909	863 346	196 779	7 030 034
OTC	1 820 678	117 176	45 032	1 982 886
Prescription	2 355 191	319 832	64 626	2 739 649
Hospital	990 241	426 334	38 029	1 454 604
Consumer	737 800	4	49 092	786 896
Other – shared services	65 999			65 999
Rest of Africa*			68 524	68 524
Research and development services in India*			21 114	21 114
Less: Inter-company sales*			(41 234)	(41 234)
	5 969 909	863 346	245 183	7 078 438
% split	84,3%	12,2%	3,5%	

* *Has not been further disaggregated, as cumulatively represents less than 5% of the total.*

	2020 R'000	2019 R'000
5. NON-TRADING EXPENSES		
Retrenchment costs	**33 507**	12 347
Deficit on loss of control of subsidiary	**19 274**	–
Ex-gratia B-BBEE expense	**10 000**	–
Impairments (Refer Annexure G)	**16 196**	8 568
Intangible assets	**16 196**	5 595
Investment in associate	**–**	2 973
Fair value adjustment of long-term receivable	**2 027**	1 763
Transaction costs	**1 924**	5 843
Share-based payment expenses (Refer Annexure B)	**936**	41 756
PBLTIS *	**6 049**	–
Equity-settled	**11 218**	21 037
Cash-settled	**2 398**	16 970
Black Managers Share Trust – equity-settled	**(3 748)**	3 749
Black Managers Share Trust – fair value adjustment of employee benefits	**(14 981)**	–
Profit on sale of investment following the cancellation of B-BBEE scheme**	**(2 114)**	–
Lease cancellation fee	**349**	–
Release of foreign currency translation reserve on disposal of investment in associate	**–**	1 607
	82 099	71 884

* *Performance-based long-term incentive scheme (equity-settled).*

** *Investment previously eliminated on consolidation.*

	2020 R'000	2019 R'000
6. FINANCE INCOME AND FINANCE COSTS		
6.1 Finance income		
Bank	**3 981**	6 194
Receiver of Revenue	**108**	562
Other	**1 189**	–
	5 278	6 756
6.2 Finance costs		
Bank	**9 063**	17 694
IFRS 16 leases	**29 676**	–
Receiver of Revenue	**16**	5
Creditors	**9**	18
Commitment fees	**–**	687
	38 764	18 404

		2020 R'000	2019 R'000
7.	**TRADING PROFIT**		
7.1	**Trading profit has been arrived at after charging/(crediting) the following expenses/(income):**		
	External auditor's remuneration		
	– Audit fees current year	**9 969**	10 502
	– Audit fees underprovision prior year	**254**	777
	– Taxation services	**75**	685
	– Other services	**12**	184
	Depreciation		
	– Freehold land and buildings	**20 562**	18 968
	– Leasehold improvements	**6 344**	7 057
	– Plant, equipment and vehicles	**87 701**	92 112
	– Computer equipment	**27 818**	29 764
	– Furniture and fittings	**4 151**	3 324
	– Right-of-use assets	**39 206**	–
	Amortisation of intangible assets	**9 704**	11 203
	Inventories written off	**95 424**	99 944
	Royalties paid	**39 665**	38 342
	Low value assets and short term leases	**2 243**	–
	Operating lease charges		
	– Equipment	**–**	5 200
	– Property	**–**	43 454
	Foreign exchange loss/(profit)	**14 870**	(1 060)
	Fees paid to related parties (refer to note 32)	**126 900**	74 302
	Expected credit loss provision utilised	**–**	5 167
	Expected credit loss provision charge/(release)	**8 655**	(7 859)
	(Profit)/Loss on disposal of property, plant and equipment	**(922)**	677
	COVID-19 related expenses*	**31 327**	–
	Cancellation of IFRS 16 lease	**(89)**	–

* *Includes transport and food, additional personal protective equipment, sanitisation of infrastructure and COVID-19 awareness initiatives.*

		2020 R'000	2019 R'000
7.2	**Total staff cost***	**1 399 337**	1 365 298
	Included in cost of sales	**617 240**	592 091
	Salaries and wages	**550 936**	529 522
	Employers' contribution to:	**66 304**	62 569
	Medical	**16 712**	15 505
	Retirement	**49 592**	47 064
	Included in operating expenses	**782 097**	773 207
	Salaries and wages	**683 327**	676 284
	Employers' contribution to:	**98 770**	96 923
	Medical	**20 081**	19 086
	Retirement	**78 689**	77 837

* *Total staff costs include costs for executive directors and key management.*

		2020 R'000	2019 R'000
7.	**TRADING PROFIT** (continued)		
7.3	**Directors' emoluments**		
	Executive directors	**12 226**	12 211
	Salaries	**10 995**	11 047
	Retirement benefits	**1 161**	1 139
	Medical benefits	**70**	25
	Non-executive directors	**4 858**	5 560
	Total	**17 084**	17 771
	For more details including bonuses and IFRS 2 charges, refer to Annexure J		
7.4	**Key management**		
	Salaries	**23 596**	22 114
	Retirement benefits	**3 143**	3 015
	Medical benefits	**456**	412
	Total	**27 195**	25 541

Key management comprises the Group Executive Committee, other than the executive directors. For more details including bonuses and IFRS 2 charges, refer to Annexure J.

	2020 R'000	2019 R'000
8. TAXATION		
South African taxation		
Current income tax		
– current year	**271 972**	263 304
– prior year overprovision	**(3 930)**	(1 491)
Deferred tax		
– current year	**(20 517)**	3 352
– prior year overprovision	**(756)**	(109)
	246 769	265 056
Foreign taxation		
Current income tax		
– current year	**917**	3 833
– prior year under/(over) provision	**240**	(122)
Deferred tax		
– current year	**(111)**	(268)
– prior year underprovision	**–**	936
	1 046	4 379
Total tax charge	**247 815**	269 435

In addition to the above, deferred tax amounting to R8.7 million has been released to other comprehensive income (2019: R8.9 million charge). Refer note 23.

Reconciliation of the taxation rate:	%	%
Effective rate	**26,6**	27,9
Adjusted for:		
Exempt income (dividend income)	**0,2**	0,3
Non-deductible expenses*	**(2,1)**	(3,4)
Prior year overprovision**	**0,5**	0,3
Equity accounted earnings	**3,0**	2,6
Utilisation of tax loss	**–**	(0,1)
Loss on discontinued operation	**–**	0,5
Capital gains tax	**–**	(0,1)
Other	**(0,2)**	–
South African normal tax rate	**28,0**	28,0

	R'000	R'000
The Group has the following tax losses for offsetting against future taxable profits of the company in which the loss arose. All unutilised assessed losses from continuing operations were recognised as a deferred tax asset in the current year and the prior year.		
South Africa (indefinite expiry)	**1 220**	772

* *Includes amortisation/impairment of intangibles, share-based payment expenses, professional fees, impairment of investments amongst others*

** *Current tax and deferred tax*

	2020 R'000	2019 R'000
9. EARNINGS PER SHARE		
Headline earnings is determined as follows:		
Continuing operations		
Earnings attributable to owners of Adcock Ingram from total operations	**676 366**	687 986
Adjusted for:		
Loss attributable to Adcock Ingram from discontinued operation (note 3.1)	**–**	1 609
Earnings attributable to owners of Adcock Ingram from continuing operations	**676 366**	689 595
Adjusted for:		
Impairment of intangible assets	**16 196**	5 595
Impairment of investment in associate	**–**	2 973
Release of foreign currency translation reserve on disposal of investment in associate	**–**	1 607
(Profit)/Loss on disposal/scrapping of property, plant and equipment	**(922)**	677
Tax effect on (profit)/loss on disposal of property, plant and equipment	**266**	(257)
Loss of control of owner-driver subsidiaries	**19 274**	–
Profit on sale of investment following the cancellation of B-BBEE scheme	**(2 114)**	–
Tax effect on profit on sale of investment following the scheme cancellation of the B-BBEE scheme	**273**	–
Adjustments relating to equity accounted joint ventures and associate		
Loss on disposal of property, plant and equipment	**246**	1 290
Tax effect on loss on disposal of property, plant and equipment	**(64)**	(445)
Headline earnings from continuing operations	**709 521**	701 035

	'000	'000
Reconciliation of diluted weighted average number of shares		
Weighted average number of ordinary shares in issue:		
– Issued shares at the beginning of the year	**175 748 048**	175 748 048
– Effect of ordinary shares issued during the year	**10 217**	–
– Effect of ordinary treasury shares held within the Group	**(5 830 460)**	(9 488 292)
Shares entitled to dividend	**(5 420 927)**	(4 319 700)
Shares not entitled to dividend	**(409 533)**	(5 168 592)
Weighted average number of ordinary shares outstanding	**169 927 805**	166 259 756
Potential dilutive effect of outstanding share options	**18 096**	2 014
Diluted weighted average number of shares outstanding	**169 945 901**	166 261 770

Basic earnings per share is derived by dividing earnings attributable from continuing operations to owners of Adcock Ingram for the year by the weighted average number of shares in issue.

Diluted earnings per share is derived by dividing earnings attributable from continuing operations to owners of Adcock Ingram for the year by the diluted weighted average number of shares in issue. Diluted earnings per share reflect the potential dilution that could occur after taking into account all of the Group's outstanding options which will be potentially exercisable. Options granted to employees under the equity option scheme are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share, based on the Group's average share price for the reporting period, to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share.

Headline earnings per share is derived by dividing earnings attributable from continuing operations to owners of Adcock Ingram for the year, after appropriate adjustments are made, by the weighted average number of shares in issue.

		2020 cents	2019 cents
9.	**EARNINGS PER SHARE** (continued)		
9.1	**Continuing operations**		
	Earnings		
	Basic earnings per share	**398,0**	414,8
	Diluted basic earnings per share	**398,0**	414,8
	Headline earnings		
	Headline earnings per share	**417,5**	421,7
	Diluted headline earnings per share	**417,5**	421,6
9.2	**Total operations**		
	Earnings		
	Basic earnings per share	**398,0**	413,8
	Diluted basic earnings per share	**398,0**	413,8
	Headline earnings		
	Headline earnings per share	**417,5**	422,8
	Diluted headline earnings per share	**417,5**	422,8
9.3	**Distribution per share**		
	Interim	**100,0**	100,0
	Final	**–**	100,0
10.	**DISTRIBUTIONS PAID AND PROPOSED**		
	Declared and paid during the year		
	Distribution on ordinary shares		
	Final dividend for 2019: 100 cents (2018: 86 cents)	**171 468**	125 220
	Interim dividend for 2020: 100 cents (2019: 100 cents)	**171 473**	145 581
	Total paid to equity holders of parent company	**342 941**	270 801
	Dividends paid to non-controlling shareholders	**6 713**	7 088
	Total dividend declared and paid to the public	**349 654**	277 889

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings R'000	Leasehold improvements R'000	Plant, equipment and vehicles R'000	Computer equipment R'000	Furniture and fittings R'000	Work in progress R'000	Total R'000
2020							
Carrying value at beginning of year							
Cost	928 122	106 705	948 926	114 950	33 525	219 337	2 351 565
Accumulated depreciation	(166 161)	(81 814)	(466 938)	(73 652)	(24 802)	–	(813 367)
Net book value at beginning of year	761 961	24 891	481 988	41 298	8 723	219 337	1 538 198
Current year movements – cost							
Additions	–	17 856	9 995	2 407	1 907	121 374	153 539
Transfer	51 854	14	52 489	24 674	6 183	(135 214)	–
Additions through business combination (note 1)	–	66	5 680	478	183	–	6 407
Loss of control of owner driver subsidiaries (note 2)	–	–	(47 849)	(86)	(28)	–	(47 963)
Exchange rate adjustments	–	130	719	255	119	–	1 223
Disposals	–	(2 168)	(37 499)	(12 288)	(326)	–	(52 281)
Cost movement for current year	51 854	15 898	(16 465)	15 440	8 038	(13 840)	60 925
Current year movements – accumulated depreciation							
Depreciation	(20 562)	(6 344)	(87 701)	(27 818)	(4 151)	–	(146 576)
Loss of control of owner driver subsidiaries (note 2)	–	–	29 802	62	24	–	29 888
Exchange rate adjustments	–	(68)	(498)	(168)	(51)	–	(785)
Disposals	–	1 646	35 803	9 348	94	–	46 891
Accumulated depreciation movement for current year	(20 562)	(4 766)	(22 594)	(18 576)	(4 084)	–	(70 582)
Carrying value at end of year							
Cost	979 976	122 603	932 461	130 390	41 563	205 497	2 412 490
Accumulated depreciation	(186 723)	(86 580)	(489 532)	(92 228)	(28 886)	–	(883 949)
Net book value at end of year	793 253	36 023	442 929	38 162	12 677	205 497	1 528 541

11. PROPERTY, PLANT AND EQUIPMENT (continued)

	Freehold land and buildings R'000	Leasehold improve-ments R'000	Plant, equip-ment and vehicles R'000	Computer equip-ment R'000	Furniture and fittings R'000	Work in progress R'000	Total R'000
2019							
Carrying value at beginning of the year							
Cost	902 408	101 076	945 604	181 690	35 134	199 095	2 365 007
Accumulated depreciation	(151 550)	(74 752)	(460 539)	(131 989)	(24 922)	–	(843 752)
Net book value at beginning of the year	750 858	26 324	485 065	49 701	10 212	199 095	1 521 255
Current year movements – cost							
Additions	12 086	281	18 201	3 622	82	181 212	215 484
Transfer	43 424	5 338	91 821	17 968	2 421	(160 972)	–
Exchange rate adjustments	1 750	29	2 566	149	176	2	4 672
Disposal of business (note 3)	(31 546)	–	(43 878)	(1 428)	(2 586)	–	(79 438)
Disposals	–	(19)	(65 388)	(87 051)	(1 702)	–	(154 160)
Cost movement for current year	25 714	5 629	3 322	(66 740)	(1 609)	20 242	(13 442)
Current year movements – accumulated depreciation							
Depreciation*	(19 267)	(7 057)	(93 522)	(29 785)	(3 428)	–	(153 059)
Exchange rate adjustments	(374)	(8)	(1 774)	(136)	(133)	–	(2 425)
Disposal of business (note 3)	5 030	–	25 251	1 380	2 013	–	33 674
Disposals	–	3	63 646	86 878	1 668	–	152 195
Accumulated depreciation movement for current year	(14 611)	(7 062)	(6 399)	58 337	120	–	30 385
Carrying value at end of year							
Cost	928 122	106 705	948 926	114 950	33 525	219 337	2 351 565
Accumulated depreciation	(166 161)	(81 814)	(466 938)	(73 652)	(24 802)	–	(813 367)
Net book value at end of year	761 961	24 891	481 988	41 298	8 723	219 337	1 538 198

** Depreciation split as follows:*	*19 267*	*7 057*	*93 522*	*29 785*	*3 428*	*–*	*153 059*
Continuing operations	*18 968*	*7 057*	*92 112*	*29 764*	*3 324*	*–*	*151 225*
Discontinued operation	*299*		*1 410*	*21*	*104*	*–*	*1 834*

12. LEASES

The Group leases various warehouses, forklifts and computer equipment. Contracts vary from 3 years to 12 years. A fixed annual escalation is catered for in the agreements. There are no variable rental agreements in the Group.

On 1 July 2019, these liabilities were measured at the present value of the remaining lease payments, discounted using the weighted average incremental borrowing rate of 9.6% over the term of the lease, resulting in the Group recognising a lease liability of R329 million, in accordance with IFRS 16.

No contract renewal options have been initially included in the present value calculations as the renewal of any agreement was not considered reasonably certain at that point in time.

The Group initially recognised the associated "right of use" (ROU) asset of R300.4 million, at a value equal to the lease liability, adjusted by the release of the straight-lining of leases balance. The net book value of the ROU asset at 30 June 2020 was R264.3 million. The recoverability of the ROU assets have been considered under IAS 36 and no impairment was required.

	Land and buildings	Equipment and vehicles	Total
RIGHT-OF-USE ASSETS			
Adoption/transition balance at 01 July 2019	297 360	3 000	300 360
Additions during the year	–	4 035	4 035
Cancellation of lease*	(915)	–	(915)
Depreciation	(37 101)	(2 105)	(39 206)
Balance at end of year	**259 344**	**4 930**	**264 274**

* *On 1 March 2020, the Virtual Logistics Proprietary Limited assets were ceded to RTT Proprietary Limited, resulting in the related capitalised leases being derecognised on that date.*

13. INTANGIBLE ASSETS

	Goodwill R'000	Trademarks and Brands R'000	Licence agreements R'000	Total R'000
2020				
Carrying value at beginning of year				
Cost	181 933	435 937	112 784	730 654
Accumulated amortisation	–	(104 828)	(10 787)	(115 615)
Accumulated impairment losses	(5 595)	–	–	(5 595)
Net balance at beginning of year	176 338	331 109	101 997	609 444
Current year movements – cost				
Additions through business combination (note 1)	107 175	235 218	–	342 393
Additions	–	2 578	–	2 578
Disposals	–	(40)	(2 880)	(2 920)
Exchange rate adjustments	–	18	–	18
Cost movement for the year	107 175	237 774	(2 880)	342 069
Charge for the year	–	(9 704)	–	(9 704)
Disposals	–	40	2 880	2 920
Impairment[1]	–	(16 196)	–	(16 196)
Exchange rate adjustments	–	(15)	–	(15)
Movement for the year	–	(25 875)	2 880	(22 995)
Carrying value at end of year				
Cost	289 108	673 711	109 904	1 072 723
Accumulated amortisation	–	(114 507)	(7 907)	(122 414)
Accumulated impairment losses	(5 595)	(16 196)	–	(21 791)
Net balance at end of year	283 513	543 008	101 997	928 518

[1] *Refer to Annexure G on impairments.*

	Goodwill R'000	Trademarks and Brands R'000	Licence agreements R'000	Total R'000
2019				
Carrying value at beginning of year				
Cost	181 933	435 937	112 784	730 654
Accumulated amortisation	–	(94 705)	(9 707)	(104 412)
Net balance at beginning of year	181 933	341 232	103 077	626 242
Charge for the year	–	(10 123)	(1 080)	(11 203)
Impairment[1]	(5 595)	–	–	(5 595)
Movement for the year	(5 595)	(10 123)	(1 080)	(16 798)
Carrying value at end of year				
Cost	181 933	435 937	112 784	730 654
Accumulated amortisation	–	(104 828)	(10 787)	(115 615)
Accumulated impairment losses	(5 595)	–	–	(5 595)
Net balance at end of year	176 338	331 109	101 997	609 444

[1] *Refer to Annexure G on impairments.*

Amortisation is included in fixed and administrative expenses and impairments in non-trading expenses in the statement of comprehensive income.

13. INTANGIBLE ASSETS (continued)

Goodwill acquired through business combinations and other intangible assets has been allocated to the following individual reportable segments based on product and market category. Reportable segments are also considered to be operating segments. Intangibles which include goodwill are tested at the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. These represent the lowest level within the entity at which intangible assets are monitored for internal management purposes.

	OTC R'000	Consumer R'000	Prescription R'000	Hospital R'000	Southern Africa R'000	India and Rest of Africa R'000	Total R'000
2020							
Carrying amount of goodwill	–	107 175	163 758	12 580	283 513	–	283 513
Genop			163 758		163 758		163 758
Plush		107 175			107 175		107 175
Hospital				12 580	12 580		12 580
Carrying amount of other intangibles	119 411	314 785	207 443	3 338	644 977	28	645 005
Indefinite useful lives	115 506	262 796	207 443	–	585 745	–	585 745
Citro Soda	46 879	–	–	–	46 879	–	46 879
Epimax	–	–	120 000	–	120 000	–	120 000
Plush	–	235 218	–	–	235 218	–	235 218
Other[1]	68 627	27 578	87 443	–	183 648	–	183 648
Finite useful lives	3 905	51 989	–	3 338	59 232	28	59 260
Probiflora	3 905	51 989	–	–	55 894	–	55 894
Other[1]	–	–	–	3 338	3 338	28	3 366
Total	119 411	421 960	371 201	15 918	928 490	28	928 518

13. INTANGIBLE ASSETS (continued)

	OTC R'000	Consumer R'000	Prescription R'000	Hospital R'000	Southern Africa R'000	India and Rest of Africa R'000	Total R'000
2019							
Carrying amount of goodwill	–	–	163 758	12 580	176 338	–	176 338
Genop	–	–	163 758	–	163 758	–	163 758
Hospital	–	–	–	12 580	12 580	–	12 580
Carrying amount of other intangibles	128 037	88 008	210 884	3 783	430 712	2 394	433 106
Indefinite useful lives	123 434	27 700	210 592	–	361 726	2 347	364 073
Citro Soda	46 807	–	–	–	46 807	–	46 807
Epimax	–	–	120 000	–	120 000	–	120 000
Other[1]	76 627	27 700	90 592	–	194 919	2 347	197 266
Finite useful lives	4 603	60 308	292	3 783	68 986	47	69 033
Probiflora	4 603	60 308	–	–	64 911	–	64 911
Other[1]	–	–	292	3 783	4 075	47	4 122
Total	128 037	88 008	374 642	16 363	607 050	2 394	609 444

(1) *Other not individually material*

13. INTANGIBLE ASSETS (continued)

Impairment testing of intangible assets

The average remaining useful life for intangible assets with finite useful lives ranges between 17 months and 7.5 years.

The recoverable amount of the indefinite life intangible assets, which include Goodwill has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a 10-year period when management believes that products have a value-in-use of 10 years or more and that these projections, based on past experience, are reliable and when the 10-year period will more accurately reflect the value of the assets from the cash flow derived from the CGU.

Key assumptions used in value-in-use calculations:

The calculation of value-in-use for all segments is sensitive to the following assumptions after considering any COVID-19 impact:

Revenue growth rate (Turnover)

Turnover growth for the current and prior year is based on average values of between 0% to 10% achieved in the three years preceding the start of the budget period. These are changed over the budget period for estimated changes to selling prices and market conditions.

Gross margin

Gross margins for the current and prior year are based on average values of between 27% to 55% achieved in the three years preceding the start of the budget period. These are changed over the budget period for estimated changes to cost of production and raw materials, and selling prices.

Discount rates

Discount rates reflect management's estimate of the risks. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. The discount rate is derived from the Group's weighted average cost of capital (WACC). The WACC takes into account both the cost of debt and of equity. The cost of equity is derived from the expected return on investment by the Group. The discount rate applied to cash flow projections, is 14.86% (2019: 14.01%)

Terminal growth rate estimate

The terminal rate applied to cash flow projections beyond the 10-year period is 0.5% (2019: 0.5%).

Sensitivity analysis

The directors and management have performed a sensitivity analysis to determine the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the recoverable amount to be equal to its carrying amount. The other CGUs were not considered to be sensitive to change.

	% Point decrease in revenue growth rate	% Point decrease in gross margin	% Point increase in discount rate	% Point decrease in terminal growth rate
2020				
Genop	**1.3%**	**2.0%**	**2.5%**	**9.0%**
2019				
Genop	2.5%	2.7%	2.7%	>15%

The Plush CGU was acquired on 27 May 2020 and the valuation of the CGU was performed close to year end. As such, the carrying amount approximates its recoverable amount.

14. DEFERRED TAX

	2020 R'000	2019 R'000
Balance at beginning of year	**(93 662)**	(100 794)
Acquisition of business (refer note 1)	**(66 406)**	–
Disposal of business (refer note 3.2)	**–**	(497)
Movement through profit or loss – continuing operations	**21 384**	(3 911)
– discontinued operation	**–**	1 650
Exchange rate adjustments	**305**	(754)
Revaluations of foreign currency contracts (cash flow hedges) to fair value	**(8 489)**	9 182
Revaluation to fair value through other comprehensive income	**(254)**	(244)
IFRS 9 adjustment	**–**	1 706
Balance at end of year	**(147 122)**	(93 662)
Analysis of deferred tax		
This balance comprises the following temporary differences:		
Trademarks	**(111 763)**	(48 406)
Property, plant and equipment	**(149 687)**	(146 280)
Pre-payments	**(3 243)**	(4 239)
Income received in advance	**30 498**	12 700
Provisions	**77 226**	85 677
Revaluations of foreign currency contracts (cash flow hedges) to fair value	**(3 310)**	5 179
Tax loss available for future use	**415**	216
Right-of-use assets	**(74 029)**	–
Lease liability	**86 876**	–
Other	**(105)**	1 491
	(147 122)	(93 662)
Disclosed as follows:		
Deferred tax asset	**6 385**	8 671
Deferred tax liability	**(153 507)**	(102 333)

	2020 R'000	2019 R'000
15. OTHER FINANCIAL ASSETS		
15.1 LONG-TERM RECEIVABLE		
Black Managers Share Trust (BMT)		
Balance at beginning of year	**27 978**	32 073
Proceeds from sale	**(1 085)**	(2 332)
Fair value adjustment	**(2 027)**	(1 763)
	24 866	27 978

The maturity of the receivable from the BMT depends on how beneficiaries exercise their options until 30 September 2027 when the scheme is due to end, or when a beneficiary dies. The proceeds on sale during the year is as a result of the capital contribution payments upon units being exercised, after the lock-in period, of R1.1 million (2019: R2.3 million). The fair value adjustment was as a result of the cost of the capital contribution exceeding the terminal amount (original capital contribution, increased by a notional return on the capital contribution and reduced by dividends distributed to the beneficiaries). Refer to Annexure B for further details.

	2020 R'000	2019 R'000
15.2 INVESTMENTS		
Group Risk Holdings Proprietary Limited		
Balance at beginning of year	**1 649**	1 937
Disposal of shares	**–**	(323)
Revaluation of investment through other comprehensive income	**55**	35
	1 704	1 649
Total other financial assets	**26 570**	29 627

16. INVESTMENT IN JOINT VENTURES

The Group has a 49.9% share in Adcock Ingram Limited (India) and a 50% share in National Renal Care Proprietary Limited. The Group's interests in Adcock Ingram Limited (India) and National Renal Care Proprietary Limited are accounted for using the equity method in the consolidated financial statements. The carrying value of the investments are set out below.

	2020 R'000	2019 R'000
Adcock Ingram Limited (India)	**356 772**	274 752
National Renal Care Proprietary Limited	**188 406**	231 484
	545 178	506 236

Refer to Annexure F for more details on these investments

	2020 R'000	2019 R'000
17. LOANS RECEIVABLE		
Owner-driver loans transferred to RTT (note 2.1)	**20 171**	–
Payment received	**(2 310)**	–
	17 861	–

Loans receivable are subject to the impairment requirements of IFRS 9 and the identified expected credit loss is immaterial.

	2020 R'000	2019 R'000
18. INVENTORIES		
Raw materials	**439 157**	375 198
Work-in-progress	**15 458**	34 250
Finished goods	**1 455 152**	903 103
Inventory value, net of provisions	**1 909 767**	1 312 551
Inventories written down and recognised as an expense in cost of sales that forms part of trading profit:		
Continuing operations	**95 424**	99 944
Discontinued operation (note 3)	**–**	290
	95 424	100 234

Inventories are written off if aged, damaged, stolen or the likelihood of being sold is remote. Inventories are written down to the lower of cost and net realisable value.

Refer to note 29.1 for movement in inventory provisions.

	2020 R'000	2019 R'000
19. TRADE AND OTHER RECEIVABLES		
Trade receivables[1]	**1 438 275**	1 636 045
Less: Expected allowance for credit losses (note 19.1)	**(42 017)**	(32 257)
	1 396 258	1 603 788
Derivative asset at fair value[2]	**12 410**	–
Other receivables	**123 006**	76 000
Bank interest receivable	**197**	313
Sundry receivables[3] (note 19.2)	**122 809**	75 687
The maximum exposure to credit risk in relation to trade and other receivables	**1 531 674**	1 679 788
Pre-payments[4]	**84 672**	85 935
VAT recoverable[5]	**8 900**	21 302
	1 625 246	1 787 025

[1] *80% of trade receivables relates to private, 18% to public and the balance to export customers.*

[2] *It is expected that the derivative asset will be realised within the next 90 days.*

[3] *Includes fees receivable from multi-national partners.*

[4] *Includes advance payments for inventory and insurance.*

[5] *VAT recoverable will be received within one month.*

66% (2019: 61%) of pre-payments will be reclassified to other assets in the statement of financial position and the remainder to profit or loss over the next 12 months.

	2020 R'000	2019 R'000
19. TRADE AND OTHER RECEIVABLES (continued)		
19.1 Expected allowance for credit losses:		
Balance at 1 July	**(32 257)**	(46 235)
(Charge)/Release for the year	**(8 655)**	7 859
Utilised during the year	**–**	5 167
Exchange rate adjustments	**(1 105)**	(121)
Disposal of business	**–**	1 073
Balance at 30 June	**(42 017)**	(32 257)

Loss allowance is calculated as follows: 2020	Gross trade receivables R'000	Expected credit loss ratio[1] %	Expected credit loss[2] R'000	Estimated net carrying amount R'000
<30 days	**698 452**	**0.1%**	**500**	**697 952**
31 – 60 days	**473 979**	**0.1%**	**657**	**473 322**
61 – 90 days	**140 283**	**1.8%**	**2 591**	**137 692**
91 – 180 days (past due)	**125 561**	**30.5%**	**38 269**	**87 292**
Total	**1 438 275**	**2.9%**	**42 017**	**1 396 258**
2019				
<30 days	901 111	–	–	901 111
31 – 60 days	517 245	0.3%	1 526	515 719
61 – 90 days	123 618	0.5%	642	122 976
91 – 180 days (past due)	94 071	32.0%	30 089	63 982
Total	1 636 045	2.0%	32 257	1 603 788

[1] *The increase in the expected credit loss % includes 0.6% related to COVID-19.*

[2] *69% of the expected credit loss relates to sales to the public sector.*

	2020 R'000	2019 R'000
19.2 Ageing of Sundry Receivables		
Neither past due nor impaired		
<30 days	**68 305**	25 138
31 – 60 days	**8 990**	18 673
61 – 90 days	**29 102**	5 824
>90 days	**16 412**	26 052
Total	**122 809**	75 687

Details in respect of the Group's credit risk management policies are set out in Annexure E. The directors consider that the carrying amount of the trade and other receivables approximates their fair value due to the short period to maturity. Sundry receivables are subject to the impairment requirements of IFRS 9 and the expected credit loss is immaterial.

	2020 R'000	2019 R'000
20. CASH AND CASH EQUIVALENTS		
Cash at banks	**316 855**	448 252

Cash at banks earns interest at floating rates based on daily bank deposit rates.

The fair value of the net cash approximates R316.9 million (2019: R448.3 million).

There are no restrictions over the cash balances and all balances are available for use.

The Group has unutilised facilities of approximately R1 billion as at 30 June, refer to note 30.

21. SHARE CAPITAL

	2020 R'000	2019 R'000
21.1 Authorised		
Ordinary Share Capital		
250 000 000 ordinary shares of 10 cents each	**25 000**	25 000
21.2 Issued		
Ordinary Share Capital		
Opening balance of 171 423 855 (2019: 171 456 145) ordinary shares of 10 cents each	**17 142**	17 146
Issue of ordinary shares at 10 cents each	**2**	–
Movement of treasury shares – Employee share incentive trust	**3**	(4)
Repurchase of ordinary shares – Adcock Ingram Limited	**(401)**	–
Closing balance of 167 459 060 (2019: 171 423 855) ordinary shares of 10 cents each	**16 746**	17 142

	Number of shares	
	000	000
21.3 Treasury Shares		
Shares held by Group companies		
Employee share incentive trust	**600**	39 030
Adcock Ingram Limited	**8 299 201**	4 285 163
Total number of ordinary shares	**8 299 801**	4 324 193

Shares bought back and held by a Group company are regarded as treasury shares.

21.4 Reconciliation of issued shares		
Number of shares in issue	**175 758 861**	175 748 048
Number of ordinary shares held by Group companies*	**(8 299 801)**	(4 324 193)
Net shares in issue	**167 459 060**	171 423 855

* *Entitled to dividends*

21. SHARE CAPITAL (continued)

21.4 Reconciliation of issued shares (continued)

Unissued shares

In terms of the Companies Act, the unissued shares are under the control of the directors. Accordingly, the directors are authorised to allot and issue them on such terms and conditions and at such times as they deem fit but subject to the provisions of the Companies Act.

During March 2020, the Adcock Ingram Limited purchased 4 014 038 shares from the open market, at an average price of R39.12, with the price ranging from R38.02 to R40.00, in terms of the November 2019 AGM approval.

The Group has a share incentive trust in terms of which shares were issued and share options were granted. Refer to Annexure B. As required by IFRS and the JSE Limited, the share incentive trust is consolidated into the Group's annual financial statements. There are no risks associated with the Group's interest in the trust, as the trust is merely a vehicle used for the share transactions.

	2020 R'000	2019 R'000
22. SHARE PREMIUM		
Balance at the beginning of the year	**664 014**	666 356
Issue of ordinary shares*	**777**	–
Movement in treasury shares – Employee share incentive trust	**2 205**	(2 342)
Repurchase of ordinary shares – Adcock Ingram Limited	**(156 642)**	–
	510 354	664 014

* *Issue of ordinary shares due to call options being exercised following the cancellation of the Broad-Based Black Economic Empowerment Scheme.*

Refer to Annexure B.

23. NON-DISTRIBUTABLE RESERVES

	Share-based payment reserve R'000	Cash flow hedge accounting reserve R'000	Capital redemption reserve R'000	Foreign currency translation reserve R'000	Legal reserves and other R'000	Total R'000
Balance at 1 July 2018	141 820	10 294	3 919	40 057	27 785	223 875
Movement during the year, net of tax	5 314	(23 612)		(9 962)	733	(27 527)
BMT	3 749					3 749
Equity settled	21 037					21 037
Equity options exercised	(19 472)					(19 472)
Hedging reserve movement		(32 794)				(32 794)
Other comprehensive income reclassified to profit or loss				(17 353)		(17 353)
Actuarial profit on post-employment medical liability					942	942
Other movement for the year				7 391	35	7 426
Tax effect on movement		9 182			(244)	8 938
Balance at 30 June 2019	147 134	(13 318)	3 919	30 095	28 518	196 348
Movement during the year, net of tax	**(2 133)**	**21 830**		**40 619**	**665**	**60 981**
BMT	**(3 748)**					**(3 748)**
Equity settled	**11 218**					**11 218**
Equity options exercised	**(9 571)**					**(9 571)**
PBLTIS	**6 049**					**6 049**
Hedging reserve movement		**86 170**				**86 170**
Reclassified to cost of inventory – not included in other comprehensive income		**(55 851)**				**(55 851)**
Actuarial profit on post-employment medical liability					**864**	**864**
Distribution made Mpho ea Bophelo Trust beneficiaries	**(6 081)**					**(6 081)**
Other movement for the year				**40 619**	**55**	**40 674**
Tax effect on movement		**(8 489)**			**(254)**	**(8 743)**
Balance at 30 June 2020	**145 001**	**8 512**	**3 919**	**70 714**	**29 183**	**257 329**

Share-based payment reserve

The share-based payment reserve represents the accumulated charge for share options in terms of IFRS 2. The share option plans are equity-settled and include an ordinary equity scheme, a B-BBEE scheme and a performance-based long-term incentive scheme (PBLTIS). Refer Annexure B.

Cash flow hedge accounting reserve

The cash flow hedge accounting reserve comprises the portion of the cumulative net change in the fair value of derivatives designated as effective cash flow hedging relationships where the hedged item has not yet affected inventory and ultimately cost of sales in the statement of comprehensive income. Refer Annexure E.

Capital redemption reserve

The capital redemption reserve was created as a result of revaluation of shares in subsidiaries.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Legal reserves and other

This represents:

- an unutilised merger reserve when Premier Pharmaceuticals and Adcock Ingram merged;
- actuarial losses on the Group's post-employment medical liability; and
- a fair value adjustment on the Group's investment in Group Risk Holdings Proprietary Limited (refer to note 15.2).

	2020 R'000
24. LEASE LIABILITIES	
Adoption/transition balance at 01 July 2019	**(328 520)**
Additions	**(4 035)**
Cancellation of lease	**1 004**
Lease payments	**50 946**
Less: Finance cost	**(29 676)**
Balance at end of year	**(310 281)**
Split as follows:	
Long-term portion	**(281 295)**
Short-term portion	**(28 986)**

	2020 R'000	2019 R'000
25. POST-RETIREMENT MEDICAL LIABILITY		
Balance at beginning of the year	**15 637**	16 340
Charged to operating profit	**36**	36
Benefits paid	**(1 409)**	(1 277)
Actuarial profit on post-employment medical liability released to other comprehensive income	**(864)**	(942)
Interest cost on benefit obligation	**1 452**	1 480
Balance at the end of the year	**14 852**	15 637

Refer to Annexure D.

	2020 R'000	2019 R'000
26. TRADE AND OTHER PAYABLES		
Trade accounts payable	**1 091 666**	775 421
Derivative liability at fair value[1]	**471**	16 799
Other payables	**905 654**	830 154
Accrued expenses	**762 731**	655 374
Black Managers Share Trust liability	**21 382**	36 362
Sundry payables	**121 541**	138 418
VAT payable[2]	**16 332**	61 549
Interest accrued	**285**	–
	2 014 408	1 683 923

[1] *It is expected that the derivative liability will be settled within the next 90 days.*

[2] *VAT payable will be paid within one month.*

The maturity analysis of trade and other payables is as follows:

	2020 R'000	2019 R'000
Trade Payables		
<30 days	**867 221**	499 171
31 – 60 days	**109 448**	146 947
61 – 90 days	**64 601**	67 332
>90 days	**50 396**	61 971
Total	**1 091 666**	775 421
Other Payables		
<30 days	**285 534**	272 397
31 – 60 days	**93 412**	82 933
61 – 90 days	**267 601**	239 139
>90 days	**259 107**	235 685
Total	**905 654**	830 154

27. CASH-SETTLED OPTIONS

	2020 R'000	2019 R'000
Opening balance	**18 699**	2 413
Charged to operating profit	**2 398**	16 970
Payments made	**–**	(684)
	21 097	18 699

Refer to Annexure B.

28. PROVISIONS

	2020 R'000	2019 R'000
Leave pay	**58 771**	54 149
Bonus and incentive scheme	**23 905**	31 430
Other	**46 428**	46 428
	129 104	132 007
Made up as follows:		
Leave pay		
Balance at beginning of year	**54 149**	52 816
Arising during the year	**58 258**	76 116
Utilised during the year	**(50 810)**	(67 434)
Unused amounts reversed	**(3 805)**	(4 459)
Disposal of business (note 3)	**–**	(3 051)
Acquisition of business (note 1)	**675**	–
Exchange rate adjustments	**304**	161
Balance at end of year	**58 771**	54 149
Bonus and incentive scheme		
Balance at beginning of year	**31 430**	31 088
Arising during the year	**24 133**	31 430
Utilised during the year	**(29 482)**	(29 868)
Unused amounts reversed	**(2 176)**	(1 220)
Balance at end of year	**23 905**	31 430
Other	**46 428**	46 428

Leave pay provision

In excess of 96% of the balance represents the liability for employees in South Africa. In terms of the Group policy, employees in South Africa are entitled to accumulate leave benefits not taken within a leave cycle, up to a maximum of three times the employee's annual leave allocation, limited to a maximum of 30 days. The obligation is reviewed annually.

Bonus and incentive provision

Certain employees participate in a performance-based incentive scheme and provision is made for the estimated liability in terms of set performance criteria. These incentives are expected to be paid in September 2020.

Other

Other provision includes a liability as a result of a contract which requires the Group to sign an obligation agreement.

	2020 R'000	2019 R'000
29. NOTES TO THE STATEMENTS OF CASH FLOWS		
29.1 Operating profit before working capital changes		
Profit before taxation from continuing operations	**930 009**	966 467
Profit before taxation from discontinued operation	**–**	3 098
Profit before taxation	**930 009**	969 565
Adjusted for:		
– amortisation of intangibles	**9 704**	11 203
– depreciation	**185 782**	153 059
property, plant and equipment	**146 576**	–
right-of-use assets	**39 206**	–
– (profit)/loss on disposal/scrapping of property, plant and equipment	**(922)**	677
– deficit on loss of control of subsidiary	**19 274**	–
– profit on sale of investment following the cancellation of B-BBEE scheme	**(2 114)**	–
– dividend income	**(3 825)**	(3 864)
– finance income	**(5 278)**	(6 756)
– finance costs	**38 764**	18 404
– loss on sale of investment in associate	**–**	1 607
– impairment of investment in associate	**–**	2 973
– equity accounted earnings	**(97 489)**	(90 714)
– share-based payment expenses	**936**	41 756
– expected credit loss provision increase	**8 655**	3 548
– (decrease)/increase in provisions and post-retirement medical liability	**(3 803)**	4 804
– straight-lining of leases	**–**	(3 622)
– impairment of intangible asset	**16 196**	5 595
– fair value adjustment of long-term receivable	**2 027**	1 763
– inventories written off	**95 424**	100 234
– increase in inventory provisions	**37 436**	28 233
– cancellation of IFRS 16 lease	**(89)**	–
– foreign exchange loss/(profit)	**14 870**	(1 060)
	1 245 557	1 237 405
29.2 Working capital changes		
(Increase)/Decrease in inventories	**(699 326)**	99 084
Decrease/(Increase) in trade receivables	**193 356**	(207 882)
Increase/(Decrease) in trade and other payables	**341 315**	(99 802)
	(164 655)	(208 600)
29.3 Dividends paid		
Dividends paid to equity holders of the parent	**(342 941)**	(270 801)
Dividends paid to non-controlling shareholders	**(6 713)**	(7 088)
	(349 654)	(277 889)

29. NOTES TO THE STATEMENTS OF CASH FLOWS (continued)

		2020 R'000	2019 R'000
29.4	**Taxation paid**		
	Amounts overpaid at beginning of year	**10 789**	6 061
	Amounts charged to profit or loss	**(247 815)**	(270 550)
	Continuing operations	**(247 815)**	(269 435)
	Discontinued operation	**–**	(1 115)
	Movement in deferred tax	**(21 384)**	2 261
	Acquisition of business	**(1 077)**	–
	Exchange rate adjustments	**330**	(92)
	Disposal of business	**–**	(1 038)
	Loss of control of subsidiary	**(15)**	–
	Amounts overpaid at end of year	**(12 585)**	(10 789)
		(271 757)	(274 147)
29.5	**Finance income received**		
	Finance income	**5 278**	6 756
	Movement in receivable	**116**	594
		5 394	7 350
29.6	**Finance costs paid**		
	Finance costs	**(38 764)**	(18 404)
	Movement in accrual	**285**	(1 705)
		(38 479)	(20 109)
29.7	**Dividend income received**		
	Dividend income	**3 825**	3 864
	Dividends received from joint ventures (Annexure F)	**95 649**	38 089
		99 474	41 953
29.8	**Treasury shares (for equity option scheme)**		
	Purchase of treasury shares	**(9 765)**	(21 445)
	Disposal of treasury shares	**11 973**	19 099
	Net movement in treasury shares	**2 208**	(2 346)
	Equity options settlement	**(9 571)**	(19 472)
		(7 363)	(21 818)
	Refer Annexure B		
29.9	**Disposal of other financial assets**		
	Proceeds from sale of interest in Group Risk Holdings Proprietary Limited	**–**	323
	Proceeds from sale of interest in Black Managers Share Trust	**1 085**	2 332
		1 085	2 655

	2020 R'000	2019 R'000
29. NOTES TO THE STATEMENTS OF CASH FLOWS (continued)		
29.10 Proceeds on disposal of property, plant and equipment		
Disposal of property, plant and equipment – net book value (refer note 11)	**5 390**	1 965
Profit/(Loss) on disposal	**922**	(677)
	6 312	1 288
Deferred receivable	**(5 476)**	–
Proceeds on disposal	**836**	1 288

30. CONTINGENT LIABILITIES

The wholly-owned South African companies in the Group provide cross-sureties for the overdraft facilities (refer note 20) in South Africa.

No cross securities were required as the overdraft facility was not utilised at year-end.

31. COMMITMENTS AND CONTINGENCIES

31.1 Capital commitments

	2020 R'000	2019 R'000
Commitments contracted for		
Within one year	**50 485**	21 772
Approved but not contracted for		
Within one year	**75 647**	90 100
	126 132	111 872

These commitments relate to property, plant and equipment.

31.2 Guarantees

The Group has provided guarantees to the amount of R2.6 million at 30 June 2020 (June 2019: R3.1 million).

32. RELATED PARTIES

The following services have been obtained from subsidiaries of The Bidvest Group Limited, the controlling shareholder of the Company. All of the services are in the ordinary course of business and on an aggregated basis these arrangements/agreements are less than 10% of the Company's market capitalisation, which is within the ordinary course of business exclusion pursuant to Section 9 of the JSE Listings Requirements.

32.1 The following services are obtained with no contract in place for these services, as they are obtained on an *ad-hoc* basis, with price and quality dictating the purchase:

Company	Description	2020 R'000
Bidvest Services Holdings (Pty) Ltd t/a BidAir Cargo	Freight forwarding	1 146
Bidvest Afcom (Pty) Ltd	Consumables (tape)	1 984
Bidvest G Fox (Pty) Ltd	Protective wear	537
Bidvest Material Handling (Pty) Ltd	Maintenance	25
Bidvest McCarthy Ltd t/a Bidvest Car Rental	Vehicle rental	1 801
Bidvest Office (Pty) Ltd t/a Bidvest Waltons	Office stationery	1 413
Bidvest Office (Pty) Ltd t/a Cecil Nurse	Furniture	2 307
Bidvest Office (Pty) Ltd t/a Hortors SA Diaries	Diaries	1 606
Bidvest Paperplus (Pty) Ltd t/a Lithotech Blesston	Consumables	1 262
Bidvest Paperplus (Pty) Ltd t/a Rotolabel Johannesburg	Packaging	61
First Garment Rental (Pty) Ltd	Factory laundry	2 267
HRG Rennies Travel (Pty) Ltd	Travel	6 935
Steiner Hygiene (Pty) Ltd	Cleaning consumables	133
		21 477

32.2 The following services are obtained where no contract is in place, but a 12-month price agreement has been agreed:

Company	Description	2020 R'000
Bidvest Bank Limited	Forex	203
Bidvest Car Rental (Pty) Ltd t/a Budget Car & Van Rental	Car hire	788
Pureau Fresh Water Company (Pty) Ltd	Refreshments	983
		1 974

32.3 Contracts are in place for a period of time for the following services obtained:

Company	Description	2020 R'000
Bidvest Facilities Management (Pty) Ltd (1)	Facilities Management	8 907
Bidvest Managed Solutions (Pty) Ltd (2)	Cleaning/Gardening	4 186
Bidvest Prestige Cleaning t/a Bidvest Managed Solutions (Pty) Ltd (3)	Cleaning	6 043
Bidvest Protea Coin (Pty) Ltd (4)	Guarding	20 486
Safcor Freight (Pty) Ltd t/a Bidvest International Logistics (5)	Freight forwarding	61 955
		101 577

Contract details

(1) *36 months contract, which started 1 July 2018, with a three-month extension.*

(2) *Main contract that caters for the manufacturing sites and distribution. Was for 36 months up to February 2020. To be renegotiated.*

(3) *Main contract that caters for the manufacturing sites and distribution. Was for 36 months up to February 2020. To be renegotiated.*

(4) *A new contract is in the process of being renegotiated.*

(5) *The previous contract was for 30 months and expired in February 2019. To be renegotiated.*

32. RELATED PARTIES (continued)

32.4 The following directors fees have been paid following the authority granted at the AGM in November 2019:

Company	Description	2020 R'000
Bidvest Branded Products	Directors' fees	**330**
Bidvest Corporate Services	Directors' fees	**1 542**
		1 872

	2020 R'000	2019 R'000
Total purchases from the Bidvest Group Limited	**126 900**	74 302
Balance owing at reporting date	**18 845**	13 899

The payables balance is unsecured and will be repaid under normal terms applicable to trade creditors.

Payments to directors and key management are disclosed in notes 7.3 and 7.4.

33. IMPACT OF COVID-19

The Board, in its assessment of the going-concern status of the Company and Group, considered the current financial position of the Group, the sustainability of each of the business units and their operating models, available financial resources at 30 June 2020, the budget and cash flow forecast to September 2021, the current regulatory environment and potential changes thereto, the economic outlook, as well as the impact of COVID-19 on its operations and the economic environment. The overwhelming majority of the Group's activities, and those of most of its customers, are regarded as essential services and have been operating throughout all levels of lockdown. However, as the disease spread, the prevalence of infections amongst employees increased, putting certain of the operations at risk of not being able to operate on a fully uninterrupted basis. All factories and distribution centres had to close intermittently for certain periods of time to allow for additional sanitising procedures and employees were isolated or quarantined as appropriate, but all customers were serviced despite these interruptions. The Board is satisfied that the Company and Group will each be able to continue as a going concern in the foreseeable future and has therefore continued to adopt the going-concern basis in preparing the annual financial statements.

Management has further considered the impact of COVID-19 on the financial statements, particularly relating to the potential impact on trading profit, property, plant and equipment, intangible assets, inventory, trade and other receivables and other financial instruments. Where a significant impact relating to COVID-19 was noted, management has disclosed this in the applicable note, whereas no specific disclosure was made where COVID-19 did not have a significant impact on the particular class of transaction or balance.

Management is also not aware of any events subsequent to year-end relating to the COVID-19 pandemic that would need to be disclosed in the financial statements and that would result in either an adjusting or non-adjusting event.

34. SUBSEQUENT EVENT

There are no significant events after year-end.

Company statements of comprehensive income

	Notes	2020 R'000	2019 R'000
Revenue	A	**391 524**	64 439
Operating expenses		**(500)**	(369)
Finance costs	B	**(16 781)**	(23 955)
Trading income		**374 243**	40 115
Non-trading expense	C	**(10 000)**	-
Profit before taxation		**364 243**	40 115
Taxation	D	**140**	(567)
Profit for the year		**364 383**	39 548
Other comprehensive income which will not be subsequently be recycled to profit or loss	J	**43**	27
Fair value of investment		**55**	35
Tax effect of revaluation		**(12)**	(8)
Total comprehensive income for the year, net of tax		**364 426**	39 575

Company statement of changes in equity

	Notes	Issued share capital R'000	Share premium R'000	Non-distributable reserves R'000	Retained income/ (Accumulated loss) R'000	Total R'000
Balance at 1 July 2018		17 574	894 653	79 562	52 392	1 044 181
Total comprehensive income				27	39 548	39 575
Profit for the year					39 548	39 548
Other comprehensive income				27		27
Dividends	N.1				(278 823)	(278 823)
Balance at 30 June 2019		**17 574**	**894 653**	**79 589**	**(186 883)**	**804 933**
Share issue	H.2, I	**2**	**777**			**779**
Total comprehensive income				**43**	**364 383**	**364 426**
Profit for the year					**364 383**	**364 383**
Other comprehensive income				**43**		**43**
Dividends	N.1				**(351 518)**	**(351 518)**
Balance at 30 June 2020		**17 576**	**895 430**	**79 632**	**(174 018)**	**818 620**

Company statements of financial position

	Notes	Audited 2020 R'000	Restated* 2019 R'000	Restated* 01 July 2018 R'000
ASSETS				
Investments	E	**3 368 590**	3 368 535	3 368 823
Amounts owing by Group companies	G.1	**167 154**	167 154	167 154
Non-current assets		**3 535 744**	3 535 689	3 535 977
Cash and cash equivalents	F	**66 615**	31 926	30 809
Amounts owing by Group companies	G.1	**-**	80 000	98 000
Other receivables	L.2	**-**	351	93
Deferred tax	K	**28**	-	201
Taxation receivable	M.2	**113**	286	1 920
Current assets		**66 756**	112 563	131 023
Total assets		**3 602 500**	3 648 252	3 667 000
EQUITY AND LIABILITIES				
Capital and reserves				
Issued share capital	H.2	**17 576**	17 574	17 574
Share premium	I	**895 430**	894 653	894 653
Non-distributable reserves	J	**79 632**	79 589	79 562
(Accumulated loss)/Retained income		**(174 018)**	(186 883)	52 392
Total equity		**818 620**	804 933	1 044 181
Deferred tax	K	**-**	100	-
Non-current liabilities		**-**	100	-
Bank overdraft		**-**	-	250 000
Other payables	L.1	**1 662**	1 100	2 667
Amounts owing to Group companies	G.2	**2 782 218**	2 842 119	2 370 152
Current liabilities		**2 783 880**	2 843 219	2 622 819
Total equity and liabilities		**3 602 500**	3 648 252	3 667 000

* *Refer to Note P.1 for details regarding the restatement.*

Company statements of cash flows

	Notes	Audited 2020 R'000	Restated* 2019 R'000
Cash utilised in operations	M.1	**(10 500)**	(369)
Finance income, excluding accrual		**16 226**	26 092
Finance costs, excluding accrual		**(16 397)**	(25 660)
Dividend income	A	**375 649**	38 089
Dividends paid, excluding accrual		**(351 340)**	(278 685)
Taxation received	M.2	**173**	1 360
Net cash inflow/(outflow) from operating activities		**13 811**	(239 173)
Cash flows from investing activities			
Disposal of investments	M.3	**–**	323
Repayment of amounts owing by Group companies		**80 000**	18 000
Net cash inflow from investing activities		**80 000**	18 323
Cash flows from financing activities			
Proceeds from issue of share capital		**779**	-
Repayment of amounts owing to Group companies		**(159 901)**	(1 926)
Funding from Group companies		**100 000**	473 893
Net cash (outflow)/inflow from financing activities		**(59 122)**	471 967
Net increase in cash and cash equivalents		**34 689**	251 117
Net cash and cash equivalents at beginning of year		**31 926**	(219 191)
Net cash and cash equivalents at end of year	F	**66 615**	31 926

* *Refer to Note P.2 for details regarding the restatement.*

Notes to the Company financial statements

		2020 R'000	2019 R'000
A	**REVENUE**		
	Dividend income	**375 649**	38 089
	Finance income	**15 875**	26 350
	Bank	**15 875**	8 989
	Intercompany	**–**	17 361
		391 524	64 439
B	**FINANCE COSTS**		
	Borrowings	**16 781**	23 955
C	**NON-TRADING EXPENSE**		
	Ex-gratia payment made to the Group's B-BBEE partner (Ad-izinyosi Proprietary Limited). Refer to Annexure B	**10 000**	–
D	**TAXATION**		
	South African taxation		
	Current income tax		
	– current year	**–**	274
	Deferred tax – current year	**(140)**	293
		(140)	567
	Reconciliation of the taxation rate:	**%**	%
	Effective rate	**(0.0)**	1.4
	Adjusted for:		
	Exempt income (dividend income)	**28.8**	26.6
	Non-deductible expenses (*Ex-gratia* payment)	**(0.8)**	–
	South African normal tax rate	**28.0**	28.0

		Effective holding 2020 %	Effective holding 2019 %	2020 R'000	2019 R'000
E	**INVESTMENTS**				
	Adcock Ingram Limited	**100**	100	**2 130 587**	2 130 587
	Adcock Ingram Healthcare Proprietary Limited	**100**	100	**815 390**	815 390
	Adcock Ingram Intellectual Property Proprietary Limited	**100**	100	**104 000**	104 000
	Adcock Ingram Critical Care Proprietary Limited	**100**	100	**284 979**	284 979
	Adcock Ingram International Proprietary Limited	**100**	100	*	*
	Tender Loving Care Hygienic, Cosmetic and Baby Products Proprietary Limited	**100**	100	*	*
	Thembalami Pharmaceuticals Proprietary Limited	**50**	50	*	*
	Adcock Ingram Limited India	**49.9**	49.9	**31 930**	31 930
	Group Risk Holdings Proprietary Limited [(1)]	**4.4**	4.4	**1 704**	1 649
				3 368 590	3 368 535

* *Less than R1 000*

Refer to Annexure H for the Group structure

		2020 R'000	2019 R'000
	[(1)] **Group Risk Holdings Proprietary Limited**		
	Balance at 1 July	**1 649**	1 937
	Disposal of 0.9% interest	**–**	(323)
	Revaluation of investment to fair value	**55**	35
		1 704	1 649
F	**NET CASH AND CASH EQUIVALENTS**		
	Cash and cash equivalents		
	Cash at banks	**66 615**	31 926

Favourable balances attract interest at 5.35%.

Cash and cash equivalents are subject to the impairment requirements of IFRS 9 and the identified expected credit loss is immaterial.

		Audited 2020 R'000	Restated* 2019 R'000
G	**AMOUNTS OWING BY/TO GROUP COMPANIES**		
G.1	**Amounts owing by Group companies**		
	Included in non-current assets		
	Adcock Ingram International Proprietary Limited	**167 154**	167 154
	Included in current assets		
	Adcock Ingram Critical Care Proprietary Limited	**–**	80 000
	Amounts owing by Group companies are subject to the impairment requirements of IFRS 9 and the identified expected credit loss is immaterial.		
	The loans are unsecured, interest-free, and have no fixed terms of repayment.		
G.2	**Amounts owing to Group companies**		
	Included in current liabilities		
	Adcock Ingram Limited	**2 254 068**	2 154 068
	Adcock Ingram Healthcare Proprietary Limited	**528 150**	688 051
		2 782 218	2 842 119
	The loans are unsecured, interest free, and have no fixed term of repayment.		
	** Refer to Note P.1 for details regarding the restatement.*		
H	**SHARE CAPITAL**		
H.1	**Authorised**		
	Ordinary share capital		
	250 000 000 ordinary shares of 10 cents each	**25 000**	25 000
H.2	**Issued**		
	Ordinary share capital		
	Opening balance of 175 748 048 ordinary shares (2019: 175 748 048) of 10 cents each	**17 574**	17 574
	Issue of 10 813 ordinary shares of 10 cents each	**2**	–
	Closing balance of 175 758 861 ordinary shares of 10 cents each (2019: 175 748 048 ordinary shares of 10 cents each)	**17 576**	17 574

The 10 813 ordinary shares were issued during the year in various tranches to meet the obligations following the exercise of call options granted in the B-BBEE scheme.

H.3 Unissued shares

In terms of the Companies Act, the unissued shares are under the control of the directors. Accordingly, the directors are authorised to allot and issue them on such terms and conditions and at such times as they deem fit but subject to the provisions of the Companies Act.

		Audited 2020 R'000	Restated* 2019 R'000
I	**SHARE PREMIUM**		
	Balance at the beginning of the year	**894 653**	894 653
	Issue of 10 813 ordinary shares	**777**	-
		895 430	894 653

		Share-based payment reserve R'000	Other reserves R'000	Total R'000
J	**NON-DISTRIBUTABLE RESERVES**			
	Balance at 1 July 2018	20 821	58 741	79 562
	Fair value of investment through other comprehensive income		35	35
	Tax effect of revaluation		(8)	(8)
	Balance at 30 June 2019	**20 821**	**58 768**	**79 589**
	Fair value of investment through other comprehensive income		**55**	**55**
	Tax effect of revaluation		**(12)**	**(12)**
	Balance at 30 June 2020	**20 821**	**58 811**	**79 632**

Other reserves represents a fair value adjustment on the Company's investment in Group Risk Holdings Proprietary Limited and a reserve created on the repurchase and cancellation of the A and B shares in 2016.

		2020 R'000	2019 R'000
K	**DEFERRED TAX**		
	Balance at beginning of year	**(100)**	201
	Movement through profit or loss	**140**	(293)
	Fair value of investment through other comprehensive income	**(12)**	(8)
	Balance at end of year	**28**	(100)
	This balance comprises the temporary difference relating to the fair value adjustment of the Investment in Group Risk Holdings Proprietary Limited, a financial asset designated at fair value through other comprehensive income (OCI), as well as the recognition of an assessed loss.		
L	**OTHER PAYABLES AND RECEIVABLES**		
L.1	**Other payables**		
	Interest accrued	**384**	–
	Shareholders for dividends	**1 278**	1 100
		1 662	1 100
L.2	**Other receivables**		
	Interest accrued	**–**	351
M	**NOTES TO THE STATEMENTS OF CASH FLOWS**		
M.1	**Cash utilised in operations**		
	Profit before taxation	**364 243**	40 115
	Adjusted for:		
	– dividend income	**(375 649)**	(38 089)
	– finance income	**(15 875)**	(26 350)
	– finance costs	**16 781**	23 955
		(10 500)	(369)

		2020 R'000	2019 R'000
M.2	**Taxation received**		
	Amounts overpaid at beginning of year	**286**	1 920
	Amounts charged to profit or loss	**–**	(274)
	Amount overpaid at end of year	**(113)**	(286)
		173	1 360
M.3	**Disposal of investments**		
	Proceeds on sale of 0.9% interest in Group Risk Holdings Proprietary Limited	**–**	323
N	**DISTRIBUTIONS**		
N.1	**Declared and paid during the year**		
	Final dividend for 2019: 100 cents per share (2018: 86 cents per share)	**175 759**	128 918
	Interim dividend for 2020: 100 cents per share (2019: 100 cents per share)	**175 759**	149 905
	Total declared and paid	**351 518**	278 823
N.2	**Declared subsequent to the reporting date**		
	No final dividend declared for 2020 (2019: 100 cents per share)	**–**	175 756
O	**RELATED PARTIES**		
	Related party transactions exist between the Company and other subsidiaries within the Adcock Ingram Group.		
	The following related party transactions occurred:		
	Interest received		
	Adcock Ingram Healthcare Proprietary Limited	**–**	17 361
	Dividends received		
	Adcock Ingram Limited India	**15 649**	38 089
	Adcock Ingram Healthcare Proprietary Limited	**160 000**	–
	Adcock Ingram Critical Care Proprietary Limited	**100 000**	–
	Adcock Ingram Intellectual Property Proprietary Limited	**100 000**	–
		375 649	38 089
	Dividends paid		
	Adcock Ingram Limited	**8 570**	7 970

The related balances (where applicable) are shown in note G. Refer to Annexure H for nature of the relationships of related parties.

P. RESTATEMENT

P.1 Restatement of inter-company loans

The Company incorrectly disclosed amounts owing by/to Group companies as current assets and non-current liabilities respectively, resulting in the overstatement of current assets and non-current liabilities in the prior years.

The disclosure has been corrected by restating each of the financial statement lines for the prior periods as follows:

Statements of financial position extract	30 June 2019	Increase/ (Decrease)	Restated 30 June 2019	30 June 2018	Increase/ (Decrease)	Restated 30 June 2018
Net assets						
Non-current assets – Amounts owing by Group companies	–	167 154	167 154	–	167 154	167 154
Current assets – Amounts owing by Group companies	247 154	(167 154)	80 000	265 154	(167 154)	98 000
Net liabilities						
Non-current liabilities – Amounts owing to Group companies	2 154 068	(2 154 068)	–	2 155 994	(2 155 994)	–
Current liabilities – Amounts owing to Group companies	688 051	2 154 068	2 842 119	214 158	2 155 994	2 370 152

P.2 Restatement of movements in amounts owing by group companies in statement of cash flows

The Company incorrectly disclosed movements in amounts owing by Group companies as cash flows from financing activities.

The disclosure has been corrected by restating the prior period comparative cash flow as follows:

	30 June 2019	Increase/ (Decrease)	Restated 30 June 2019
Funding from Group Companies (included in cash flows from financing activities)	489 967	(16 074)	473 893
Repayment of amounts owing to Group companies (included in cash flows from financing activities)	–	(1 926)	(1 926)
Repayment of amounts owing by Group Companies (included in cash flows from investing activities)	–	18 000	18 000

We draw attention to the fact that at 30 June 2020, the company had accumulated losses of (R174 million) and that the Company's current liabilities exceed its current assets by (R2,717 million). The financial statements have been prepared on the basis of accounting policies applicable to a going concern. The directors are comfortable that the company will be able to service its current obligations as they become due as these current obligations relate to loans to companies within the same Group which have been classified as current liabilities based on the principles of IAS 1. These amounts owing are not deemed to be called on by the subsidiaries in the next 12 months. The company has access to R1 billion in facilities for working capital purposes.

Q FINANCIAL INSTRUMENTS

Fair value hierarchy

The classification of financial instruments and the fair value hierarchy are as follows:

Financial instruments	Classification per IFRS 9	2020 R'000	2019 R'000
Investment in Group Risk Holdings Proprietary Limited(1)	Fair value through OCI	**1 704**	1 649
Amounts owing by Group companies(2)	At amortised cost	**167 154**	247 154
Amounts owing to Group companies(2)	At amortised cost	**2 782 218**	2 842 119
Bank(2)	At amortised cost	**66 615**	31 926

(1) *Level 3: The value of the investment is based on Adcock Ingram's proportionate share of the net asset value of this company.*

(2) *The carrying value approximates the fair value due to the short term nature. The identified expected credit loss is immaterial.*

Q FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives and policies

The Company's principal financial liabilities comprise loan from Group Companies. The main purpose of these financial liabilities is to raise finance for the Group's operations.

The Company's financial assets comprise an investment, cash and receivables , which arise directly from its operations.

The main risks arising from the Company's financial instruments are credit risk, interest rate risk and liquidity risk.

Credit risk

Financial assets of the company which are subject to credit risk consist mainly of cash resources, loans from group companies and receivables at fair value through profit or loss. The company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The only receivables are from Group companies and as such no financial instruments are entered into to mitigate this risk but the Board of directors monitors the solvency and liquidity of the counterparties on an ongoing basis.

Amounts due from Group companies are considered to be of a low credit risk, as they have a strong capacity to meet their contractual cash flow obligations in the near term.

Cash resources are placed with various approved major financial institutions that all have a Baaa3 credit rating. The company limits its exposure to any one institution by not placing more than R500 million at any one institution. This is based on the Groups accounting policy.

Refer to accounting policies "Impairment of Financial Assets".

Interest rate risk

The Company is exposed to interest rate risk on cash balances that carry interest at rates that vary.

No financial instruments are entered into to mitigate the risk of interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on balances subject to floating rates):

		Increase in profit before tax	
	Change in rate	**2020 R'000**	2019 R'000
Cash and cash equivalents			
Cash at banks	+1	**666**	319

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due.

The only payables are Amounts owing to Group companies. The Board of directors maintains facilities to ensure that the Company and Group can meet their financial obligations. The facilities in place in South Africa are approximately R1 billion for working capital purposes. Refer to P.2

The contractual maturity profile of the payables is as follows:

	2020 R'000	2019 R'000
Amounts owing to Group companies (within 12 months)	**2 782 218**	2 842 118
Other payables (within 3 months)	**1 662**	1 100
Net debt		
Amounts owing to Group companies and other payables (included in current liabilities)	**2 783 880**	2 843 219
Cash and cash equivalents	**(66 615)**	(31 926)
Net debt	**2 717 265**	2 811 293

Annexure A – Segment report

Geographical segments are reported as the Group operates in Southern Africa, Rest of Africa and India.

The Group's reportable segments in Southern Africa are as follows:

- Consumer – competes in the Fast Moving Consumer Goods (FMCG) space;
- Over the Counter (OTC) – focuses primarily on brands sold predominantly in the pharmacy market, where the pharmacist plays a role in the product choice;
- Prescription – markets products prescribed by medical practitioners and includes specialised instrument and surgical products;
- Hospital – supplier of hospital and critical care products, including intravenous solutions, blood collection products and renal dialysis systems; and
- Other – shared services – other support services, including cash and bank overdraft balances which are managed on a central basis in Southern Africa.

The financial information of the Group's reportable segments is reported to key management (executive directors) for purposes of making decisions about allocating resources to the segment and assessing its performance. Key management primarily uses a measure of trading profit to assess the performance of the operating segments. However, key management also receives information about the segments' revenue and assets on a monthly basis. Non-current liabilities are not considered key in assessing the segments performance. Segment figures for management purposes equal the disclosures made in the segment report and agree with the IFRS amounts in the annual financial statements. The basis of accounting for transactions between reportable segments are internally agreed rates, to recover cost.

No operating segments have been aggregated to form the above reportable operating segments.

Statement of comprehensive income

	2020 R'000	2019 R'000
Revenue from contracts with customers		
Continuing operations		
Southern Africa	**7 309 337**	7 030 034
Consumer	**892 392**	786 896
OTC	**2 017 941**	1 982 886
Prescription	**2 758 538**	2 739 649
Hospital	**1 627 518**	1 454 604
Other – shared services	**12 948**	65 999
Rest of Africa	**53 583**	68 524
Research and development services in India	**24 944**	21 114
	7 387 864	7 119 672
Less: Intercompany sales	**(41 306)**	(41 234)
	7 346 558	7 078 438
The South African Government represents more than 10% of the Group's revenue, arising in the following segments:		
Consumer	**–**	4
OTC	**154 947**	117 176
Prescription	**374 125**	319 832
Hospital	**532 233**	426 334
	1 061 305	863 346

Trading profit

	2020 R'000	2019 R'000
Continuing operations		
Southern Africa	**942 221**	944 752
Consumer	**155 134**	134 177
OTC	**426 272**	388 361
Prescription	**217 652**	309 989
Hospital	**140 453**	112 225
Other – shared services	**2 710**	–
Rest of Africa	**(525)**	8 609
Research and development services in India	**2 584**	2 060
	944 280	955 421

Other

	2020 R'000	2019 R'000
Fair value adjustment of long-term receivable	**2 027**	1 763
Hospital	**600**	451
Other – shared services	**1 427**	1 312
Impairments[1]		
Southern Africa	**13 849**	5 595
Consumer	**2 700**	–
OTC	**8 000**	–
Prescription	**3 149**	–
Other – shared services	**–**	5 595
Rest of Africa	**2 347**	2 973
	16 196	8 568
Depreciation and amortisation		
Southern Africa	**194 320**	161 374
Consumer	**8 444**	8 383
OTC	**49 096**	45 714
Prescription	**29 800**	29 776
Hospital	**21 009**	24 118
Other – shared services	**85 971**	53 383
Rest of Africa	**581**	520
Research and development services in India	**585**	534
	195 486	162 428

(1) *Refer to Annexure G.*

Statement of financial position

	2020 R'000	2019 R'000
Total assets		
Southern Africa	**6 780 824**	5 922 443
Consumer	**719 751**	342 209
OTC	**1 758 602**	1 771 142
Prescription	**2 241 489**	2 020 144
Hospital	**1 359 322**	1 189 750
Other – shared services	**701 660**	599 198
Rest of Africa	**25 570**	40 502
India	**375 356**	287 848
	7 181 750	6 250 793
Current liabilities		
Southern Africa	**2 160 010**	1 791 161
Consumer	**169 929**	140 835
OTC	**482 343**	499 927
Prescription	**866 609**	564 611
Hospital	**467 052**	388 949
Other – shared services	**174 077**	196 839
Rest of Africa	**30 402**	41 384
India	**3 183**	2 084
	2 193 595	1 834 629
Capital expenditure[1]		
Continuing operations		
Southern Africa	**153 244**	207 856
Consumer	**58**	80
OTC	**54 225**	102 025
Prescription	**29 649**	62 994
Hospital	**21 077**	1 930
Other – shared services	**48 235**	40 827
Rest of Africa	**72**	67
India	**223**	297
	153 539	208 220
Discontinued operation		
Rest of Africa		7 264

[1] *Capital expenditure consists of additions to property, plant and equipment, but excludes additions to intangible assets and ROU assets.*

Annexure B – Share-based payments plans

A Performance-based long-term incentive scheme

Shareholders approved the performance-based long-term incentive scheme (PBLTIS) at the Annual General Meeting held on 22 November 2019. The objective of the scheme is to reward and retain selected critical senior employees who contribute to and influence the performance of the Group and its strategy, on a basis which aligns with the interests of shareholders.

The Board is responsible for the governance of the scheme and has the final authority on who participates in the scheme on an annual basis.

2020

During the year 516 000, conditional share awards, were granted to the three executive directors and the four commercial managing directors.

Performance conditions (financial and non-financial) attached to these awards are as follows:

Equity-settled			Performance		
Measure	Weight	Measurement base	Threshold (30% vesting)	Target (60% vesting)	Stretch (100% vesting)
HEPS growth	50%	Inflation	CPI	CPI + 50% of CPI	CPI + 100% of CPI
ROFE[1]	25%	ROFE	25%	30%	35%
B-BBEE	25%	B-BBEE Scorecard points	Level 4 (80 to 85 points)	Level 4 (>85 points)	Level 3 (90+ points)

(1) *Return on funds employed*

Linear vesting of an award occurs between the intervals stated above.

The Company's performance will be determined annually for each of the three years in the performance period, i.e. FY2020, FY2021 and FY2022, and the average for the three years will be the performance score for the three-year performance period.

Subject to achievement of these conditions, 75% of the portion which the employees are entitled to will vest after three years and 25% after four years from the grant date. The weighted average remining contractual life for these conditional share awards was 2.24 years as at 30 June 2020.

If none of the performance conditions are met, no conditional share award will vest.

The performance conditions of the share awards are classified as non-market conditions and the fair value of the awards is determined by the share price at the grant date, adjusted for a dividend yield, as employees are not entitled to dividends until any portion of the allocation vests. The expected dividend yield was estimated using a two-year moving average of the dividend yield at the grant date.

A share-based payment expense of R6.05 million was recognised during 2020, assuming all performance conditions over the three-year period will be met, as it was too early to determine the probability of these being achieved.

Refer to Annexure J – Remuneration Implementation Report for more details on the outcome.

B General employee share option plans

Certain senior employees are entitled to join the general employee share option plan, based on merit and options are issued at least annually at market ruling prices by the Adcock Ingram Board of directors. The offer price is determined in accordance with the rules of the scheme, and options vest as follows:

- a third after three years;
- a third after four years; and
- a third after five years.

The equity-settled awards which were initiated in June 2014 have been replaced with cash-settled awards from August 2018.

The following tables illustrates the number and weighted average offer prices (WAOP) of and movements in Adcock Ingram share options during the year:

Equity-settled

	2020		2019	
	Number	**WAOP (Rand)**	Number	WAOP (Rand)
Outstanding at the beginning of the year	**4 246 005**	**48.92**	5 685 001	48.62
Exercised	**(673 327)**	**43.97**	(805 328)	46.66
Forfeited	**(150 000)**	**52.15**	(633 668)	48.34
Outstanding at the end of the year	**3 422 678**	**49.77**	4 246 005	48.92
Vested and exercisable at the end of the year	**651 327**	**46.69**	432 666	51.36

	2020	2019
Weighted average share price of exercised options	**R58.19**	R70.84
Weighted average remaining contractual life for the share options outstanding at reporting date:	**5.77 years**	6.79 years
Range of offer prices for options outstanding at the end of the year:	**R41.94 – R57.73**	R41.94 – R57.73
Expense recognised for employee services received during the year (million):	**R11.22**	R21.03

Share options are fair valued using a Black-Scholes model. The expected dividend yield was estimated using a two-year moving average of the dividend yield at the grant date. An annualised standard deviation of the continuously compounded rates of return of the share was used to determine volatility. The risk-free rate was based on a zero-coupon government bond in South Africa with the same expected lifetime of the options.

Shares are bought in anticipation of employees taking possession of the vested shares, after settling the offer price or selling all their vested shares. When employees exercise their rights to the options, the employee may choose to have their shares sold on their behalf.

B General employee share option plans (continued)

Cash-settled

	2020 Number	2020 WAOP (Rand)	2019 Number	2019 WAOP (Rand)
Outstanding at the beginning of the year	**1 935 000**	**65.29**	57 153	56.63
Granted	**1 165 000**	**58.39**	2 135 000	65.30
Forfeited	**(190 000)**	**63.63**	(200 000)	65.46
Exercised	**–**	**–**	(57 153)	56.63
Outstanding at the end of the year [1]	**2 910 000**	**62.63**	1 935 000	65.29

[1] *All options are unvested at the end of each year.*

	2020	2019
Weighted average share price of exercised options:	**–**	R68.59
Weighted average remaining contractual life for the share options outstanding at reporting date:	**4.68 years**	5.25 years
Range of offer prices for options outstanding at the end of the year:	**R58.39 – R65.46**	R62.00 – R65.46
Carrying amount of the liability relating to the cash-settled options at reporting date (million):	**R21.10**	R18.70
Expense recognised for employee services received during the year (million):	**R2.40**	R16.97

Share price volatility is based on the historical volatility of the Adcock Ingram share price, matching the remaining life of each option. The valuation is measured at fair value (excluding any non-market vesting conditions) and is the sum of the intrinsic value plus optionality. The fair value of each option is estimated using an actuarial binomial option pricing model. All options are valued with a single exercise date at maturity.

Key assumptions used in the cash-settled options calculations:	2020	2019
Share price at 30 June	**R48.00**	R59.60
Volatility	**27.5%**	24.9%
Dividend yield	**3.0%**	2.6%

C Black Managers Share Trust

In terms of the Tiger Brands Limited ("TBL") BEE transaction implemented in July 2005, 4 381 831 TBL shares were acquired by the Tiger Brands Black Manager Share Trust ("Trust"). The purchase of these shares was mainly funded through capital contributions made by TBL and Adcock Ingram related entities. Adcock Ingram Holdings Limited ("Adcock Ingram") was listed on the JSE in August 2008 and subsequently unbundled from TBL. After the unbundling, the Trust, as a shareholder of TBL, received one Adcock share for each TBL share held. This resulted in the trust now holding 4 381 831 shares in both TBL and Adcock. The allocation of participation rights to the shares held by the Trust were made to qualifying black managers, which entitles the beneficiary to receive TBL and Adcock shares, after making a capital contribution to the Trust at any time after the defined lock in period, i.e. from 1 January 2015. These vested right are non-transferable.

The fair value of the participation rights on TBL shares, pre-unbundling and Adcock shares post-unbundling, issued by the Trust to Adcock employees are classified as equity-settled in terms of IFRS 2 and are therefore valued on the grant date and expensed over the relevant vesting period. No subsequent revaluation takes place, although the expense is adjusted for actual forfeitures.

The participation rights, issued by Adcock Ingram, on TBL and Oceana shares to Adcock Ingram employees are accounted for under IAS 19. The liability in respect of these shares is recognised over the average expected life of the participation right rather than being expensed over the vesting period only. The liability is subsequently revalued at year-end taking into consideration market conditions at that date.

The Group does not consolidate the Trust, as it exercises no control over the Trust.

C Black Managers Share Trust (continued)

Number of equity and IAS 19 share award options	2020 Adcock Ingram	2020 Tiger Brands	2020 Oceana	2019 Adcock Ingram	2019 Tiger Brands	2019 Oceana
Outstanding at the beginning of the year	**371 025**	**316 247**	**82 227**	382 754	342 542	–
Granted	**–**	**–**	**–**	–	–	82 227
Exercised	**(19 402)**	**(10 611)**	**(2 991)**	(11 729)	(26 295)	–
Outstanding at the end of the year [(1)]	**351 623**	**305 636**	**79 236**	371 025	316 247	82 227
Weighted average exercise price	**R55.07**	**R202.14**	**R64.05**	R62.06	R276.19	–

(1) *All options have vested and are exercisable at the end of each year.*

	2020	2019
Weighted average remaining contractual life for the share options outstanding at reporting date	**7.25 years**	8.25 years
(Income)/Expense recognised for employee services received during the year (million):	**(R3.75)**	R3.74
Fair value adjustment of employee benefits (IAS 19) (million):	**R15.00**	–

Participation rights were valued using the Monte-Carlo simulation approach to estimate the average, optimal pay-off of the participation rights using 5 000 permutations. The pay-off of each random path was based on:

- the projected Tiger Brands/Adcock Ingram/Oceana share price;
- outstanding debt projections; and
- optimal early exercise conditions.

Key assumptions used in the IAS 19 employee benefits calculations:	2020 Tiger Brands	2020 Oceana	2019* Tiger Brands
Share price @ 30 March	**R185.00**	**R55.00**	R265.00
Volatility	**26.9%**	**28.9%**	26.4%
Dividend yield	**4.6%**	**4.6%**	3.2%

* *Effective date Oceana unbundled from Tiger Brands – 26 April 2019.*

D Broad-Based Black Economic Empowerment (B-BBEE) transaction

Securities holders of AdBEE (RF) Limited (AdBEE) were notified on 31 May 2019 that AdBEE would not initiate the process of extending the Adcock Ingram Broad-Based Black Empowerment Scheme (Scheme) and accordingly the Scheme came to an end on 29 July 2019. The value of a Scheme share did not exceed the maximum price (being R72.00) and therefore, on 1 August 2019, the Scheme transaction, in its entirety, was *ipso facto* cancelled *ab initio*.

Scheme participants received call options entitling the holders thereof to subscribe for Adcock Ingram shares, which had to be exercised at any time within the 30 day period prior to the transaction end date. During July 2019, 10 813 call options were exercised and 10 813 ordinary shares were issued.

The cancellation *ab initio* of the Scheme transaction had the effect that the Scheme shares held by Ad-izinyosi Proprietary Limited (Ad-izinyosi) ceased to be subject to a pledge and were returned by Ad-izinyosi to AdBEE securities holders.

An ex-gratia payment of R10.0 million was made to the Group's B-BBEE partner (Ad-izinyosi) consequent to the unwinding of the B-BBEE scheme in July 2019.

Subsequently Ad-izinyosi made a payment to its shareholders, as it ceased trading. The Mpho EA Bophelo Trust received R6 124 301, of which R6 081 022 was paid to the Trust beneficiaries.

Annexure C – Defined contribution and defined benefit plan

Defined contribution plan

The Company and its subsidiaries contribute to a defined contribution plan for all employees in South Africa.

These contributions are expensed.

Contributions to the defined contribution plan expected in the following year are R125.3 million (2020: R119.6 million).

Defined benefit plan

In addition, the Company and its subsidiaries contributed to a retirement benefit fund in respect of certain retirees. The assets of the funds are held in independent trustee administered funds, administered in terms of the Pension Funds Act No 24 of 1956, as amended. Funds must, in terms of the Pension Fund Act, be valued at least every three years. The latest full actuarial valuation was performed on 30 September 2019.

For purposes of production of these disclosures, and in order to comply with the requirements of IAS 19, valuations have been performed by independent actuaries, using the Projected Credit Unit method. Where valuations were not possible due to the limited availability of complete data, roll forward projections of prior completed actuarial valuations were used, taking account of actual subsequent experience. The timing of benefit payments are uncertain.

The disclosure of the funded status is for accounting purposes only, and does not necessarily indicate any assets available to the Group.

	2020 R'000	2019 R'000
Net benefit expense		
Interest cost on defined benefit obligation	**121**	137
Interest income on assets	**(249)**	(172)
Effect of paragraph 64	**128**	35
Net benefit expense	**–**	–
Benefit liability		
Defined benefit obligation	**(1 371)**	(1 320)
Fair value of plan assets	**7 825**	2 692
	6 454	1 372
Unrecognised due to Paragraph 64 limit	**(6 454)**	(1 372)
	–	–
Changes in the present value of the defined benefit obligation are as follows:		
Defined benefit obligation at 1 July	**(1 320)**	(1 550)
Interest cost	**(121)**	(137)
Benefits paid	**47**	51
Actuarial gain on obligation	**23**	316
Defined benefit obligation at 30 June	**(1 371)**	(1 320)

	2020 R'000	2019 R'000
Changes in the fair value of the defined benefit plan assets are as follows:		
Fair value of plan assets at 1 July	**2 692**	1 936
Return	**249**	172
Benefits paid	**(47)**	(51)
Actuarial gain	**4 931**	635
Fair value of plan assets at 30 June	**7 825**	2 692
Asset coverage over liabilities (times)	**5.7**	2.0
Assumptions	**%**	%
The assumptions used in the valuations are as follows:		
Discount rate	**9.50**	9.30
Future pension increases	**4.80**	5.60
Estimated asset composition:		
Cash	**70.80**	72.10
Bonds	**29.20**	27.90

Sensitivity analysis	**Valuation R'000**	**+1% R'000**	**-1% R'000**
The liability was recalculated to show the effect of:			
2020			
A one percentage point variance in the discount rate assumption	**(1 371)**	**(1 328)**	**(1 420)**
A one percentage point variance in the pension increase rate	**(1 371)**	**(1 425)**	**(1 324)**
2019			
A one percentage point variance in the discount rate assumption	(1 320)	(1 268)	(1 378)
A one percentage point variance in the pension increase rate	(1 320)	(1 383)	(1 264)

Annexure D – Post-retirement medical liability

The Company and its subsidiaries operate a post-employment medical benefit scheme that covers certain retirees and one employee still in service. The liability is valued annually using the Projected Unit Credit method prescribed by IAS 19. The latest full actuarial valuation was performed on 30 June 2020.

The following table summarises the components of the net benefit expense recognised in the statement of comprehensive income, the funded status and amounts recognised in the statement of financial position.

	2020 R'000	2019 R'000
Net benefit expense		
Current service cost	**36**	36
Interest cost on benefit obligation	**1 452**	1 480
	1 488	1 516
Expected contributions within the next 12 months	**38**	38
Defined benefit obligation at 1 July	**(15 637)**	(16 340)
Interest cost	**(1 452)**	(1 480)
Current service cost	**(36)**	(36)
Benefits paid	**1 409**	1 277
Actuarial gains on obligation	**864**	942
Defined benefit obligation at 30 June	**(14 852)**	(15 637)
Assumptions		
The assumptions used in the valuations are as follows:		
Discount rate (%)	**9.5**	9.7
Healthcare cost inflation (%)	**6.8**	7.8
Expected retirement age	**63.0**	63.0
Post-retirement mortality table	**PA(90) ultimate table**	PA(90) ultimate table

Sensitivity analysis	**Value R'000**	**+1%/year R'000**	**-1%/year R'000**
The liability was recalculated to show the effect of:			
2020			
A one percentage point variance in the assumed rate of healthcare costs inflation	**(14 852)**	**(16 814)**	**(13 693)**
A one percentage point variance in the discount rate	**(14 852)**	**(13 734)**	**(16 156)**
A one year variance in the expected retirement age	**(14 852)**	**(14 764)**	**(15 029)**
2019			
A one percentage point variance in the assumed rate of healthcare costs inflation	(15 637)	(17 279)	(14 247)
A one percentage point variance in the discount rate	(15 637)	(14 285)	(17 259)
A one year variance in the expected retirement age	(15 637)	(15 560)	(15 719)

Annexure E – Financial instruments

Fair value hierarchy

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

Financial instruments	Classification per IFRS 9	Statement of financial position line item	Year end balance 2020 R'000	Year end balance 2019 R'000	Net (gains) and losses 2020 R'000	Net (gains) and losses 2019 R'000
At fair-value level 2[(1)]						
Foreign exchange contracts – derivative asset	Hedging derivative	Trade and other receivables	**12 410**	–	**(55 851)**	(5 026)
Foreign exchange contracts – derivative liability	Hedging derivative	Trade and other payables	**471**	16 799	**–**	–
At fair-value level 3[(2)]						
Black Managers Share Trust	Fair value through profit and loss	Other financial assets	**24 866**	27 978	**Refer to note 15.1**	Refer to note 15.1
Investment	Fair value through OCI	Other financial assets	**1 704**	1 649	**Refer to note 15.2**	Refer to note 15.2
At amortised cost						
Trade and sundry receivables[(3)]	At amortised cost	Trade and other receivables	**1 519 264**	1 679 475	**–**	–
Trade and other payables[(3)]	At amortised cost	Trade and other payables	**1 997 320**	1 605 575	**–**	–
Cash and cash equivalents[(3)]	At amortised cost	Cash and cash equivalents	**316 825**	448 252	**–**	–

Valuation techniques

(1) *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.*

(2) *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. The value of the investment in the Black Managers Share Trust is based on the expected capital contribution to be received from the scheme beneficiaries.*

(3) *The carrying value approximates fair value due to the short-term nature.*

Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations.

The Group has various financial assets such as trade and other receivables and cash which arise directly from its operations.

The Group also enters into derivative transactions via forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations.

It is, and has been throughout 2020, the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are credit, market risk (including interest rate and foreign currency), and liquidity. The Board of directors reviews and agrees policies for managing each of these risks which are summarised below:

Credit risk

Financial assets of the Group which are subject to credit risk consist mainly of cash resources, loans receivables, long-term receivables at fair value through profit or loss and trade receivables. The maximum exposure to credit risk is set out in the respective cash, loans receivable and accounts receivable notes. The Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Cash resources in South Africa, which represents 94% of total cash, are placed with various approved major financial institutions that all have a Baaa3 credit rating. The Group limits its exposure to any one institution by not placing more than R500 million at any one institution.

Cash and cash resources are also subject to impairment requirements of IFRS 9 and the expected credit loss is immaterial.

The Group trades only with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Individual credit limits are defined in accordance with an independent assessment. In addition, 65% (2019: 69%) of all debtors balances are covered by credit insurance (90% covered), decreasing the risk of loss due to non-payment. The uncovered portion is considered in the expected credit loss allowance. Receivable balances are monitored on an on-going basis with the result that the Group's historical exposure to credit losses is not significant. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the Corporate office.

Substantially all debtors are non-interest bearing and repayable within 30 to 90 days.

Debtors are disclosed net of an expected credit loss allowance.

An analysis is performed at each reporting date using a provision matrix to measure expected credit losses for trade receivables. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 19 and Note 15.

Apart from the South African Government, which comprises 18.0% (2019: 13.7%) or R251.1 million (2019: R220.0 million) of trade receivables, there are no significant concentrations of credit risk within the Group arising from the financial assets of the Group.

Long-term receivables, sundry receivables and intercompany receivables (stand-alone entities) are assessed for impairment when indications of non-payment or other specific risk have been identified. These amounts are considered low risk, as they have a strong capacity to meet their contractual cash flows in the near term.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and foreign currency risk. Financial instruments affected by market risk include loans and borrowings, deposits, debt and equity investments and derivative financial instruments.

Interest rate risk

The Group is exposed to interest rate risk as the following assets and liabilities carry interest at rates that vary in response to the lending rates in the operations in the specific country:

- Cash balances which are subject to movements in the bank deposit rates; and
- Short-term debt obligations with floating interest rates linked to the Johannesburg Interbank Agreed Rate and the South African prime rate.

The Group's policy is to manage its interest rate risk through both fixed and variable, long-term and short-term instruments at various approved financial institutions.

No financial instruments are entered into to mitigate the risk of interest rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on balances subject to floating rates) in its continuing and discontinued operations:

		Increase in profit before tax	
	Change in rate %	**2020 R'000**	2019 R'000
Cash balances			
Cash and cash equivalents	+1	**3 168**	4 483
Bank overdraft	+1	**–**	–

Foreign currency risk

As the Group operates in various countries and undertakes transactions denominated in foreign currencies, exposures to foreign currency fluctuations arise. Exchange rate exposures on transactions are managed within approved policy parameters utilising forward exchange contracts in conjunction with external consultants who provide financial services to Group companies as well as contributing to the management of the financial risks relating to the Group's operations.

Foreign operations

In translating the foreign operations, the following exchange rates were used:

	2020 Income/ expenses Average Rand	**2020 Assets/ liabilities Spot Rand**	2019 Income/ expenses Average Rand	2019 Assets/ liabilities Spot Rand
Indian Rupee	**0.2160**	**0.2294**	0.2014	0.2043
Kenyan Shilling	**0.1499**	**0.1626**	0.1399	0.1376

Foreign assets/liabilities

In converting the foreign denominated assets and liabilities, the following exchange rates were used:

			Exchange rate applied	
	Assets FC'000	**Liabilities FC'000**	**Assets Rand**	**Liabilities Rand**
2020				
Euro	**–**	**(5 710)**	**19.45**	**19.47**
US Dollar	**447**	**(7 653)**	**17.32**	**17.33**
2019				
Euro	54	(3 940)	16.00	16.02
US Dollar	1 457	(8 112)	14.07	14.09

The following table demonstrates the sensitivity to change in foreign currencies, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of open forward exchange contracts and net investment hedges):

	Change foreign currency exchange rate %	(Decrease)/ increase in profit before tax R'000	Increase/ (decrease) in other comprehensive income R'000
2020			
Euro			
	+10	**(11 113)**	**28 498**
	-10	**11 113**	**(28 498)**
US dollar			
	+10	**(12 486)**	**42 100**
	-10	**12 486**	**(42 100)**
2019			
Euro			
	+10	(6 220)	21 496
	-10	6 220	(21 496)
US dollar			
	+10	(9 371)	22 333
	-10	9 371	(22 333)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations as they become due.

The Group manages its risk to a shortage of funds using planning mechanisms. This considers the maturity of both its financial liabilities and financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. The facilities in place in South Africa are approximately R1 billion for working capital purposes.

Maturity analysis:

For the maturity analysis of trade and other receivables – refer to Note 19

For the maturity analysis of trade and other payables – refer to Note 26

Balances are due within 12 months and as such the impact of discounting is not significant.

The maturity of the IFRS 16 Lease payables (undiscounted):

Repayments in next year (short-term)	R56.2 million
Repayments thereafter	R433.5 million

Collateral pledged

The Group has provided guarantees to various regulatory authorities to the amount of R2.6 million at 30 June 2020 (2019: R3.1 million).

Hedging strategy

The Group imports inventory and equipment from foreign suppliers, resulting to the exposure to the risk in exchange rate movement.

The Group's current policy for the management of foreign exchange is to cover 100% of foreign currency commitments with forward exchange contracts when a firm commitment for any order is in place. As a result, all material highly probable foreign forecast purchase were covered by forward exchange contracts (FEC) at year-end. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy to fix the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness. The Group designates the full change in fair value of the forward contract (including forward points) as the hedging instrument. 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.

If a hedged forecast transaction subsequently results in the recognition of a non-financial item or becomes a firm commitment for which fair value hedge accounting is applied, the amount that has been accumulated in the cash flow hedge reserve is removed and included directly in the initial cost or other carrying amount of the asset or the liability. In other cases the amount that has been accumulated in the cash flow hedge reserve is reclassified to profit or loss in the same period(s) as the hedged cash flows affect profit or loss.

At 30 June 2020, the Group held no foreign exchange contracts designated as hedges of expected future sales to customers outside South Africa for which the Group has firm commitments.

The Group had foreign exchange contracts outstanding at 30 June 2020 designated as hedges of expected future purchases from suppliers outside South Africa for which the Group has firm commitments. All foreign exchange contracts will mature within 12 months. The cash flow hedges of expected future purchases were assessed to be effective.

The effective portion of the gains and losses on the hedging instruments that is included in the initial cost of inventory and subsequently part of cost of sales was a profit of R55.9 million (2019: R5.0 million). The ineffective portion that was taken to fixed operating cost was a profit of R2.5 million (2019: R2.5 million). Ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated.

A summary of the material contracts, comprising at least 99% of the total contracts outstanding at:

	Foreign currency '000	Average forward rate	R'000
2020			
Euro	**20 217**	**18,77**	**379 566**
US Dollar	**33 560**	**17,55**	**588 936**
2019			
Euro	18 376	16,68	306 596
US Dollar	21 919	14,53	318 483

The maturity analysis for the material outstanding contracts at:

	Euro '000	Rands '000	US Dollar '000	Rands '000
2020				
Within 30 days	**8 661**	**163 609**	**11 735**	**207 715**
31 to 60 days	**5 059**	**95 832**	**10 623**	**185 056**
61 to 90 days	**2 266**	**40 845**	**4 846**	**83 993**
> 90 days	**4 231**	**79 280**	**6 356**	**112 172**
	20 217	**379 566**	**33 560**	**588 936**
2019				
Within 30 days	3 397	56 203	8 465	122 260
31 to 60 days	6 061	100 017	9 142	132 791
61 to 90 days	1 753	29 231	2 861	41 797
> 90 days	7 165	121 145	1 451	21 635
	18 376	306 596	21 919	318 483

A summary of the material contracts settled during the year:

	Foreign currency '000	Average forward rate	R'000
2020			
Euro	**49 973**	**16.91**	**845 107**
US Dollar	**70 723**	**15.07**	**1 065 525**
2019			
Euro	39 208	16.29	638 803
US Dollar	64 784	14.00	906 825

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios, in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group's capital structure consists of equity attributable to shareholders, comprising of issued capital, treasury shares, non-distributable reserves and retained earnings. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors its capital using gearing and interest cover ratios. The primary methods of measurement used are interest-bearing debt to total equity and interest cover.

Annexure F – Interest in joint ventures

The Group has a 49.9% share in Adcock Ingram Limited (India) and a 50% share in National Renal Care Proprietary Limited. The Group's interest in these entities is accounted for in the consolidated financial statements using the equity method. Summarised financial information of the Group's joint ventures, excluding Thembalami which is dormant, are based on IFRS and the reconciliation with the carrying amount of the investments in the Group are set out below:

	2020 R'000	2019 R'000
1. Adcock Ingram Limited (India)		
Statement of financial position		
Property, plant and equipment	**233 568**	195 218
Non-current assets	**233 568**	195 218
Inventories	**88 480**	110 356
Trade and other receivables	**258 228**	208 634
Cash and cash equivalents	**313 533**	136 818
Current assets	**660 241**	455 808
Total assets	**893 809**	651 026
Post-retirement medical liability	**7 752**	5 925
Deferred tax	**13 971**	19 051
Non-current liabilities	**21 723**	24 976
Trade and other payables	**104 361**	55 761
Short-term borrowings	**–**	498
Provisions	**1 714**	1 526
Taxation payable	**51 037**	17 660
Current liabilities	**157 112**	75 445
Total liabilities	**178 835**	100 421
Equity	**714 974**	550 605
Proportion of Group's ownership	**49.9%**	49.9%
Carrying amount of the investment	**356 772**	274 752

	2020 R'000	2019 R'000
1. Adcock Ingram Limited (India) (continued)		
Statement of comprehensive income		
Revenue from contracts with customers	**730 766**	520 764
Cost of sales	**(587 505)**	(383 314)
Gross profit	**143 261**	137 450
Selling, distribution and marketing expenses	**(110)**	(76)
Fixed and administrative income	**43 033**	26 816
Operating profit	**186 184**	164 190
Finance income	**12 192**	327
Finance costs	**(6 618)**	(325)
Dividend income	**–**	8 270
Profit before taxation	**191 758**	172 462
Taxation	**(67 806)**	(58 585)
Profit for the year	**123 952**	113 877
Group's share of profit for the year	**61 852**	56 825
Unearned income on inventory	**(1 284)**	(1 233)
Group's share of profit for the year	**60 568**	55 592
Dividends paid to Group	**15 649**	38 089

2. National Renal Care Proprietary Limited

Statement of financial position

	2020 R'000	2019 R'000
Property, plant and equipment	**195 444**	199 964
Intangible assets	**106 040**	106 040
Right-of-use asset	**79 181**	–
Loans receivable	**6 674**	35 336
Deferred tax	**25 225**	27 815
Non-current assets	**412 564**	369 155
Inventories	**24 689**	21 728
Trade and other receivables	**108 477**	113 194
Cash and cash equivalents	**131 134**	207 174
Current assets	**264 300**	342 096
Total assets	**676 864**	711 251
Long-term borrowings	**55 283**	–
Non-current liabilities	**55 283**	–
Trade and other payables	**134 708**	121 504
Short-term borrowings	**35 889**	–
Provisions	**20 031**	17 853
Taxation payable	**10 736**	14 941
Current liabilities	**201 364**	154 298
Total liabilities	**256 647**	154 298
Non-controlling interests	**43 405**	93 985
Equity	**376 812**	462 968
Proportion of Group's ownership	**50.0%**	50.0%
Carrying amount of the investment	**188 406**	231 484

	2020 R'000	2019 R'000
2. National Renal Care Proprietary Limited (continued)		
Statement of comprehensive income		
Revenue from contracts with customers	**1 154 287**	1 105 903
Cost of sales	**(865 936)**	(830 302)
Gross profit	**288 351**	275 601
Selling, distribution and marketing expenses	**(151 823)**	(152 220)
Fixed and administrative expenses	**(10 871)**	(9 031)
Trading profit	**125 657**	114 350
Non-trading expenses (impairment of loans receivable)	**–**	(2 605)
Operating profit	**125 657**	111 745
Finance income	**10 730**	15 026
Profit before taxation	**136 387**	126 771
Taxation	**(47 884)**	(47 274)
Profit for the year	**88 503**	79 497
Less:		
Non-controlling interests	**(14 662)**	(4 521)
Profit attributable to owners of the parent	**73 841**	74 976
Group's share of profit for the year	**36 921**	37 488
Dividends paid to Group	**80 000**	–

Annexure G – Impairments

				2020 R'000	2019 R'000
1.	**Trademarks and brands**				
	Reportable segment	**Brand**	**Reason**		
1.1.	**Southern Africa**				
	OTC	Vita-Thion	The outlook on brand revenue has declined due to increase in competitor activity.	**7 500**	
	Prescription	Prelone	The outlook on revenue and profitability has declined, resulting in an impairment thereof.	**3 149**	
	Consumer	Derma Hydrate	The outlook on revenue and profitability has declined, resulting in an impairment thereof.	**2 700**	
	OTC	Complenatal	A decision was taken not to commercialise the brand, as no future economic benefits are expected.	**350**	
	OTC	Totonik	A decision was taken not to commercialise the brand, as no future economic benefits are expected.	**150**	
1.2.	**Rest of Africa**				
	Kenya	Dawanol	The outlook on revenue and profitability has declined, resulting in an impairment thereof.	**2 347**	
				16 196	
2.	**Goodwill**				
	Reportable segment	**Reason**			
2.1.	**Southern Africa**				
	Other – shared services	Goodwill relating to Virtual Logistics Proprietary Limited was impaired in the previous reporting period as the recoverable amount was lower than the carrying value and operations ceased in that business in the current financial year.			5 595
3.	**Investment in associate**				
	Reportable segment	**Reason**			
3.1.	**Rest of Africa**				
	Ayrton Drug Manufacturing Limited (Ghana)	The investment in the Ghana business was impaired in the prior reporting period as the recoverable amount was lower than the carrying value. The investment was then also disposed of in the prior reporting period.			2 973
	Total			**16 196**	8 568

Annexure H – Interest in subsidiary companies and joint ventures

Subsidiaries	Shareholding 2020 %	2019 %
Adcock Ingram Critical Care Proprietary Limited	**100**	100
Adcock Ingram Healthcare Proprietary Limited	**100**	100
Adcock Ingram Intellectual Property Proprietary Limited	**100**	100
Adcock Ingram International Proprietary Limited	**100**	100
Adcock Ingram Limited	**100**	100
Tender Loving Care – Hygienic, Cosmetic and Baby Products Proprietary Limited	*	100
Joint ventures		
Adcock Ingram Limited (India)	**49.9**	49.9
Thembalami Pharmaceuticals Proprietary Limited[1]	**50**	50
Indirect holdings		
Adcock Ingram East Africa Limited (Kenya)	**100**	100
Adcock Ingram Intellectual Property No 1 Proprietary Limited[1]	**100**	100
Adcock Ingram Pharmaceuticals Proprietary Limited[1]	**100**	100
Addclin Research Proprietary Limited	*	100
Dilwed Investments Proprietary Limited	**100**	100
Genop Holdings Proprietary Limited	**100**	100
Genop Healthcare Proprietary Limited	**100**	100
Lulu and Marula Proprietary Limited	**100**	-
Menarini SA Proprietary Limited[2]	**49**	49
Metamorphosa Proprietary Limited[1]	**50**	50
National Renal Care Proprietary Limited	**50**	50
Novartis Ophthalmics Proprietary Limited[2]	**49**	49
Plush Professional Leather Care Proprietary Limited	**100**	–
Premier Pharmaceutical Company Proprietary Limited[1]	**100**	100
Relicare Tech Services Private Limited (India)	**100**	100
Virtual Logistics Proprietary Limited	**100**	100

Trusts and structured entities

Adcock Ingram Holdings Limited Employee Share Trust (2008)
Mpho ea Bophelo Trust
AdBEE (RF) Limited*[3]
Ad-Izinyosi (RF) Proprietary Limited*[3]
Owner-driver companies (2019: 39 companies)[4]

* *Deregistered.*
(1) *Dormant.*
(2) *Regarded as subsidiaries and consolidated.*
(3) *Entities to be deregistered following the cancellation of the B-BBEE transaction.*
(4) *Loss of control effective 1 March 2020, no longer managed by Adcock Ingram.*

Annexure I – Accounting policies

The principal accounting policies applied in the preparation and presentation of the annual financial statements of the Group and Company, unless otherwise mentioned, are set out below:

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries, joint ventures and structured entities deemed to be controlled by the Group.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement in the entity and has the ability to affect those returns through its power over the investee.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary.

The financial results of the subsidiaries, including those with a different reporting period, are prepared for the same reporting period as the Group, using consistent accounting policies.

Investments in subsidiaries in the Company's financial statements are accounted for at cost less any impairment.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to the parent. These interests are presented separately in the consolidated statement of comprehensive income, and in the consolidated statement of financial position, separately from own shareholders' equity.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to any relevant non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss, or retained earnings, as appropriate.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period, income and expenses from discontinued operations are reported separately from the income and expenses from continuing activities, down to the level of profit after taxes, even when the parent retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in profit or loss and other comprehensive income.

Underlying concepts

The financial statements are prepared on the going concern basis, which assumes that the Group will continue in operation for the foreseeable future.

The financial statements are prepared using the accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur, rather than when the cash is received or paid.

Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard. Financial assets and financial liabilities are only offset when there is a legally enforceable right to offset, and the intention is either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements.

Changes in accounting policies are accounted for in accordance with the transitional provisions in the standard. If no such guidance is given, they are applied retrospectively. If after making every reasonable effort to do so, it is impracticable to apply the change retrospectively, it is applied prospectively from the beginning of the earliest period practicable.

Foreign currencies

The consolidated financial statements are presented in South African Rands (Rands), which is the Group's presentational currency and the Company's functional currency.

Each foreign entity in the Group determines its own functional currency.

Foreign currency transactions

Transactions in foreign currencies are recorded at the rates of exchange ruling at the transaction date.

Foreign currency balances

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. Exchange differences are taken to profit or loss.

If non-monetary items measured in a foreign currency are carried at historical cost, the exchange rate used is the rate applicable at the initial transaction date. If they are carried at fair value, the rate used is the rate at the date when the fair value was determined.

The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Foreign operations

At the reporting date, the assets and liabilities of the foreign operations are translated into the presentation currency of the Group (Rands) at the exchange rate ruling at the reporting date. Items of profit or loss are translated at the weighted average exchange rate for the year. Exchange differences are taken directly to a separate component of other comprehensive income: "Exchange differences on translation of foreign operations". On disposal of a foreign operation, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Goodwill and fair value adjustments relating to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of that foreign operation, and are translated at the closing rate.

The functional currencies of the foreign operations are as follows:

- joint venture, Adcock Ingram Limited in India, the Indian Rupee;
- subsidiary, Relicare Tech Services Private Limited in India, the Indian Rupee; and
- subsidiary, Adcock Ingram East Africa Limited in Kenya, the Kenyan Shilling.

Interest in group companies

Business combinations

Business combinations are accounted for using the acquisition method.

For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in non-trading expenses.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the acquirer's share of the acquiree's identifiable net assets is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. In instances where the contingent consideration does not fall within the scope of IFRS 9, it is measured in accordance with the appropriate IFRS.

Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IFRS 9 either in profit or loss or as a charge to other comprehensive income, as appropriate. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Equity-accounted investments

The equity-accounted investments are the Group's investments in joint ventures.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement. The Group has the following joint ventures:

- Adcock Ingram Holdings Limited has a 49.9% interest in Adcock Ingram Limited, a company incorporated in India, which is involved in the manufacturing of pharmaceutical products; and
- Adcock Ingram Critical Care Proprietary Limited has a 50% indirect interest in National Renal Care Proprietary Limited, a company incorporated in South Africa, which provides renal healthcare services.

Under the equity method, investments are carried in the statement of financial position at cost, plus post-acquisition changes in the Group's share of the profit or loss of these investments. Goodwill relating to equity-accounted investments is included in the carrying amount of the investment and is not tested separately for impairment.

Joint ventures are accounted for from the date that joint control is obtained, to the date that the Group ceases to have joint control.

The statement of comprehensive income reflects the Group's share of these investments' profit or loss. However, losses in excess of the Group's interest are not recognised. Additional losses are provided for and a liability is recognised, only to the extent that a legal or constructive obligation exists. Where a joint venture recognises an entry directly in other comprehensive income, the Group in turn recognises its share as other comprehensive income in the consolidated statement of comprehensive income. Profits and losses resulting from transactions between the Group and equity-accounted investments are eliminated to the extent of the interest in the underlying investment.

After application of the equity method, each investment is assessed for indicators of impairment. If applicable, the impairment is calculated as the difference between the carrying value and the higher of its value-in-use or fair value less costs to dispose. Impairment losses are recognised in profit or loss, as part of non-trading expenses.

In the Company financial statements, joint ventures initially accounted for at cost when joint control is obtained and subsequently at cost less accumulated impairment losses.

Upon loss of the joint control over the joint venture, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Where an equity accounted investment's reporting date differs from the Group's, the joint venture prepares financial results for the same financial period as the Group. Where the equity accounted investment's accounting policies differ from those of the Group, appropriate adjustments are made to conform to the accounting policies of the Group.

The year-end of the joint venture, Adcock Ingram Limited (India) is March, whilst the year-end of National Renal Care Proprietary Limited is September.

Property, plant and equipment

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate assets. Expenditure incurred on major inspection and overhaul, or to replace an item is also accounted for separately if the recognition criteria are met. All other repairs and maintenance expenditures are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis, on the difference between the cost and residual value of an asset, over its useful life. Depreciation starts when the asset is available for use. An asset's residual value, useful life and depreciation method are reviewed at least at each financial year-end.

Any adjustments to residual value, useful life or depreciation method applied, are changes in the accounting estimate and accounted for prospectively.

The following useful lives have been estimated:

Freehold land	Not depreciated
Freehold buildings – general purpose	40 years
– specialised	20 – 50 years
Leasehold improvements	The shorter of the lease term or the useful life
Plant, equipment and vehicles	3 – 15 years
Furniture and fittings	3 – 15 years
Computer equipment	3 years

Assets in the course of construction are carried at cost, including professional fees, less any impairment loss. When these assets are ready for its intended use, it is transferred into the appropriate category at which point depreciation commences on the same basis as on other property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Right-of-use assets

The Group-leases various property for warehousing and offices and vehicles and equipment and has the right to use these assets over a contracted lease term.

These "right-of use" assets are initially measured at a value equal to the lease liability and are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term.

If the lease agreement contains an option to purchase the asset and the Group is reasonably certain that it would exercise the purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Goodwill and intangible assets

Goodwill

Goodwill is initially measured at cost, being the excess of the consideration transferred, the amount of any non-controlling interest and in a business combination achieved in stages, the acquisition date fair value of any previously held equity interest in the acquiree, over the fair value of the acquiree's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. Goodwill relating to subsidiaries is recognised as an asset and is subsequently measured at cost less accumulated impairment losses.

A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is the fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, are not capitalised and expenditure is charged to profit or loss in the year in which the expense is incurred.

The useful lives of intangible assets are either finite or indefinite.

Intangible assets with finite lives are amortised over their useful life using the straight line method and assessed for impairment when there is an indication that the asset may be impaired due to a change in circumstances. The amortisation period and the amortisation method are reviewed at each year-end.

The following useful lives have been estimated:

Trademarks and Brands	15 years or indefinite
Licence-related intangibles	1 – 15 years

Amortisation is recognised in profit or loss in fixed and administrative expenses. Intangible assets with indefinite useful lives are not amortised but are tested bi-annually for impairment or more frequently when there is an indicator of impairment and the useful lives are also reviewed bi-annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment to a finite life is accounted for prospectively.

Certain trademarks, brands and licence agreements have been assessed to have indefinite useful lives, as presently there is no foreseeable limit to the period over which the assets can be expected to generate cash flows for the Group.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Research costs

Research costs, being costs from the investigation undertaken with the prospect of gaining new knowledge and understanding, are recognised in profit or loss as they are incurred.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If such an indication exists, or when impairment testing is required, as is the case with goodwill and intangible assets with indefinite useful lives, the Group estimates the recoverable amount. An asset's recoverable amount is the higher of the fair value less costs of disposal and its value in use. The recoverable amount is determined for individual assets, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying value exceeds the recoverable amount, the asset is considered impaired and is written down to the recoverable amount.

The recoverable amount of the indefinite life intangible assets is based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a 10-year period when management believes that products have a value-in-use of 10 years or more and that these projections, based on past experience, are reliable.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation for goodwill and indefinite life intangible assets on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGU's to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of 10 years. Ten years are used in instances where the Group believes that assets have a value in use of ten or more years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the 10th year.

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment:

- annually at the reporting date; and
- when circumstances indicate that the carrying value may be impaired.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment:

- bi-annually as at 31 December and 30 June; and
- when circumstances indicate that the carrying value may be impaired on an individual basis or at the CGU level.

Impairment losses relating to goodwill and intangible assets cannot be reversed in future periods.

Financial assets

Initial recognition and measurement

The Group's financial assets are classified and measured at initial recognition, based on the financial asset's contractual cash flow characteristics and the Group's business model for managing the financial assets, as follows:

Classification	Description of asset
Amortised cost	Trade and sundry receivables Cash and cash equivalents
Fair value through OCI	Investment Foreign exchange contracts (derivative asset)
Fair value through profit and loss	Black Managers Share Trust

Trade receivables do not contain a financing component.

Cash and cash equivalents consist of cash on hand and at banks, and short-term deposits with an original maturity of three months or less.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as detailed above, net of outstanding bank overdrafts.

All other financial assets should be measured at its fair value, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in three categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and

These financial assets are subsequently measured using the effective interest (EI) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to irrevocably classify its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss.

Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI.

Equity instruments designated at fair value through OCI are not subject to impairment assessment. The Group elected to irrevocably classify its non-listed equity investments under this category.

Financial assets at fair value through profit or loss (debt instruments)

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near-term.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

Financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised or removed from the Group's consolidated statement of financial position when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  a. the Group has transferred substantially all the risks and rewards of the asset; or
  b. the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group considers a financial asset in default when contractual payments are past due for more than a year and not subject to any enforcement activity. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full, before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments due.

For trade receivables, the Group applies a simplified approach in calculating expected credit losses. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime expected credit losses at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking economic factors. The expected loss rates are based on the payment profiles of sales over a period of five years before the reporting date and the corresponding historical credit losses experienced within this period and incorporating forward-looking information of liquidity and similar risks expected to be impacting our customers.

Long-term receivables, sundry receivables and intercompany receivables (Stand-alone entities) are assessed for impairment when indications of non-payment or other specific risk have been identified.

Financial liabilities

Initial recognition and measurement

The Group's financial liabilities are classified, at initial recognition, as financial liabilities at amortised cost or fair value through profit or loss, as follows:

Classification	Description of asset
Amortised cost	Trade and other payables Loans and borrowings Bank overdraft
Fair value through OCI	Foreign exchange contracts (derivative liability)

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

All financial liabilities are subsequently measured at amortised cost except for financial liabilities at fair value through profit or loss that are held for trading and those designated at initial recognition as at fair value through profit or loss.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest (EI) rate method. The EI amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings and trade and other payables.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

To measure fair value, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments measured at fair value by valuation technique:

- **Level 1** – quoted (unadjusted) prices in active markets;
- **Level 2** – other valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- **Level 3** – valuation techniques which use inputs which have a significant effect on the recorded fair value that are based on unobservable market data.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics, risks and the fair value hierarchy.

Derivative financial instruments and hedge accounting

Derivatives are financial instruments whose value changes in response to an underlying factor, require no initial or little net investment and are settled at a future date. Derivatives, other than those arising on designated hedges, are measured at fair value with changes in fair value being recognised in profit or loss.

Hedge accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge in terms of IFRS 9. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

Cash flow hedges cover the exposure to variability in cash flows that are attributable to a particular risk associated with:

- a recognised asset or liability; or
- a highly probable forecast transaction; or
- the foreign currency risk in an unrecognised firm commitment.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income, while any ineffective portion is recognised in profit or loss.

Amounts taken to other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged income or financial asset or liability is recognised or when the forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amount deferred in other comprehensive income is transferred to the initial carrying amount of the non-financial asset or liability.

When a hedging instrument expires, or is sold or terminated, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on a first-in, first-out basis
Finished goods and work in progress	Cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

Consumables are written down with regard to their age, condition and utility.

Costs of inventories include the transfer from other comprehensive income of gains and losses on qualifying cash flow hedges in respect of the purchases of inventories.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated completion and selling costs.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the expected reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The charge relating to any provision is presented in profit or loss net of any reimbursement.

Leases

The obligation to make lease payments in terms of a contract over a certain period of time, is recognised as a liability at the date at which the leased asset is available for use by the Group. Should a lease contract contain extension options, which are reasonably certain on the extension based on managements expected future use of the asset, payments for the extension period should also be included in the measurement of the liability.

The liability arising from a lease are initially measured as the present value of the remaining lease payments (which are fixed contractual payments with annual escalation), discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain a similar asset in a similar economic environment with similar terms, security and conditions.

Lease liabilities are disclosed as part of borrowings (refer to note 12.2).

After initial recognition, the lease liability is recorded at amortised cost using the effective interest method. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Group also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low values. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases, by recording those lease payments in profit or loss.

Comparatives : IAS 17 was applicable to the comparative year for the treatment of leases.

Revenue from contracts with customers

Revenue is derived from the supply of speciality, branded and generic pharmaceutical products, hospital products, and fast moving consumer goods, which is measured based on the consideration specified in a contract with a customer and excludes amounts to be collected on behalf of third parties such as Value Added Tax. The Group recognises revenue when it transfers control over a product to a customer. Variable consideration, in the form of rebates, discounts and fees is estimated at the most likely amount payable in terms of contracts with customers and netted off revenue at the time of recognition of the related sale.

The Group recognises revenue, net of sales taxes, at the time it sells inventory to the customer, which is generally when delivery has taken place. Most revenue is recognised at a point in time and determined by the relevant shipping terms associated with the transaction.

The Group disaggregates revenue based on the following type of customer markets:

- Public sector (governmental), when sales are normally based on tender prices;
- Private sector, when sales are subject to SEP, non-SEP or formulary prices; and
- Export (foreign) sales.

Non-trading expenses

A non-trading expense is incurred from activities unrelated to core operations, that key management have no direct control over or is of a non-recurring nature.

Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

Finance income

Finance income is accrued on a time basis recognising the effective rate applicable on the underlying assets.

Borrowing costs

All borrowing costs are expensed in the period they occur, as none of the borrowing costs were directly attributable to the acquisition, construction or production of an asset which qualify for capitalisation. Borrowing costs consist of interest and other costs like commitment fees, that an entity incurs in connection with the borrowing of funds.

Taxes

Current income tax

Current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible.

Current tax relating to items recognised outside profit or loss is recognised in other comprehensive income. Current tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The Group's liability or receivable for current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date in the countries where the Group operates.

Deferred tax

Deferred tax is provided using the liability method on all temporary differences at the reporting date. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax liabilities are recognised for taxable temporary differences, except:

- where the liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, where it is probable that the asset will be utilised in the foreseeable future, except:

- where the asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in associates and joint ventures, only to the extent that it is probable that the differences will reverse in the foreseeable future, and taxable profit will be available against which these differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Unrecognised deferred tax assets are re-assessed at each reporting date and recognised to the extent it has become probable that future taxable profit will allow the asset to be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is charged to profit or loss, except to the extent that it relates to a transaction that is recognised outside profit or loss or a business combination that results from an acquisition. In that case, the deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and they relate to income taxes levied by the same taxation authority.

On adoption of IFRS 16, the tax base for ROU assets and lease liabilities are considered separately.

Dividends tax

A dividends tax of 20% on dividend distributions is withheld from shareholders and paid to the South African Revenue Service, where applicable.

Value-added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Employee benefits

Short-term employee benefits

All short-term benefits, including leave pay, are fully provided in the period in which the related service is rendered by the employees.

A liability is recognised when an employee has rendered services for benefits to be paid in the future, and an expense when the entity utilises the economic benefit arising from the service provided by the employee.

Defined contribution plans

In respect of defined contribution plans, the contribution paid by the Group is recognised as an expense. If the employee has rendered the service, but the contribution has not yet been paid, the amount payable is recognised as a liability.

Post-retirement medical obligations

The Group provides post-retirement healthcare benefits to certain of its retirees and one employee still in service. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Valuations are based on assumptions which include employee turnover, mortality rates, a discount rate based on current bond yields of appropriate terms and healthcare inflation costs. Valuations of these obligations are carried out by independent qualified actuaries.

Actuarial gains or losses are recognised in other comprehensive income in the period it occurs.

Share-based payments

Certain employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions") or share appreciation rights ("cash-settled transactions").

Equity-settled transactions

Performance-based long-term Incentive Scheme (PBLTIS)

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted, adjusted for dividend yield, as the employees are not entitled to dividends over the vesting period.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the non-market performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognised reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge in profit or loss for a period represents the movement in the cumulative expense between the beginning and end of that period.

Service-based Incentive Scheme

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external appraiser using a modified version of the Black-Scholes model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognised reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge in profit or loss for a period represents the movement in the cumulative expense between the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding equity-settled options is reflected as additional share dilution in the computation of diluted earnings and diluted headline earnings per share.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using a modified version of the Black-Scholes model, taking into account the terms and conditions upon which the instruments were granted. Service vesting conditions are not included in the fair value but used to determine the number of instruments that will ultimately vest. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured to its fair value at each reporting date up to and including the settlement date with changes in fair value recognised in profit or loss.

Treasury shares

Shares in Adcock Ingram Holdings Limited held by the Group, including shares held by structured entities deemed to be controlled by the Group, are classified within total equity as treasury shares. Treasury shares are treated as a deduction from the issued and weighted average number of shares for earnings per share and headline earnings per share purposes and the cost price of the shares is reflected as a reduction in capital and reserves in the statement of financial position. Dividends received on treasury shares are eliminated on consolidation. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of treasury shares. The consideration paid or received with regard to treasury shares is recognised in equity.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Alternatively, it may be a present obligation that arises from past events but is not recognised because an outflow of economic benefits to settle the obligation is not probable, or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised as liabilities unless they are acquired as part of a business combination.

Recognised amounts in the financial statements are adjusted to reflect significant events arising after the date of the statement of financial position, but before the financial statements are authorised for issue, provided there is evidence of the conditions existing at the reporting date. Events after the reporting date that are indicative of conditions that arose after this date are dealt with by way of a note.

Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has made certain judgements, estimates and assumptions, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Carrying value of goodwill and intangible assets

Indefinite life intangible assets are tested for impairment bi-annually, while goodwill and finite life intangible assets are tested at least annually or when there is an indicator of impairment. The calculation of the recoverable amount requires the use of *estimates* and assumptions concerning the future cash flows which are inherently uncertain and could change over time. In addition, changes in economic factors such as discount rates could also impact this calculation. *(Refer to note 13)*.

Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. *Estimating* fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them.

Cash-settled share options granted to employees for services rendered or to be rendered are raised as a liability and recognised in profit or loss over the vesting period. The liability is remeasured to its fair value annually until settled and any changes in value are recognised in profit or loss. Fair value is *estimated* using a Black-Scholes option pricing model, as the employee share options are not traded on an active market, and the inputs used for the option pricing model require significant judgement and estimation. (Refer to Annexure B)

Inventory

To value inventory at the lower of cost and net realisable value, management is required to make certain *judgements* regarding the allowance for obsolescence, which include expectations of forecast inventory demand and plans to dispose of inventories that may be near to expiry.

Structured entities

Owner-driver companies

Various owner-driver companies existed in the Group until 29 February 2020. These entities were incorporated to support the distribution network of the Group and were consolidated into the Group in accordance IFRS 10.

Based on the contractual terms, these entities conducted their sole activities on behalf of the Group according to its specific business needs and these entities had insufficient assets to allow each entity to finance its own activities without the support of the Group.

As from 1 April 2020, these entities no longer form part of the distribution network of the Group, as the contractual terms have been transferred to RTT, resulting in the de-recognition of these entities.

Mpho ea Bophelo Trust

The Mpho ea Bophelo Trust is an entity incorporated for the purpose of representing Adcock Ingram employees in the Group's BEE transaction and is consolidated in accordance with IFRS 10. The activities of this entity are conducted in accordance with the Group's specific business needs in that the Group obtains benefits from this operation. The Group retains the majority of the residual or ownership risks and rewards related to this entity or its assets and it was therefore considered that the Group controls this entity.

Consolidation of entities in which the Group holds less than the majority of voting rights

The Group considers that it controls Menarini SA Proprietary Limited and Novartis Ophthalmics Proprietary Limited even though it owns less than 50% of the voting rights as it controls the daily management and decision-making of these entities.

STANDARDS AND INTERPRETATIONS ISSUED THAT ARE NOT YET EFFECTIVE

A number of new standards, amendments to standards and interpretations that are applicable to the Group with an effective date after the date of these financial statements, have not been applied in preparing these consolidated financial statements. The Group intends to adopt these standards when they become effective.

IAS 1 and IAS 8: Definition of Material – Amendments

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information. Material information may, for instance, be obscured if information regarding a material item, transaction or other event is scattered throughout the financial statements, or disclosed using a language that is vague or unclear. Material information can also be obscured if dissimilar items, transactions or other events are inappropriately aggregated, or conversely, if similar items are inappropriately disaggregated. This amendment is effective for the Group from 1 July 2020.

IFRS 3: Business Combinations – Amendments

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to assist entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition. This amendment is effective for the Group from 1 July 2020.

IFRS 9, IAS 39 and IFRS 7: Financial Instruments – Amendments

These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The relief relates to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. This amendment, effective from 1 July 2020, is not expected to have an impact on the Group.

The conceptual framework for financial reporting

A revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The IASB issued the Conceptual Framework in March 2018. It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows:

- Chapter 1 – The objective of financial reporting
- Chapter 2 – Qualitative characteristics of useful financial information
- Chapter 3 – Financial statements and the reporting entity
- Chapter 4 – The elements of financial statements
- Chapter 5 – Recognition and derecognition
- Chapter 6 – Measurement
- Chapter 7 – Presentation and disclosure
- Chapter 8 – Concepts of capital and capital maintenance.

The new framework is effective for the Group from 1 July 2020.

Annexure J – Remuneration implementation report

Senior management

Senior management comprises the executive committee of the Group, excluding the executive directors. As the executive directors' details are disclosed separately, these are excluded from the figures below. During the year there were changes in the composition of senior management. The details show the apportioned annual remuneration of senior management, for the period the incumbents held the position during the year.

Remuneration

	2020 R'000	2019 R'000
Salary	**23 596**	22 114
Contributions to defined contribution plan	**3 599**	3 427
Gross remuneration	**27 195**	25 541

Short-term incentives

Based on the current year's performance, senior management qualifies for short-term incentives in the amount of R4 985 333.

Full provision has been made for this amount in the current year although payment will only be effected in September 2020. An incentive of R6 860 000 was paid in September 2019, relating to the prior year's performance, which was fully provided for at 30 June 2019.

Long-term incentives

Details of share options in Adcock Ingram granted to senior management in the three different schemes are as follows:

	Offer date	Offer price R	Balance at the beginning of the year	Issued during the year	Exercised/ Forfeited during the year	Balance at the end of the year
PBLTIS[1]	**26/09/2019**	**N/A**	**–**	**238 000**	**–**	**238 000**
Equity	**17/06/2014**	**52.20**	**112 000**		**(69 000)**	**43 000**
	26/08/2015	**41.94**	**234 000**		**(87 000)**	**147 000**
	26/08/2016	**42.30**	**351 000**		**(75 000)**	**276 000**
	24/08/2017	**57.73**	**351 000**		**–**	**351 000**
	17/11/2017	**57.73**	**50 000**		**–**	**50 000**
			1 098 000		**(231 000)**	**867 000**
Phantom	**28/08/2018**	**65.46**	**495 000**	**–**	**(30 000)**	**465 000**
	08/03/2019	**64.50**	**130 000**	**–**	**–**	**130 000**
	27/08/2019	**58.39**	**–**	**275 000**	**–**	**275 000**
			625 000	**275 000**	**(30 000)**	**870 000**

(1) *Performance-based long-term incentive scheme.*

	Offer date	Offer price R	Balance at the beginning of the year	Exercised/ Forfeited during the year	Balance at the end of the year
BMT					
TBL	01/11/2005	56.30	5 000		5 000
OCE	01/11/2005	16.46	1 293		1 293
AIP	01/11/2005	16.31	6 376		6 376
TBL	01/07/2012	56.30	3 000		3 000
OCE	01/07/2012	16.46	776	(776)	–
AIP	01/07/2012	14.89	1 700		1 700
			18 145	(776)	17 369

TBL – Tiger Brands Limited
AIP – Adcock Ingram Holdings Limited
OCE – Oceana Group Limited

Details of options exercised by senior management are as follows:

	Offer date	Offer price R	Weighted average exercise price R	Number of options	Gain realised on exercising of options[1] R
2020					
Equity					
	17/06/2014	52.20	59.07	69 000	474 320
	26/08/2015	41.94	58.92	87 000	1 477 410
	26/08/2016	42.30	58.79	75 000	1 237 050
				231 000	3 188 780
BMT					
OCE	01/07/2012	17.13	60.02	776	34 835
2019					
Equity					
	17/06/2014	52.20	71.30	140 000	2 674 000
	26/08/2015	41.94	71.30	147 000	4 315 920
				287 000	6 989 920
Phantom	01/10/2012	59.56	71.30	8 890	104 369
	02/05/2013	60.55	71.30	17 617	189 382
				26 507	293 751

(1) *Amounts shown before taxation.*

The following charges were expensed in the statement of comprehensive income during the year under review, in terms of IFRS 2[2]:

	2020 R'000	2019 R'000
Total	**7 148**	6 395

(2) *The value of options granted is the annual expense in accordance with IFRS 2, and is presented for information purposes only, as it is not regarded as constituting remuneration, given that the value is neither received by nor accrued to the employee.*

Executive directors

The executive directors are currently regarded as the only prescribed officers of the Group. No fees for services as director, consulting or other fees were paid in the current or prior year and no profit-sharing agreements are in place.

Service contracts for executive directors

The Company policy is to employ each executive director under a permanent employment contract which is subject to a three-month notice period.

Shareholding

AG Hall held 21 433 shares (2019: 21 433) in the Company, consequent to the exercise of certain equity options. There has been no change in this since year-end.

Remuneration

	Salary R'000	Contributions to defined contribution plan R'000	Gross remuneration R'000	Short-term incentives R'000
2020[1]				
AG Hall	**5 010**	**350**	**5 360**	**814**
D Neethling	**3 254**	**350**	**3 604**	**442**
B Letsoalo	**2 801**	**461**	**3 262**	**411**
	11 065	**1 161**	**12 226**	**1 667**
2019				
AG Hall	5 017	350	5 367	4 450
D Neethling	3 242	350	3 592	2 261
B Letsoalo	2 813	439	3 252	1 535
	11 072	1 139	12 211	8 246

(1) *The executive directors voluntarily sacrificed 20% of their gross remuneration for the period April to June 2020, for the benefit of the Solidarity Fund.*

Based on the current year's performance the performance target for trading profit was not achieved. Although the target for ROFE was achieved, this portion of the short-term incentive is only payable if the trading profit target is achieved. The additional performance target for the CEO and CFO of headline earnings per share was also not met. Consequently, the CEO and CFO, earned no short-term incentive in the year under review. B Letsoalo achieved her additional performance metrics and qualified for 30% of her short-term incentive. The Board took into consideration the challenging and exceptional economic and operating conditions under which the executive team managed the Company, particularly during the peak of the COVID-19 pandemic. They also considered the fact that had there not been abnormal costs incurred in relation to COVID-19, the additional performance metric of the CEO and CFO would have been met. Consequently, the pay-out for the additional performance metric (HEPS), which comprises 20% of the short-term incentive, has been approved for AG Hall and D Neethling. The amount of R1.7 million has been fully provided for, although payment will only be made in September.

The prior year incentives which were paid in September 2019, relating to the prior year's performance, were fully provided for at 30 June 2019.

Long-term incentives

Details of share options granted in Adcock Ingram are as follows:

		Offer date	Offer price R	Balance at the beginning of the year	Issued during the year	Exercised during the year	Balance at the end of the year
AG Hall							
PBLTIS[1]		26/09/2019	N/A	–	155 000	–	155 000
Equity		17/06/2014	52.20	58 334		–	58 334
		26/08/2015	41.94	116 667		(58 333)	58 334
		26/08/2016	42.30	200 000		(66 666)	133 334
		24/08/2017	57.73	200 000		–	200 000
				575 001		(124 999)	450 002
Phantom		28/08/2018	65.46	200 000		–	200 000
D Neethling							
PBLTIS[1]		26/09/2019	N/A	–	64 000	–	64 000
Equity		17/06/2014	52.20	20 000		–	20 000
		26/08/2015	41.94	60 000		(30 000)	30 000
		26/08/2016	42.30	150 000		(50 000)	100 000
		24/08/2017	57.73	150 000		–	150 000
				380 000		(80 000)	300 000
Phantom		28/08/2018	65.46	150 000		–	150 000
B Letsoalo							
PBLTIS[1]		26/09/2019	N/A	–	59 000	–	59 000
Equity		17/06/2014	52.20	15 000		–	15 000
		26/08/2015	41.94	30 000		(15 000)	15 000
		26/08/2016	42.30	45 000		(15 000)	30 000
		25/11/2016	42.08	75 000		–	75 000
		24/08/2017	57.73	120 000		–	120 000
				285 000		(30 000)	255 000
Phantom		28/08/2018	65.46	120 000		–	120 000
BMT	TBL	31/01/2008	56.30	3 500		–	3 500
	OCE	31/01/2008	16.46	905		–	905
	AIP	31/01/2008	16.31	13 742		–	13 742
	TBL	01/07/2012	56.30	7 734		–	7 734
	OCE	01/07/2012	16.46	2 001		–	2 001
	AIP	01/07/2012	14.89	4 534		–	4 534
				32 416		–	32 416

[(1)] *Performance-based long-term incentive scheme*

TBL – Tiger Brands Limited

AIP – Adcock Ingram Holdings Limited

OCE – Oceana Group Limited

Details of options exercised are as follows:

Equity	Offer date	Offer price R	Exercise price R	Number of options	Gain realised on exercising of options[1] R
AG Hall					
2020	**26/08/2015**	**41.94**	**58.01**	**58 333**	**937 411**
	26/08/2016	**42.30**	**58.20**	**66 666**	**1 059 989**
				124 999	**1 997 400**
2019	17/06/2014	52.20	71.30	58 333	1 114 160
	26/08/2015	41.94	71.30	58 333	1 712 657
				116 666	2 826 817
D Neethling					
2020	**26/08/2015**	**41.94**	**58.20**	**30 000**	**487 800**
	26/08/2016	**42.30**	**58.20**	**50 000**	**795 000**
				80 000	**1 282 800**
2019	17/06/2014	52.20	71.30	20 000	382 000
	26/08/2015	41.94	71.30	30 000	880 800
				50 000	1 262 800
B Letsoalo					
2020	**26/08/2015**	**41.94**	**58.20**	**15 000**	**243 900**
	26/08/2016	**42.30**	**58.20**	**15 000**	**238 500**
				30 000	**482 400**
2019	17/06/2014	52.20	71.30	15 000	286 500
	26/08/2015	41.94	71.30	15 000	440 400
				30 000	726 900

The following charges were expensed in the statement of comprehensive income, in non-trading expenses, during the year under review, in terms IFRS 2[2]:

	2020 R'000	2019 R'000
AG Hall	**3 744**	3 124
D Neethling	**2 175**	2 229
B Letsoalo	**1 902**	1 687
	7 821	7 040

(1) *Amounts are show before taxation.*

(2) *The value of options granted is the annual expense in accordance with IFRS 2, and is presented for information purposes only, as it is not regarded as constituting remuneration, given that the value is neither received by nor accrued to the director.*

Performance-based long-term incentive scheme

During the year, conditional share awards were granted to the three executive directors and the four commercial managing directors, which are included in key management.

Performance conditions (financial and non-financial) attached to these awards, measured over a three-year period, as detailed in Annexure B, are as follows:

			Performance		
Measure	Weight	Measurement base	Threshold (30% vesting)	Target (60% vesting)	Stretch (100% vesting)
HEPS growth	50%	Inflation	CPI	CPI + 50% of CPI	CPI + 100% of CPI
ROFE	25%	ROFE	25%	30%	35%
B-BBEE	25%	B-BBEE Scorecard points	Level 4 (80 to 85 points)	Level 4 (>85 points)	Level 3 (90+ points)

Linear vesting of an award occurs between the intervals stated above.

The outcome for year 1, based on the current financial year's performance is as follows:

Measure	Weight	Outcome	Achievement	Weighted potential vesting
HEPS growth	50%	-1%	–	–
ROFE	25%	31.2%	70%	22%
B-BBEE	25%	Level 1	100%	25%
Total				**47%**

Non-executive directors

Current annual fees

The following annual fixed fees have been in place since 1 December 2019.

	Chairman R	Member R
Committee		
Board	1 189 163	302 400
Lead independent director		390 000
Audit	249 500	124 740
Risk and Sustainability	235 370	120 000
Human Resources, Remuneration and Nominations	180 000	82 700
Social, Ethics and Transformation	165 900	71 230
Acquisitions	249 500	124 740

A fee of R13 000 is paid for special meetings exceeding three hours in duration.

Remuneration paid

Non-executive directors receive no other benefits, do not participate in the short-term or long-term incentive schemes and do not receive any performance related pay from the Group. The following fees, excluding value added tax (VAT) where applicable, were paid to non-executive directors, following the changes to the directors' responsibilities and status as detailed on page 103.

	2020[1] R'000	2019 R'000
Boyce	570	564
John	54	643
Haus	693	518
Gumbi	376	–
Lesoli	–	139
Madisa[2]	412	469
Makwana	–	229
Manning	479	407
Mokgokong	281	380
Ralphs[2]	1 130	400
Ransby	533	–
Raphiri	–	1 172
Stewart	–	639
Wakeford[3]	330	–
	4 858	5 560

(1) *The non-executive directors voluntarily sacrificed 20% of their gross remuneration for the period April to June 2020, for the benefit of the Solidarity Fund.*

(2) *Paid to Bidvest Corporate Services Proprietary Limited.*

(3) *Paid to Bidvest Branded Products Proprietary Limited*

Shareholdings

At 30 June 2019, Dr Mokgokong held 3 445 642 shares indirectly in the Company, as she holds a 50% share in CIH Projects Proprietary Limited, which in turn held a 26.67% share in Ad-izinyosi (the B-BBEE shareholder of the Group), which ceased trading on 29 July 2019 due to the cancellation of the B-BBEE scheme, resulting in it no longer holding shares in the Company.

Refer to Annexure B.

Shareholder analysis

Registered shareholder spread

In accordance with the JSE Listings Requirements, the following table confirms the spread of registered shareholders as detailed in the Integrated Report and Annual Financial Statements dated 30 June 2020:

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	6 757	78.6	1 389 320	0.8
1 001 – 10 000 shares	1 488	17.3	4 560 082	2.6
10 001 – 100 000 shares	248	2.9	8 013 616	4.5
100 001 – 1 000 000 shares	90	1.1	22 621 152	12.9
1 000 001 shares and above	12	0.1	139 174 691	79.2
Total	8 595	100	175 758 861	100.0

Public and non-public shareholdings

Within the shareholder base, we are able to confirm the split between public shareholdings and directors/Company related schemes as being:

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders*	5	0.05	98 035 197	55.7
BB Investment Company Proprietary Limited	1	0.01	89 713 963	51.0
Adcock Ingram Limited	2	0.02	8 299 201	4.7
Adcock Ingram Holdings Limited Employee Share Trust (2008)	1	0.01	600	0.0
Director	1	0.01	21 433	0.0
Public shareholders	8 590	99.95	77 723 664	44.3
Total	8 595	100.00	175 758 861	100.0

* *Associates of directors do not hold any shares.*

Substantial investment management equal to or in excess of 5%

Through regular analysis of STRATE registered holdings, and pursuant to the provisions of section 56(b) of the Companies Act, the following shareholders held, directly and indirectly, equal to or in excess of 5% of the issued share capital as at 30 June 2020:

Investment manager	Total shareholding	%
BB Investment Company Proprietary Limited	89 713 963	51.0
Public Investment Corporation of South Africa	25 242 207	14.4
Total	114 956 170	65.4

Geographical split of beneficial shareholders

Country	Total shareholding	% of issued share capital
South Africa	162 513 769	92.46
United States of America and Canada	8 395 925	4.78
United Kingdom	2 513 397	1.43
Rest of Europe	1 400 752	0.80
Other[1]	935 018	0.53
Total	**175 758 861**	**100.0**

(1) *Represents all shareholdings except those in the above regions*

Monthly trading history

The high, low and closing price of ordinary shares on the JSE and the aggregated monthly value during the year are set out below:

Month	Total volume	Total value (R'm)	High (R)	Low (R)	Closing price (R)
2019 – July	7 276 464	435	62.50	54.00	57.40
2019 – August	6 990 293	402	60.49	54.20	57.75
2019 – September	11 763 368	701	61.48	56.23	56.75
2019 – October	8 762 029	495	59.28	54.88	56.24
2019 – November	6 361 755	361	58.50	54.08	55.01
2019 – December	4 913 184	266	57.94	52.49	53.78
2020 – January	4 030 473	208	54.67	50.06	50.85
2020 – February	5 381 984	244	53.99	39.52	40.13
2020 – March	13 377 146	540	45.00	37.00	43.57
2020 – April	4 669 839	209	47.73	41.41	44.39
2020 – May	3 720 551	166	47.80	42.51	43.45
2020 – June	3 689 931	178	52.18	44.20	48.00

Notice of Annual General Meeting

ADCOCK INGRAM HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
Registration number 2007/016236/06
ISIN: ZAE000123436
JSE Share Code: AIP
("Adcock Ingram" or "the Company")

Board of Directors ("Board"): Ms L Boyce, Dr S Gumbi, Mr A Hall (CEO), Prof M Haus (Lead Independent Director), Ms B Letsoalo (Executive Director: Human Capital & Transformation), Ms N Madisa, Dr C Manning, Ms D Neethling (CFO), Mr L Ralphs (Chairman), Ms D Ransby, Prof M Sathekge, Mr K Wakeford.

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

Notice is hereby given that the Annual General Meeting ("AGM") of shareholders of Adcock Ingram will be held at the Company's premises, 1 New Road, Midrand, Gauteng on Wednesday, 25 November 2020 at 09:00, or at any other adjourned or postponed time determined in accordance with the provisions of section 64(4) or section 64(10) (as read with section 64(11)(a)(i)) of the Companies Act 71 of 2008 ("**Companies Act**").

This document is important and requires your immediate attention. Your attention is drawn to the notes at the end of this notice, which contain important information regarding shareholders' participation at the AGM. Should you be in any doubt as to what action to take in respect of the proposed resolutions and other matters contemplated in this notice of the AGM or the explanatory notes hereto, we recommend that you consult appropriate professional advisers. For purposes of this notice of the AGM and the explanatory notes hereto, the term "shareholder" shall have the meaning ascribed thereto in section 57(1) of the Companies Act.

In terms of section 59(1) of the Companies Act, the Board has set the record dates to determine which shareholders are entitled to:

a) receive this notice of the AGM as being Friday, 18 September 2020; and

b) participate in and vote at the AGM as being Friday, 20 November 2020.

The last day to trade in the Company's shares, in order to participate in and vote at the AGM is Tuesday, 17 November 2020.

The meeting is convened to consider and if deemed appropriate, pass and approve, with or without modification, the ordinary and special resolutions set out below in the manner required by the Companies Act and Listings Requirements of the JSE Limited ("**JSE**"). Please see the explanatory notes commencing on page 215 or the explanations which accompany the ordinary and special resolutions below.

1. Presentation of annual financial statements and reports

To present the audited annual financial statements of the Company and its subsidiaries (the "**Group**") as approved by the Board of the Company in terms of section 30(3) of the Companies Act, incorporating, *inter alia*, the reports of the external auditors, audit committee and the directors for the financial year ended 30 June 2020.

2. Presentation of the social, ethics and transformation committee report

To present the report of the Social, Ethics and Transformation Committee for the financial year ended 30 June 2020, as required in terms of regulation 43(5)(c) of the Regulations to the Companies Act, 2011 ("**Companies Regulations**").

3. Election and re-election of non-executive directors

Ordinary resolution 1

3.1 To elect Prof. M Sathekge, who is retiring by rotation in accordance with clause 15.5 of the Company's Memorandum of Incorporation ("**MOI**"), as a non-executive director of the Company as contemplated in section 68(2)(a) of the Companies Act. Prof. M Sathekge, being eligible and available, offers himself for election (as *Ordinary resolution number 1.1*).

3.2 To elect Ms L Boyce, who is retiring by rotation in accordance with clause 17.1 of the Company's MOI, as a non-executive director of the Company as contemplated in section 68(2)(a) of the Companies Act. Ms Boyce, being eligible and available, offers herself for re-election (as *Ordinary resolution number 1.2*).

3.3 To elect Dr C Manning, who is retiring by rotation in accordance with clause 17.1 of the MOI and as contemplated in section 68(2)(a) of the Companies Act, as a non-executive director of the Company. Dr Manning, being eligible and available, offers herself for re-election (as *Ordinary resolution number 1.3*).

4. Election of audit committee members

Ordinary resolution 2

To re-elect by way of separate divisible resolutions the following independent non-executive directors as the audit committee members for the ensuing year in accordance with section 94 of the Companies Act:

4.1 Ms D Ransby (Chairperson) (as *Ordinary resolution 2.1*);

4.2 Ms L Boyce (as *Ordinary resolution 2.2*), subject to being re-elected as a director in terms of resolution 1.2 above; and

4.3 Prof M Haus (as *Ordinary resolution 2.3*).

5. Re-appointment of external auditors

Ordinary resolution 3

To appoint PricewaterhouseCoopers Inc. as independent external auditor of the Company for the ensuing year (the designated auditor being Mr Keeran Ramnarian) and to note the remuneration of the independent external auditor as determined by the Audit Committee of the Board for the past year's audit as reflected in note 7 to the annual financial statements.

6. Non-binding advisory vote on the remuneration policy

Ordinary resolution 4

To endorse, by way of a non-binding advisory vote as recommended by King IV, the Company and the Group's remuneration policy (excluding the remuneration of the non-executive directors for their services as directors and members of committees), as set out from page 60 of the Integrated Report.

7. Non-binding advisory vote on the implementation of the remuneration policy

Ordinary resolution 5

To endorse, by way of a non-binding advisory vote as recommended by King IV, the Company and the Group's remuneration implementation report as set out on pages 200 to 206 of the Integrated Report.

8. Delegation of authority

Ordinary resolution 6

To authorise any 1 (one) director of the Company and/or the Company Secretary to do all such things and sign all such documents (including any amendments thereto) as are deemed necessary or advisable to implement the ordinary and special resolutions which have been (or will be) duly passed as set out in the notice convening the AGM.

9. Financial assistance in terms of Section 45 of the Companies Act to related and inter-related parties

Special resolution 1

To approve, subject to compliance with the provisions of the MOI and Companies Act (including but not limited to the Board being satisfied that immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test as contemplated in section 4 of the Companies Act and that the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company), the provision by the Company, at any time and from time to time during the period of 2 (two) years commencing from the date of approval of this special resolution, of such direct or indirect financial assistance as contemplated in section 45 of the Companies Act, by way of a loan, guarantee of a loan or other obligation or securing of a debt or other obligation or otherwise as the Board may authorise to any 1 (one) or more related or inter-related company(ies) or corporation(s) (as such relations and inter-relationships are outlined in section 2 of the Companies Act), on such other terms and conditions as the Board may deem fit, subject to the Companies Act.

10. Proposed remuneration of non-executive directors payable with effect from 1 December 2020

Special resolution 2

To approve the proposed fees and remuneration payable to non-executive directors, for their services as directors with effect from 1 December 2020 until the next AGM in accordance with the proposed remuneration as set out in the explanatory notes.

11. Approval of the amendments to the Memorandum of Incorporation ("MOI")

Special resolution 3

To consider and approve the following inclusion or amendments to the MOI:

"17.2.3 Subject to clause 15.7 above and save as set out below, no person who is 70 (seventy) years of age or older, shall be allowed to be a member of the Board of directors as a non-executive director. Notwithstanding the above, if a director reaches 70 (seventy) years of age before his/her turn to retire by rotation is due, such a director's turn to retire by rotation shall be brought forward to enable the director who has turned 70 (seventy) years of age to retire and not to offer himself/herself for re-election, unless the Board, having considered that the director who has reached the age of 70 (seventy) years possesses a rare or unique skill which is required or desirable on the Board, determines that that director should remain in place for another term or until a suitable replacement director with similar skills and experience is appointed in the place of such retiring director, in which case that director may be available for re-election".

12. Share repurchase

Special resolution 4

To authorise the directors to approve and implement the acquisition by the Company (or by a subsidiary of the Company in terms of section 48(2)(b) of the Companies Act), of ordinary shares of the Company, by way of a general authority, which shall only be valid until the Company's next AGM or 15 (fifteen) months from the date of the passing of this special resolution, whichever period is the shorter, and subject to the Companies Act, the MOI, the JSE Listings Requirements, when applicable, and the following limitations, namely:

a) the repurchase of shares in terms of this authority be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party (reported trades are prohibited);

b) the Company being authorised thereto by its MOI;

c) this authority shall be valid until the next annual general meeting of the Company, or for a period of 15 (fifteen) months from the date for passing the resolution, whichever is the shorter;

d) repurchases not being made at a price greater than 10% (ten percent) above the weighted average of the market value of the ordinary shares for the 5 (five) business days immediately preceding the date on which the transaction was effected;

e) an announcement containing full details of such acquisition of shares, will be published in accordance with the JSE Listings Requirements as soon as the Company has repurchased ordinary shares constituting, on a cumulative basis, 3% (three percent) of the number of ordinary shares in issue at date of the Annual General Meeting at which this resolution is considered and passed ("initial number"), and for each 3% (three percent) in aggregate of the initial number of ordinary shares repurchased thereafter, containing such details of such repurchases as are required under the JSE Listings Requirements as well as any confirmations and disclosures required of the Company and its directors;

f) a resolution has been passed by the Board confirming that it has authorised the repurchase, and that the Company and its subsidiary/ies have passed the solvency and liquidity test and that since the test was performed there have been no material changes to the financial position of the Group;

g) the number of shares purchased and held by a subsidiary or subsidiaries of the Company shall not exceed 10% (ten percent) in aggregate of the number of issued shares in the Company at the relevant times;

h) a general repurchase of ordinary shares in the aggregate in any one financial year may not exceed 5% (five percent) of the Company's issued ordinary share capital as at the beginning of the financial year;

i) any such general repurchase will be subject to the applicable provisions of the Companies Act (including sections 114 and 115 to the extent that section 48(8) is applicable in relation to that particular repurchase);

j) the Company or its subsidiary may not repurchase securities during a prohibited period as defined in the JSE Listings Requirements unless the Company has in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and details of the programme have been submitted to the JSE in writing prior to the commencement of the prohibited period to execute the repurchase programme submitted the JSE; and

k) the Company only appointing 1 (one) agent at any point in time to effect any repurchases on its behalf.

Having considered the effects of a maximum repurchase, the directors are of the opinion that:

- the Company and the Group will be able in the ordinary course of business to pay its debts for a period of 12 (twelve) months following the date of the general repurchase;
- the consolidated assets of the Company and the Group, recognised and measured in accordance with the accounting policies used in the latest audited Group annual financial statements, will exceed the liabilities of the Company and the Group for a period of 12 (twelve) months following the date of the general repurchase;
- the ordinary share capital and reserves of the Company and the Group will be adequate for ordinary business purposes for a period of 12 (twelve) months following the date of the general repurchase; and
- the working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 (twelve) months following the date of the general repurchase.

Solvency and liquidity test

The Board confirms that, it will consider the effects of the maximum repurchase, before it passes a resolution approving the repurchase and confirm that the Company and its subsidiary/ies have passed the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the Group.

Statement of intent

The directors undertake that, to the extent it is still required by the JSE Listings Requirements and the Companies Act, they will not implement any repurchase as contemplated in this special resolution while this general authority is valid, unless:

a) the Board has resolved to authorise such repurchase subject to the limitations set out in this special resolution, have applied the solvency and liquidity test set out in section 4 of the Companies Act and have reasonably concluded that the Group will satisfy the solvency and liquidity test immediately after completing such repurchase, and are satisfied that since the test was carried out there have been no material changes to the financial position of the Group; and

b) the Group will comply with the provisions of section 46 of the Companies Act and the JSE Listings Requirements in relation to such repurchase.

Directors' responsibility statement

The directors, whose names are given on page 20 and 21 of the Integrated Report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this Special Resolution 4 and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by law and the JSE Listings Requirements.

The JSE Listings Requirements require the following disclosures, some of which are elsewhere in the Integrated Report and as set out below.

- **Major shareholders of the Company – page 207;**
- **Share capital of the Company – page 158.**

13. Material change

Other than the facts and developments reported on in the Integrated Report, there have been no material changes in the financial and trading position of the Group since the date of signature of the audit report and the date of this notice.

14. Any other business

In terms of section 61(8)(d) of the Companies Act, an AGM must provide for the transacting of business in relation to any matters raised by shareholders, with or without advance notice to the Company.

15. Electronic communication and participation

Shareholders or their proxies may participate in the AGM by way of a teleconference call and, if they wish to do so:

- must contact the Company Secretary: ntando.simelane@adcock.com or +27 (0) 11 635 0143 during business hours (08h00 to 17h00 on week days) by no later than Monday, 23 November 2020;
- will be required to provide reasonably satisfactory identification; and
- will be billed separately by their own telephone service providers for their telephone call to participate in the meeting.

Please note that shareholders or their proxies will be entitled to exercise voting rights at the meeting by way of teleconference call.

16. Proxies and voting

A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, participate in and vote at the meeting in the place of the shareholder. A proxy need not also be a shareholder of the Company. Equity securities held by a share trust or scheme and unlisted securities will not have their votes taken into account at the AGM for the purposes of resolutions proposed in terms of the JSE Listings Requirements. Shares held as treasury shares in terms of the Companies Act may not vote on any resolutions.

Please note that, in accordance with section 63(1) of the Companies Act, the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder, or as a proxy for a shareholder, has been reasonably verified. Accordingly, meeting participants (including shareholders and proxies) must provide satisfactory identification. Without limiting the generality hereof, the Company will accept a valid South African identity document, a valid driver's license or a valid passport as satisfactory identification.

On a show of hands, every shareholder of the Company present in person or represented by proxy shall have one vote only. On a poll, every shareholder of the Company shall have one vote for every share held in the Company by such shareholder. Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with "own name" registration, must contact their Central Securities Depository Participant ("CSDP") or broker in the manner and time stipulated in their agreement:

– to furnish them with their voting instructions; and

– in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Forms of proxy should be lodged in person or posted to the Company's transfer secretaries, Computershare Investor Services Proprietary Limited (Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196, South Africa; Private Bag X9000, Saxonwold, 2132, South Africa), to be received for the orderly arrangement of matters on the date of the AGM (but not required) by no later than 09h00, on Monday, 23 November 2020 (for administrative purposes), provided that they may be handed to the chairperson of the meeting at any time prior to the proxy exercising any right at the meeting.

All beneficial owners whose shares have been dematerialised through a CSDP or broker, other than with "*own name*" registration, must provide the CSDP or broker with their voting instructions in terms of their custody agreement should they wish to vote at the AGM. Alternatively, they may request the CSDP or broker to provide them with a letter of representation, in terms of their custody agreements, should they wish to attend the AGM.

By order of the Board

Ntando Simelane
Company Secretary

Midrand
30 September 2020

ANNUAL GENERAL MEETING – EXPLANATORY NOTES

Presentation of annual financial statements and reports

Section 61(8) of the Companies Act requires directors to present the annual financial statements for the year ended 30 June 2020 to shareholders, together with the reports of the directors, external auditor and the Audit Committee at the AGM. These are contained within the Integrated Report.

Shareholders are advised that, in terms of section 62(3)(d) of the Companies Act, a copy of the complete annual financial statements for the preceding financial year may be obtained by submitting a written request to the Company Secretary, and electronic copies are available on the Adcock Ingram website (www.adcock.com).

Presentation of the Social, Ethics and Transformation Committee report

Regulation 43(5)(c) of the Companies Regulations requires the Social and Ethics Committee, through 1 (one) of its members, to report to the shareholders on matters within its mandate at the AGM. The Social, Ethics and Transformation Committee's report will be presented during the AGM.

Ordinary resolution 1 – Election and re-election of non-executive directors

In terms of the MOI, one-third of the non-executive directors are required to retire at each annual general meeting and may offer themselves for re-election. The MOI also provides that non-executive directors who were appointed by the Board to fill a vacancy or as an addition to the Board shall retire in terms of paragraphs 15.5 and/or 17.1 of the MOI.

1.1 **Prof M Sathekge**, (as *Ordinary resolution number 1.1*) retires by rotation in terms of paragraph 15.5 of the MOI;

1.2 **Ms L Boyce** (as *Ordinary resolution number 1.2*) retires by rotation in terms of paragraph 17.1 of the MOI; and

1.3 **Dr C Manning** (as *Ordinary resolution number 1.3*) retires by rotation in terms of paragraph 17.1 of the MOI.

Prof M Sathekge has offered himself for election, Ms Boyce and Dr Manning have offered themselves for re-election and, having been evaluated and had their suitability for re-appointment confirmed by the Nominations Committee, are eligible for election and re-election.

Brief curriculum vitae in respect of the retiring directors who have offered themselves for re-election, are set out on page 20 of the Integrated Report.

To be approved, each of the resolutions set out under Ordinary resolution 1 requires the support of more than 50% (fifty percent) of the voting rights exercised on the resolution.

If each of the resolutions set out under Ordinary resolution 1 is approved, the effect would be to elect the retiring directors who have offered themselves for election and re-election (i.e. Prof. M Sathekge, Ms Boyce and Dr Manning) as non-executive directors to the Board of the Company until such time as they resign, retire or do not offer themselves for re-election or are otherwise removed from office.

Ordinary resolution 2 – Election of the Audit Committee members

Section 94(2) of the Companies Act requires the Company to elect an Audit Committee comprising at least 3 (three) non-executive directors of the Board at each AGM. In order to comply with this provision of the Companies Act, the Board, following a recommendation of the Nominations Committee, hereby nominates the following non-executive directors to be elected as members of the Audit Committee:

2.1 **Ms Debbie Ransby** (Chair) (as *Ordinary resolution 2.1*);

2.2 **Ms L Boyce** (as *Ordinary resolution 2.2*) subject to being re-elected as a director in terms of resolution 1.2; and

2.3 **Prof M Haus** (as *Ordinary resolution 2.3*).

A brief curriculum vitae in respect of each of the above non-executive directors offering themselves for re-election as a member of the Audit Committee, is set out on page 20 of the Integrated Report.

To be approved, each of the resolutions for the election of members of the Audit Committee in Ordinary resolution 2 requires the support of more than 50% (fifty percent) of the voting rights exercised on the resolution.

If Ordinary resolution 2 is approved, the effect would be to elect the abovementioned directors to the Audit Committee until the next AGM of the Company.

Ordinary resolution 3 – Re-appointment of external auditor

In terms of section 90(1) of the Companies Act the Company must appoint an auditor each year at its AGM by way of an ordinary resolution of the shareholders entitled to exercise voting rights on that resolution. In terms of section 94(7)(a) (as read with section 90(2)) of the Companies Act, the Audit Committee of the Company must nominate a registered auditor for appointment as auditor of the Company who is, in the opinion of the Audit Committee, independent of the Company.

The Audit Committee has nominated PricewaterhouseCoopers Inc. ("**PwC**") as the independent external auditor of the Company. The Audit Committee is satisfied that PwC and the individual auditor designated by PwC as responsible for performing the functions of the Company's auditor on behalf of PwC, namely Mr Keeran Ramnarian, can be regarded as independent and are thereby able to conduct their audit functions without any conflict or influence. The relevant section of the Audit Committee Report relating to the Audit Committee's nomination of PWC as the auditors of the Company is contained on pages 97 to 100 of the Integrated Report.

PwC has confirmed its willingness to be engaged as external auditor of the Company and Ordinary resolution 3 proposes the appointment of that firm as the Company's auditor with immediate effect until the next AGM. As contemplated in section 90(3) of the Companies Act, the name of the designated auditor, Mr Keeran Ramnarian, forms part of the resolution. The resolution also notes the remuneration of the independent external auditor as determined by the Audit Committee of the Board.

To be approved, Ordinary resolution 3 requires the support of more than 50% (fifty percent) of the voting rights exercised on the resolution.

If Ordinary resolution 3 is approved, the effect would be to approve the appointment of PwC as the independent external auditor of the Company until the next AGM of the Company.

Ordinary resolution 4 – Non-binding advisory vote on the Remuneration policy

Principle 14 of the King IV Code on Corporate Governance ("King IV") requires companies to ensure that they remunerate fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term and requires companies to table their remuneration policy to shareholders every year for a non-binding advisory vote at the AGM. This vote enables shareholders to express their views on the remuneration policies adopted and on their implementation. The Company and the Group's remuneration report is contained from page 60 of the Integrated Report. Ordinary resolution 4 is of an advisory nature only and failure to pass this resolution will therefore not have any legal consequences relating to existing arrangements. However, the Board will as required in terms King IV, disclose in the background statement of the remuneration report succeeding the voting: with whom the Company engaged, the manner and form of engagement to ascertain the reasons for dissenting votes; and the nature of steps taken to address legitimate and reasonable objections and concerns, in the event that either the remuneration policy or implementation report, or both, were voted against by 25% (twenty five percent), or more, of the voting rights exercised.

To be approved, Ordinary resolution 4 requires the support of more than 50% (fifty percent) of the voting rights exercised on the resolution.

Ordinary resolution 5 – Non-binding advisory vote on the implementation of the Remuneration policy

Principle 14 of King IV further recommends that the implementation of a Company's and Group remuneration policy be tabled for a non-binding advisory vote by shareholders at each AGM. This resolution is of advisory nature only to enable shareholders to express their views on the implementation of the Company's and Group remuneration policy.

To be approved, Ordinary resolution 5 requires the support of more than 50% (fifty percent) of the voting rights exercised on the resolution.

Ordinary resolution 6 – Delegation of authority

The reason for Ordinary Resolution 6 is to authorise any 1 (one) director or the Company Secretary of the Company to do all such things and sign all documents and take all such action as he / she may consider necessary to implement the resolutions set out in the notice convening the AGM.

To be approved, Ordinary resolution 6 requires the support of more than 50% (fifty percent) of the voting rights exercised on the resolution.

Special resolution 1 – Financial assistance in terms of section 45 of the Companies Act to related and inter-related parties

It is important for the Group to be able to administer its cash resources efficiently. From time to time it is advisable for the Company to borrow from its subsidiaries, and to on-lend or provide loans to its subsidiaries envisaged in Special resolution 1 in accordance with the provisions of section 45 of the Companies Act. It is not possible to detail in advance all instances where such financial assistance could be required, and approval is accordingly sought as contemplated in section 45(3)(a)(ii) of the Companies Act generally for the provision of financial assistance to certain subsidiaries. If approved, this general authority will expire at the end of 2 (two) years from the date on which Special resolution 1 is approved. In addition, it would be impractical and difficult to obtain shareholder approval every time the Company wishes to provide financial assistance as contemplated above. Accordingly, the Company requires flexibility and the authority to act promptly as the need arises, and the authority of this special resolution is sought in advance to obviate the need for shareholder approval in each instance.

To be approved, Special resolution 1 requires the support of more than 75% (seventy-five percent) of the voting rights exercised on the resolution.

If Special resolution 1 is approved, the effect would be to authorise the Company to grant the aforementioned financial assistance to the relevant companies, subject to compliance with the MOI and the Companies Act (including but not limited to the Board being satisfied that immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test as contemplated in section 4 of the Companies Act and that the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company).

Special resolution 2 – Proposed remuneration of non-executive directors' payable with effect from 1 December 2020

Shareholders are requested to consider and if deemed appropriate, approve the proposed fees and remuneration payable quarterly in arrears to non-executive directors for their services as directors (which for clarity includes their participation in sub-committees of the Board) with effect from 1 December 2020 until the next AGM as set out in the table hereunder. Full particulars of all fees and remuneration for the past financial year are contained on page 206 the Integrated Report. Since the coming into effect of the Companies Act, in particular sections 65(11), 66(8) and (9), remuneration may only be paid to directors for their services as directors in accordance with a special resolution approved by the shareholders (i.e. a resolution passed with the support of at least 75% (seventy-five percent) of the voting rights exercised on the resolution) within the previous 2 (two) years. The directors are not asking for an increase in respect of the remuneration that was approved in November 2019, except for the Social, Ethics and Transformation Committee member role, whose remuneration has been adjusted to the market median.

In light of the depressed economic environment, the Board resolved not to propose remuneration for the Nominations Committee, after it was constituted as a stand-alone Committee. The Board will review this decision in future.

To be approved, Special resolution 2 requires the support of at least 75% (seventy five percent) of the voting rights exercised on the resolution.

Category	Current annual remuneration	Proposed annual remuneration payable with effect from 1 December 2020
Board		
Chairman	1 189 163	1 189 163
Lead independent	390 000	390 000
Board member	302 400	302 400
Audit Committee		
Chairman	249 500	249 500
Audit Committee member	124 740	124 740
Risk and Sustainability Committee		
Chairman	235 370	235 370
Committee member	120 000	120 000
Human Resources and Remuneration Committee		
Chairman	180 000	180 000
Committee member	82 700	82 700
Social, Ethics and Transformation Committee		
Chairman	165 900	165 900
Committee member	71 230	72 000
Acquisitions Committee		
Chairman	249 500	249 500*
Committee member	124 740	124 740

**The Chairman of the Board does not get paid any additional amount for attending meetings of sub-committees of the Board.*

Non-executive directors are paid an additional R13 000 (thirteen thousand Rand) each when they attend special meetings of the Board and/or sub-committees of the Board which last more than 3 (three) hours.

If Special resolution 2 is approved, the effect would be to authorise the Company to pay the remuneration contemplated in the above table to the non-executive directors of the Company for their services as directors, with effect from 1 December 2020 until the next AGM.

Special resolution 3 – Amendments to the Memorandum of Incorporation

In terms of section 16(1)(c) of the Companies Act, the Company's MOI may be amended at any time if, *inter alia*, a special resolution to amend it is proposed by the Board and adopted at a shareholders' meeting of the Company.

The Board has proposed the amendments to the MOI as more fully set out in Special Resolution 3 in order to ensure that the MOI captures the recently adopted principle based on best practice to impose an age limit of 70 years for non-executive directors who are members of or those who wish to serve on the Board, unless the Board, having considered that the relevant director possesses a rare or unique skill which is required or desirable on the board, determines that that director should remain in place for another term or until a suitable replacement director with similar skills and experience is appointed in the place of such retiring director, in which case that director may be available for re-election.

The Board is of the view that the adoption of the proposed inclusion or amendments to the MOI in terms of Special resolution 3 will not result in a material adverse change to the interests of the existing shareholders as contemplated in section 164(2)(a) of the Companies Act.

A full marked-up version of the MOI incorporating the proposed inclusion or amendments is available on the Company's website at www.adcock.co.za/documents/2020_MOI.pdf and at the registered office of the Company for a period of 14 days from the date of this notice.

To be approved, Special resolution 3 requires the support of 75% majority of the votes cast by shareholders present or represented by proxy.

If Special resolution 3 is approved, the effect would be to amend the MOI in the manner contemplated by Special resolution 3 and as explained above.

Special resolution 4 – Share repurchase

The Board believes that it may be prudent to obtain a general authority to repurchase the Company's shares to enable it to act promptly should the opportunity arise. Shareholders' approval, by way of a special resolution, is sought for a repurchase of the Company's shares, subject to the provisions of the JSE Listings Requirements and the Companies Act as set out in the proposed resolution. This special resolution is subject to the statement of intent as set out above.

To be approved, Special resolution 4 requires the support of at least 75% (seventy five percent) of the voting rights exercised on the resolution.

If Special resolution 4 is approved, the effect would be to authorise the Company and/or its subsidiary company/ies by way of a general authority to acquire the Company's issued shares on such terms, conditions and in such amounts as determined from time to time by the directors of the Company subject to the provisions of the JSE Listings Requirements and the Companies Act as set out in Special resolution 4.

Quorum

The meeting of shareholders contemplated herein may begin, and a matter may begin to be debated at that meeting, only if the following quorum requirements are met as required by the Companies Act and the MOI:

1. subject to 2 and 3 below –

    1.1 a meeting of shareholders may not begin until sufficient persons are present at the meeting to exercise, in aggregate, at least 25% (twenty five percent) of all of the voting rights that are entitled to be exercised in respect of at least one matter to be decided at the meeting; and

    1.2 a matter to be decided at the meeting may not begin to be considered unless sufficient persons are present at the meeting to exercise, in aggregate, at least 25% (twenty five percent) of all of the voting rights that are entitled to be exercised on that matter at the time the matter is called on the agenda;

2. once a quorum has been established at a meeting of shareholders, all the shareholders necessary to maintain such quorum must be present at that meeting to consider and vote on any matter;

3. despite the percentage figures set out in 1, as the Company has more than 2 (two) shareholders, a meeting may not begin, or a matter begin to be debated unless –

    3.1 at least 3 (three) shareholders are "present at the meeting" (as defined in the Companies Act); and

    3.2 the requirements of 1 are satisfied.

Form of Proxy

ADCOCK INGRAM HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
Registration number 2007/016236/06
ISIN: ZAE000123436 JSE Share Code: AIP
("Adcock Ingram" or "the Company")

For use only by certificated shareholders and "own name" dematerialised shareholders of Adcock Ingram in respect of the Annual General Meeting of shareholders to be held at 1 New Road, Midrand, Gauteng, on Wednesday, 25 November 2020 at 09:00 or at any other adjourned or postponed time determined in accordance with the provisions of section 64(4) or section 64(10) (as read with section 64(11)(a)(i)) of the Companies Act.

A shareholder is entitled, at any time, to appoint an individual as a proxy (who need not to be a shareholder of Adcock Ingram) to attend, speak and vote or abstain from voting in the place of that shareholder at the Annual General Meeting.

All terms defined in the Notice of Annual General Meeting to shareholders dated Wednesday, 30 September 2020 to which this form of proxy is attached and not defined herein shall bear the same meanings herein.

This form of proxy is only to be completed by those ordinary shareholders of Adcock Ingram who hold ordinary shares in certificated form or who are recorded on sub-registered electronic form in "*own name*". Shareholders who hold dematerialised ordinary shares are referred to paragraphs 3 and 4 of the "Notes" overleaf for further instructions.

I/We, the undersigned (Please print full names) ____________________

of (address) ____________________

(contact details) ____________________ , being a shareholder of the Company, and entitled to

(insert number) ____________________ votes, do hereby appoint:

____________________ or failing him/her,

____________________ or, failing him/her,

the chairman of the Annual General Meeting,

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of shareholders of the Company to be held at the Company's premises, 1 New Road, Midrand, Gauteng on Wednesday, 25 November 2020 at 09:00 or any postponement or adjournment thereof, as follows:

*(*Indicate instructions to proxy by insertion of the relevant number of votes exercisable by the shareholders in the space provided below. If no instructions are given, the proxy holder will be entitled to vote or to abstain from voting as such proxy holder deems fit.)*

Number of votes ____________________

	In favour of the resolution	**Against the resolution**	**Abstain from voting on the resolution**
Ordinary resolution 1 1.1 To elect Prof M Sathekge, as a non-executive director of the Company, who is retiring by rotation in terms of the MOI and makes himself available for re-election.			
1.3 To re-elect Ms L Boyce as a non-executive director of the Company, who is retiring by rotation in terms of the MOI and makes herself available for re-election.			
1.3 To re-elect Dr C Manning as a non-executive director of the Company, who is retiring by rotation in terms of the MOI and makes herself available for re-election.			

	In favour of the resolution	Against the resolution	Abstain from voting on the resolution
Ordinary resolution 2 To re-elect the following non-executive directors as Audit Committee members by way of separate resolutions.			
2.1 Ms D Ransby (Chairperson)			
2.2 Ms L Boyce, subject to being elected as a non-executive director in terms of resolution 1.2 above			
2.3 Prof M Haus			
Ordinary resolution 3 To re-appoint PwC as the independent external auditor of the Company for the ensuing year (the designated auditor being Mr Keeran Ramnarian) and to note the remuneration of the independent external auditor as determined by the Audit Committee.			
Ordinary resolution 4 To endorse by way of a non-binding vote the Company and the Group's remuneration policy (excluding the remuneration of the non-executive directors for their services as directors and members of committees).			
Ordinary resolution 5 To endorse, by way of a non-binding advisory vote, the Company and Group's remuneration implementation report.			
Ordinary resolution 6 To authorise any one director of the Company or the Company Secretary to do all such things and sign all such documents (including any amendments thereto) to implement all the resolutions tabled and approved at this AGM.			
Special resolution 1 To approve the Company to provide financial assistance to related and inter-related parties as contemplated in section 45 of the Companies Act to any of the recipients falling within those identified in the notice of this AGM.			
Special resolution 2 To approve the proposed fees and remuneration payable to non-executive directors for their services as directors with effect from 1 December 2020 until the next AGM as set out in the notice of this AGM.			
Special resolution 3 To consider and approve the amendments to the MOI.			
Special resolution 4 To approve a general authority to repurchase the Company's shares subject to the provisions of the JSE Listings Requirements and the Companies Act as set out in the notice of this AGM.			

And generally to act as my/our proxy at the Annual General Meeting.

Signed by me (full names) ____

in my capacity as ______________________ at (place) ______________________

on this (date, month and year) ____

Signature ____

Please read the notes on the reverse hereof.

NOTES TO COMPLETION OF FORM OF PROXY

1. If you have disposed of all your ordinary shares, this document should be handed to the purchaser of such ordinary shares or the broker, Central Securities Depository Participant ("CSDP"), banker, attorney, accountant or other person through whom the disposal was effected.
2. If you are in any doubt as to what action you should take arising from this document, please immediately consult your broker, CSDP, banker, attorney, accountant or other person through whom the disposal was effected. You are reminded that the onus is on you to communicate with your CSDP or broker.
3. A form of proxy is only to be completed by those ordinary shareholders who are:
   3.1 holding ordinary shares in certificated form; or
   3.2 recorded on sub-register electronic form in "own name".
4. If you have already dematerialised your ordinary shares through a CSDP or broker and wish to attend the Annual General Meeting, you must request your CSDP or broker to provide you with a letter of representation or you must instruct your CSDP or broker to vote by proxy on your behalf in terms of the agreement entered into between yourself and your CSDP or broker.
5. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided with or without deleting "the chairman of the Annual General Meeting" but any such deletion must be initialled by you. Any insertion or deletion not complying with the foregoing will, subject to 12 below, be declared not to have been validly effected. A proxy need not be a shareholder of the Company. The person whose name stands first on this form of proxy and who is present at the Annual General Meeting of shareholders will be entitled to act as proxy to the exclusion of those whose names follow. In the event that no names are indicated, the proxy shall be exercised by the chairman of the Annual General Meeting.
6. If voting is by a show of hands, any person who is present at the meeting, whether as a shareholder or as a proxy for a shareholder, has the number of votes determined in accordance with the voting rights associated with the securities held by that shareholder.
7. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant numbers of votes exercisable by the shareholder in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by the proxy, but the total of the votes cast and in respect of which abstention is recorded, may not exceed the maximum number of the votes exercisable by the shareholder or by the proxy.
8. The proxy shall (unless this sentence is struck out and countersigned) have the authority to vote, as he/she deems fit, on any other resolution which may validly be proposed at the meeting, including in respect of the proposed amendment to the above resolutions. If the aforegoing sentence is struck out, the proxy shall be deemed to be instructed to vote against any such proposed additional resolution and/or proposed amendment to an existing resolution as proposed in the notice to which this form of proxy is attached. A vote given in terms of an instrument of proxy shall be valid in relation to the meeting, notwithstanding the death of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the vote is given, unless an intimation in writing of such death, revocation or transfer is received by the Company Secretary before the commencement of the Annual General Meeting.
9. To be effective, completed forms of proxy:
   (i) should be lodged with or mailed to Computershare Investor Services Proprietary Limited

Hand deliveries to:	Postal deliveries to:
Rosebank Towers,	P/Bag x9000
15 Biermann Avenue	Saxonwold, 2132
Rosebank, Johannesburg, 2196	

   to be received, for administrative purposes only, by 09h00 on Monday, 23 November 2020 or not less than 48 hours before any adjourned or postponed meeting); or

   (ii) should be lodged with or mailed to Adcock Ingram, 1 New Road, Midrand, Gauteng (marked for the attention of the Company Secretary) to be received after the time last specified in (i) above but up to at least 10 minutes before the commencement of the Annual General Meeting (including any adjourned or postponed meeting); or

   (iii) must be handed to the chairperson of the Annual General Meeting before the appointed proxy exercises any of the relevant shareholder's rights at the Annual General Meeting (including any adjourned or postponed meeting), provided that, should the relevant shareholder return such form of proxy in terms of (ii) above, the relevant shareholder will also be required to furnish a copy of such form of proxy to the chairperson of the Annual General Meeting before the appointed proxy exercises any of the relevant shareholder's rights at the Annual General Meeting (including any adjourned or postponed meeting).
10. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
11. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity or other legal capacity must be attached to this form of proxy, unless previously recorded by the transfer secretaries or waived by the chairman of the Annual General Meeting. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by Adcock Ingram.
12. Any alteration or correction made to this form or proxy must be initialled by the signatory/ies.
13. Notwithstanding the aforegoing, the chairman of the Annual General Meeting may waive any formalities that would otherwise be a pre-requisite for a valid proxy.
14. Where there are joint holders of shares: (i) any one holder may sign this form of proxy; and (ii) the vote(s) of the senior shareholder (for that purpose seniority will be determined by the order in which the names of the shareholders appear in the securities register of the Company) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.
15. The chairperson of the Annual General Meeting may reject or accept any form of proxy which is completed and/or received, other than in compliance with these notes.
16. A proxy may not delegate his/her authority to act on behalf of the shareholder in question to another person.

SUMMARY OF APPLICABLE RIGHTS ESTABLISHED IN TERMS OF SECTION 58 OF THE COMPANIES ACT

For purposes of this summary, the term "shareholder" shall have the meaning ascribed thereto in section 57(1) of the Companies Act.

1. At any time, a shareholder of a company is entitled to appoint any individual, including an individual who is not a shareholder of that company, as a proxy to participate in, speak and vote at, a shareholders' meeting on behalf of the shareholder.
2. A proxy appointment must be in writing, dated and signed by the relevant shareholder.
3. Except to the extent that the memorandum of incorporation of a company provides otherwise:
   - 3.1 a shareholder of the relevant company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by such shareholder;
   - 3.2 a proxy may delegate the proxy's authority to act on behalf of the shareholder to another person, subject to any restriction set out in the instrument appointing the proxy; and
   - 3.3 a copy of the instrument appointing a proxy must be delivered to the relevant company, or to any other person on behalf of the relevant company, before the proxy exercises any rights of the shareholder at a shareholders meeting.
4. Irrespective of the form of instrument used to appoint a proxy:
   - 4.1 the appointment of the proxy is suspended at any time and to the extent that the shareholder who appointed that proxy chooses to act directly and in person in the exercise of any rights as a shareholder of the relevant company; and
   - 4.2 should the instrument used to appoint a proxy be revocable, a shareholder may revoke the proxy appointment by cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and the relevant company.
5. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date:
   - 5.1 stated in the revocation instrument, if any; or
   - 5.2 upon which the revocation instrument is delivered to the proxy and the relevant company.
6. Should the instrument appointing a proxy or proxies have been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the company's memorandum of incorporation to be delivered by the company to the shareholder must be delivered by such company to the:
   - 6.1 shareholder; or
   - 6.2 proxy or proxies if the shareholder has in writing directed the relevant company to do so and has paid any reasonable fee charged by the company for doing so.
7. A proxy is entitled to exercise, or abstain from exercising, any voting right of the relevant shareholder without direction, except to the extent that the memorandum of incorporation of the company or the instrument appointing the proxy provides otherwise.
8. If a company issues an invitation to shareholders to appoint one or more persons named by such company as a proxy, or supplies a form of instrument for appointing a proxy:
   - 8.1 such invitation must be sent to every shareholder who is entitled to receive notice of the meeting at which the proxy is intended to be exercised and must bear a reasonably prominent summary of the rights established by section 58 of the Companies Act;
   - 8.2 the company must not require that the proxy appointment be made irrevocable; and
   - 8.3 the proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used, unless revoked as contemplated in section 58(5) of the Companies Act (see paragraph 5 above).

Corporate Information

Adcock Ingram Holdings Limited

(Incorporated in the Republic of South Africa)
(Registration number 2007/016236/06)
Share code: AIP ISIN: ZAE000123436
("**Adcock Ingram**" or "**the Company**" or "**the Group**")

Directors

Ms L Boyce (Independent Non-executive Director)
Dr S Gumbi (Independent Non-executive Director)
Mr A Hall (Chief Executive Officer)
Prof M Haus (Lead Independent Non-executive Director)
Ms B Letsoalo (Executive Director)
Ms N Madisa (Non-executive Director)
Dr C Manning (Independent Non-executive Director)
Ms D Neethling (Chief Financial Officer)
Mr L Ralphs (Non-executive Director)
Ms D Ransby (Independent Non-executive Director)
Mr K Wakeford (Non-executive Director)

Company secretary

Mr 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
P O Box 9000, Saxonwold, 2132

Auditors

PricewaterhouseCoopers
4 Lisbon Ave, Waterfall City
Waterfall, 2090

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

Investec Bank Limited
100 Grayston Drive
Sandton, 2196

Glossary

AET	Audit education and training
AGM	Annual general meeting
APM	Additional Performance Metric
API	Active pharmaceutical ingredient
ARV	Antiretroviral
B-BBEE	Broad-based black economic empowerment
BMT	Black Managers Trust from Tiger Brands
CAMs	Complementary and alternative medicines
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CNS	Central nervous system
CSR	Corporate social responsibility
ED	Executive Director
EMA	European Medicines Agency
ERM	Enterprise Risk Management
EVP	Employee value proposition
FEC	Foreign exchange contracts
GDP	Gross Domestic Product
GMP	Good manufacturing practices
HEPS	Headline earnings per share
HIV	Human immunodeficiency virus
IFRS	International Financial Reporting Standards
IT	Information and Technology
kl	Kilolitre
kWh	Kilowatt hour
LSM	Living standards measure
LTI	Long-term incentive
MCA	Marketing Code of Authority
NED	Non-executive directors
NHI	National Health Insurance
OTC	Over the Counter
PBLTIS	Performance based long-term incentive
PICS	Pharmaceutical Inspection Co-operation Scheme
PTG	Pharmaceutical Task Group
PVC	Polyvinyl chloride
QAMS	Quality assurance management system
SAHPRA	South African Health Products Regulatory Agency
SEP	Single exit price
STI	Short-term incentive
TGP	Total guaranteed pay
Variable pay	STI and LTI
YES	Youth Employment Service