Abridged Audited Group Results

for the year ended 30 September **2011**

Heritage | Quality | Integrity

adcock ingram

Adcock Ingram is a leading South African pharmaceutical manufacturer, marketer and distributor. The Company occupies a 10% share of the private pharmaceutical market in South Africa with a strong presence in over-the-counter brands. The Company is South Africa's largest supplier of hospital and critical care products. Its footprint extends to India and other territories in sub-Saharan Africa.

The extensive product portfolio includes branded and generic prescription medicines and over-the-counter/fast moving consumer goods (FMCG) brands, intravenous solutions, blood collection products and renal dialysis systems.

Vision

To be recognised as a leading world-class branded healthcare company.

Foreword

The acquisition of NutriLida, a vitamins, minerals and supplements (VMS) company, on 31 July 2011 makes Adcock Ingram the leader in VMS in the FMCG sector.

CEO, Jonathan Louw

Financial features

- Turnover from continuing operations increased **8%** to **R4,454 billion**
- EBITDA from continuing operations decreased **7%** to **R1,170 billion**
- HEPS increased **31%** to **465,1 cents** (2010: 354,8 cents)
- Normalised HEPS decreased **9%** to **465,1 cents** (2010: 509,6 cents)
- **2,5%** ordinary shares bought back

Salient features

- MNC partnerships contributed strong revenue growth
- **39%** revenue growth achieved outside of South Africa
- NutriLida business acquired on 31 July 2011
- Excellent performance in over-the-counter (OTC) resulted in Adcock Ingram rated as the overall leader in the pharmacy category out of 41 OTC/self-medication companies in South Africa in the Campbell Belman 2011 survey
- Green Supply Chain Award for the best project (R70 million) awarded for energy savings in the New Midrand Distribution Centre
- Disappointing ARV tender allocation and still uncertainty on DPP outcome
- Upgrading of facilities disrupted supply

Consolidated statements of comprehensive income

	Note	Audited 30 Sep 2011 R'000	Change %	Audited 30 Sep 2010 R'000
Continuing operations				
REVENUE	2	**4 534 235**	8	4 200 022
TURNOVER	2	**4 453 567**	8	4 130 087
Cost of sales		**(2 284 606)**		(1 928 956)
Gross profit		**2 168 961**	(1)	2 201 131
Selling and distribution expenses		**(530 005)**		(442 805)
Marketing expenses		**(206 981)**		(162 442)
Research and development expenses		**(70 723)**		(65 287)
Fixed and administrative expenses		**(292 614)**		(362 290)
Operating profit		**1 068 638**	(9)	1 168 307
Finance income	2	**63 778**		59 288
Finance costs		**(30 225)**		(37 931)
Dividend income	2	**16 890**		10 647
Profit before taxation and abnormal item		**1 119 081**	(7)	1 200 311
Abnormal item	3	**–**		(269 000)
Profit from continuing operations before taxation		**1 119 081**	20	931 311
Taxation		**(326 129)**		(308 542)
Profit for the year from continuing operations		**792 952**	27	622 769
(Loss)/profit after taxation for the year from a discontinued operation		**(28 152)**		20 459
Profit for the year		**764 800**	19	643 228
Other comprehensive income		**17 591**		(528)
Exchange differences on translation of foreign operations		**4 709**		(4 156)
Movement in cash flow hedge accounting reserve, net of tax		**12 882**		3 628
Total comprehensive income for the year, net of tax		**782 391**		642 700
Net profit attributable to:				
Owners of the parent		**754 205**		631 459
Non-controlling interests		**10 595**		11 769
		764 800		643 228
Total comprehensive income attributable to:				
Owners of the parent		**770 658**		630 931
Non-controlling interests		**11 733**		11 769
		782 391		642 700
Continuing operations				
Basic earnings per ordinary share (cents)		**458,5**	29	354,9
Diluted basic earnings per ordinary share (cents)		**457,5**	29	354,1
Headline earnings per ordinary share (cents)		**465,1**	31	354,8
Diluted headline earnings per ordinary share (cents)		**464,2**	31	354,0
Discontinued operation				
Basic earnings per ordinary share (cents)		**(16,6)**		8,6
Diluted basic earnings per ordinary share (cents)		**(16,6)**		8,6
Headline earnings per ordinary share (cents)		**0,3**		8,6
Diluted headline earnings per ordinary share (cents)		**0,3**		8,6

Consolidated statement of changes in equity

	Share capital R'000	Share premium R'000	Retained income R'000	Non-distributable reserves R'000	Total attributable to ordinary shareholders R'000	Non-controlling interest R'000	Total R'000
	Attributable to holders of the parent						
Balance at 30 September 2009	17 363	1 203 854	1 001 942	77 494	2 300 653	24 943	2 325 596
Share issue	33	4 364			4 397		4 397
Movement in treasury shares	(31)	(17 928)			(17 959)		(17 959)
Share-based payment expense				272 095	272 095		272 095
Acquisition of "A" ordinary shares by Blue Falcon Trading 69 (Pty) Limited – non-controlling interest						93 750	93 750
Acquisition through business combination: Ayrton Drug Manufacturing Limited						33 636	33 636
Subsequent acquisition of non-controlling interests in Ayrton Drug Manufacturing Limited			(922)		(922)	(69)	(991)
Total comprehensive income			631 459	(528)	630 931	11 769	642 700
Profit for the year			631 459		631 459	11 769	643 228
Other comprehensive income				(528)	(528)		(528)
Dividends			(274 540)		(274 540)	(5 344)	(279 884)
Balance at 30 September 2010	17 365	1 190 290	1 357 939	349 061	2 914 655	158 685	3 073 340
Share issue	25	3 368			3 393		3 393
Movement in treasury shares	(502)	(291 427)			(291 929)		(291 929)
Share-based payment expense							
– continuing operations				6 685	6 685		6 685
– discontinued operations				(831)	(831)		(831)
Disposal of business						(12 644)	(12 644)
Acquisition through business combination (Note 7.2)						14 072	14 072
Subsequent acquisition of non-controlling interests in:							
– Ayrton Drug Manufacturing Limited			(4 120)		(4 120)	(5 225)	(9 345)
– Addclin Research (Pty) Limited			1 345		1 345	(1 345)	–
Total comprehensive income			754 205	16 453	770 658	11 733	782 391
Profit for the year			754 205		754 205	10 595	764 800
Other comprehensive income				16 453	16 453	1 138	17 591
Dividends			(177 157)		(177 157)	(27 652)	(204 809)
Distribution out of share premium		(136 943)			(136 943)		(136 943)
Balance at 30 September 2011	**16 888**	**765 288**	**1 932 212**	**371 368**	**3 085 756**	**137 624**	**3 223 380**

Consolidated statements of financial position

	Note	Audited 30 Sep 2011 R'000	Audited 30 Sep 2010 R'000
ASSETS			
Property, plant and equipment		**1 161 558**	857 471
Deferred tax		**3 775**	23 967
Other financial assets		**140 210**	139 012
Investment in associate		**–**	12 200
Intangible assets		**728 474**	424 149
Non-current assets		**2 034 017**	1 456 799
Inventories		**864 465**	719 236
Trade and other receivables		**1 202 858**	1 150 393
Cash and cash equivalents		**1 103 977**	1 430 917
Taxation receivable		**30 143**	–
Current assets		**3 201 443**	3 300 546
Total assets		**5 235 460**	4 757 345
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	**16 888**	17 365
Share premium		**765 288**	1 190 290
Non-distributable reserves		**371 368**	349 061
Retained income		**1 932 212**	1 357 939
Total shareholders' funds		**3 085 756**	2 914 655
Non-controlling interests		**137 624**	158 685
Total equity		**3 223 380**	3 073 340
Long-term borrowings		**346 811**	453 830
Post-retirement medical liability		**13 987**	15 808
Deferred tax		**93 884**	23 961
Non-current liabilities		**454 682**	493 599
Trade and other payables		**954 076**	889 162
Short-term borrowings		**496 032**	126 787
Cash-settled options		**64 036**	68 760
Provisions		**42 859**	84 464
Bank overdraft		**395**	–
Taxation payable		**–**	21 233
Current liabilities		**1 557 398**	1 190 406
Total equity and liabilities		**5 235 460**	4 757 345

Consolidated abridged statements of cash flows

	Audited Year ended 30 Sep 2011 R'000	Audited Year ended 30 Sep 2010 R'000
Cash flows from operating activities		
Profit before taxation from continuing operations	**1 119 081**	931 311
Profit before taxation from discontinued operation	**(24 255)**	29 453
Adjusted for non-cash items and net finance income	**57 275**	358 684
Working capital changes	**(130 197)**	115 364
Cash generated from operations	**1 021 904**	1 434 812
Finance income	**63 778**	59 288
Finance costs	**(30 225)**	(37 931)
Dividend income	**16 890**	10 647
Dividends paid	**(204 809)**	(279 884)
Taxation paid	**(341 156)**	(324 832)
Net cash inflow from operating activities	**526 382**	862 100
Cash flows from investing activities		
Increase in other financial assets	**(6)**	(975)
Acquisition of businesses, net of cash	**(328 775)**	(139 502)
Proceeds on disposal of business	**84 989**	–
*Purchase of property, plant and equipment – Expansion	**(172 451)**	(107 723)
– Replacement	**(260 528)**	(225 339)
Proceeds on disposal of plant and equipment	**4 220**	2 819
Net cash outflow from investing activities	**(672 551)**	(470 720)
Cash flows from financing activities		
Acquisition of non-controlling interest	**(9 345)**	(991)
Proceeds from issue of share capital	**3 393**	4 397
Purchase of treasury shares	**(291 929)**	(17 959)
Subscription for "A" shares	**–**	93 750
Distribution out of share premium	**(136 943)**	–
Increase in borrowings	**371 536**	443 763
Repayment of borrowings	**(117 329)**	(174 730)
Net cash (outflow)/inflow from financing activities	**(180 617)**	348 230
Net (decrease)/increase in cash and cash equivalents	**(326 786)**	739 610
Net foreign exchange difference on cash and cash equivalents	**(549)**	(1 410)
Cash and cash equivalents at beginning of year	**1 430 917**	692 717
Cash and cash equivalents at end of year	**1 103 582**	1 430 917

** Include interest capitalised in accordance with IAS 23, of R34,7 million.*

Notes to the consolidated financial statements

1 BASIS OF PREPARATION

1.1 Introduction

The abridged annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34 *Interim financial reporting*, the South African Companies Act, the Listings Requirements of the JSE Limited as well as the AC500 standards as issued by the Accounting Practices Board or its successor. The condensed financial information has been audited by Ernst & Young Inc. The individual auditor assigned to perform the audit is Warren Kinnear. The auditors' unqualified opinion is available for inspection at the Company's registered office.

Mr Andy Hall, Deputy Chief Executive and Financial Director is responsible for this set of financial results and has supervised the preparation thereof in conjunction with the finance executives, Mr Greg Hill and Ms Dorette Neethling.

1.2 Changes in accounting policies

The accounting policies and the methods of computation are in terms of IFRS and are consistent with those of the previous annual financial statements except for the adoption of the following new and amended IFRS interpretations during the year which had no impact on the business:

IFRS 2 Share-based payment amendment

This amendment is effective for the Group from 1 October 2010 and clarifies the accounting for group cash settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers, but the parent or another entity in the Group pays for those goods or services. The amendment clarifies that these transactions are included within the scope of IFRS 2.

IFRIC 19 Extinguishing financial liabilities with equity instruments

The Group adopted IFRIC 19 from 1 October 2010 which clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In the case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

IAS 32 Financial instruments: Presentation – Classification of rights issues (Amendment)

The Group adopted this amendment to IAS 32 from 1 October 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivate equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

		Audited 30 Sep 2011 R'000	Audited 30 Sep 2010 R'000
2	***REVENUE***		
	Continuing operations		
	Revenue comprises		
	– Turnover	**4 453 567**	4 130 087
	– Finance income	**63 778**	59 288
	– Dividend income	**16 890**	10 647
		4 534 235	4 200 022
3	***ABNORMAL ITEM***		
	Share-based payment expenses	**–**	(269 000)

	Audited 30 Sep 2011 R'000	Audited 30 Sep 2010 R'000
4 SEGMENTAL REPORTING		
Turnover		
Continuing operations		
Over the Counter	**1 734 666**	1 427 291
Prescription	**1 646 265**	1 666 373
Pharmaceuticals	**3 380 931**	3 093 664
Hospital Products	**1 072 636**	1 036 423
	4 453 567	4 130 087
Discontinued operation		
Hospital Products	**90 103**	310 567
	4 543 670	4 440 654
Operating income		
Continuing operations		
Over the Counter	**615 282**	407 082
Prescription	**315 849**	540 440
Pharmaceuticals	**931 131**	947 522
Hospital Products	**137 507**	220 785
	1 068 638	1 168 307
Discontinued operation		
Hospital Products	**4 528**	31 995
	1 073 166	1 200 302
5 INVENTORY		
The amount of inventories written down recognised as an expense in cost of inventories	**20 907**	26 821
6 CAPITAL COMMITMENTS		
Capital commitments		
– contracted	**292 983**	503 362
– approved	**120 845**	154 992
	413 828	658 354

	Audited 30 Sep 2011 R'000	Audited 30 Sep 2010 R'000
7 BUSINESS COMBINATIONS		
7.1 NutriLida		
On 31 July 2011, Adcock Ingram Healthcare (Pty) Limited acquired 100% of the business of NutriLida (Pty) Limited, Zeiss Road Manufacturing (Pty) Limited and Midsummer Assets and Leasing (Pty) Limited (NutriLida), a vitamins, minerals and supplements business based in Johannesburg, as a going concern. The Group has acquired NutriLida because it significantly enlarges the range of products in the vitamins, minerals and supplements category.		
The fair value of the identifiable assets as at the date of acquisition was:		
Assets		
Property, plant and equipment	1 332	
Marketing-related intangible assets	139 307	
Cash and cash equivalents	26 595	
Investments	1 192	
Inventories	36 552	
Accounts receivable	47 191	
Receiver of Revenue	2 888	
	255 057	
Liabilities		
Accounts payable	(29 673)	
Deferred tax	(38 991)	
	(68 664)	
Total identifiable net assets at fair value	186 393	
Goodwill arising on acquisition	163 607	
Purchase consideration transferred	350 000	
Net cash acquired with business	(26 595)	
Net cash consideration	323 405	
The fair value of the trade receivables equals the gross amount of trade receivables and amounts to R47,2 million. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. An amount of R50 million was paid into an escrow account as a guarantee for any returns or uncollected trade receivables.		
The significant factors that contributed to the recognition of goodwill of R163,6 million include, but are not limited to, the acquisition of trade listings of an established product portfolio within the FMCG channel.		
From the date of acquisition, NutriLida contributed R43,1 million towards revenue and R15,3 million towards profit before income tax.		
Should the NutriLida acquisition have been included from 1 October 2010, the contribution is estimated to have been R233,4 million to revenue and R75,6 million towards profit before income tax.		
Analysis of cash flows on acquisition		
Transaction costs of the acquisition (included in cash flows from operating activities)	(2 441)	
Net cash acquired with the business (included in cash flows from investing activities)	26 595	
Cash inflow on acquisition	24 154	
Transaction costs of R2,4 million have been expensed and are included in fixed and administrative expenses.		

	Audited 30 Sep 2011 R'000	Audited 30 Sep 2010 R'000
7 *BUSINESS COMBINATIONS* continued		
7.2 Bioswiss (Pty) Limited (Bioswiss)		
On 1 April 2011, Adcock Ingram Healthcare (Pty) Limited acquired 51% of Bioswiss, a specialised diabetes pharmaceutical company in South Africa. The Group has acquired Bioswiss as it adds a diabetes portfolio to the range of products.		
The fair value of the identifiable assets as at the date of acquisition was:		
Assets		
Accounts receivable	**11 812**	
Marketing-related intangible assets	**10 255**	
Customer-related intangible assets	**1 010**	
Contract-related intangible assets	**7 840**	
Inventories	**5 009**	
Cash and cash equivalents	**2 124**	
Other intangibles	**114**	
Property, plant and equipment	**15**	
	38 179	
Liabilities		
Long-term borrowings	**(1 922)**	
Accounts payable	**(2 161)**	
Deferred tax	**(5 342)**	
Receiver of Revenue	**(36)**	
	(9 461)	
Total identifiable net assets at fair value	**28 718**	
Non-controlling interests measured at fair value	**(14 072)**	
Goodwill arising on acquisition	**10 354**	
Purchase consideration	**25 000**	
Deferred consideration	**(8 506)**	
Net cash acquired with the business	**(2 124)**	
Cash injection	**(9 000)**	
Net cash consideration	**5 370**	

	Audited 30 Sep 2011 R'000	Audited 30 Sep 2010 R'000
7 BUSINESS COMBINATIONS continued		
7.2 Bioswiss (Pty) Limited (Bioswiss) continued		
The fair value of the trade receivables equals the gross amount of trade receivables and amounts to R11,8 million. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.		
The significant factors that contributed to the recognition of goodwill include, but are not limited to, the acquisition of a diabetes product portfolio.		
From the date of acquisition, Bioswiss contributed R6,8 million towards revenue and reported a loss before income tax of R2,5 million.		
Should the Bioswiss acquisition have been included from 1 October 2010, the contribution is estimated to have been R10,8 million to revenue and a loss of R2,5 million.		
Analysis of cash flows on acquisition		
Transaction costs of the acquisition (included in cash flows from operating activities)	(675)	
Net cash acquired with the business (included in cash flows from investing activities)	2 124	
Cash inflow on acquisition	1 449	
Transaction costs of R0,7 million have been expensed and are included in fixed and administrative expenses.		
Of the total purchase price, a payment of R8,5 million has been deferred. The deferred portion of the purchase price has been fully provided for. R2,5 million of the deferred portion is subject to the achievement of certain revenue targets.		
8 DISPOSAL OF BUSINESS		
The Scientific Group (Pty) Limited		
On 31 January 2011, the Group disposed of its 74% holding in The Scientific Group (Pty) Limited. For more details, please refer to the SENS announcement published on 24 May 2011.		
Cash inflow on disposal:		
Consideration received	77 827	
Net overdraft disposed of with the discontinued operation	7 162	
Net cash inflow	84 989	

	Audited 30 Sep 2011 R'000	Audited 30 Sep 2010 R'000
9 EARNINGS PER SHARE		
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.		
Continued operations		
Basic earnings		
Earnings attributable to owners of Adcock Ingram from total operations	**754 205**	631 459
Adjusted for:		
Earnings attributable from discontinued operation	**28 397**	(14 907)
Earnings from continuing operations attributable to owners of Adcock Ingram	**782 602**	616 552
Headline earnings		
Earnings attributable to owners of Adcock Ingram	**782 602**	616 552
Adjusted for: (*)		
Profit on disposal of plant and equipment	**(857)**	(221)
Impairment of investment in associate	**12 200**	
Headline earnings	**793 945**	616 331
Discontinued operations		
Basic earnings		
Net (loss)/profit attributable to ordinary equity holders of the parent from a discontinued operation	**(28 397)**	14 907
Adjusted for:		
Loss on disposal of business net of tax	**28 854**	–
Headline earnings from discontinued operation attributable to owners of Adcock Ingram	**457**	14 907
Weighted average number of ordinary shares on which basic earnings and headline earnings per share are based	**170 697**	173 712
Diluted weighted average number of shares on which diluted basic earnings and headline earnings are based	**171 049**	174 101

** The adjustments have no tax implications*

	Number of shares '000	Number of shares '000
10 SHARE CAPITAL		
Number of ordinary shares in issue	**200 156**	199 904
Number of "A" and "B" shares held by the BEE participants	**(25 944)**	(25 944)
Number of ordinary shares held by the BEE participants	**(1 043)**	(309)
Number of ordinary shares held by Group company	**(4 285)**	–
Net shares in issue	**168 884**	173 651

11 SUBSEQUENT EVENTS

11.1 Short-term borrowings

Subsequent to year end, repayment terms of the secured loan amounting to R290 million bearing interest at JIBAR +230 basis points, originally due for settlement in November 2011 were re-negotiated as follows:

The secured loan now bears interest at JIBAR +180 basis points. Interest will continue to be payable quarterly in arrears and the capital will be repaid in quarterly instalments from March 2012 with the final instalment due in December 2013.

11.2 ADDvance

On 1 November 2011, Adcock Ingram acquired the ADDvance brand from Peppina Sales. The acquisition will further enhance Adcock Ingram's role in the growing vitamins, minerals and supplements (VMS) market through entry into yet another niche segment.

SALIENT FEATURES

Turnover from continuing operations increased 8% to R4,454 billion

EBITDA from continuing operations decreased 7% to R1,170 billion

HEPS increased 31% to 465,1 cents (2010: 354,8 cents)

Normalised HEPS decreased 9% to 465,1 cents (2010: 509,6 cents)

2,5% ordinary shares bought back

FINANCIAL REVIEW

Headline earnings

The Group achieved headline earnings from continuing operations for the year ended 30 September 2011 of R793,9 million (465,1 cents per share). This represents a 28,8% increase over the comparable figure for 2010 of R616,3 million and translates into an increase of 31,1% in headline earnings per share. This result was achieved during a year in which Adcock Ingram was allocated only 4% of the Anti-retroviral (ARV) tender, saw the suspension of sales of dextropropoxyphene-containing (DPP) products and experienced significant upgrade-related production disruptions in its Critical Care facility. It should be noted that the increases calculated for Headline Earnings and HEPS incorporate in the prior year, a R269 million (154,8 cents per share) IFRS 2 charge in relation to the Broad Based Black Economic Empowerment (BBBEE) transaction.

Continuing operations

Turnover

The impact of the acquisitions of NutriLida, Bioswiss, as well as Ayrton Drug Manufacturing Limited (Ayrton) in Ghana, together with the various co-promotion and distribution agreements with multinational (MNC) partners, supported turnover growth of 8% to R4 454 million (2010: R4 130 million). With the significant reduction in DPP and ARV revenue, the decline in revenue excluding acquisitions and MNC revenue was 4.6%.

Price deflation averaged 2% for the year. In the Prescription segment, the Single Exit Price (SEP) increase of 7,4% granted by Government in June 2010 was implemented only on products where market conditions allowed. No SEP price increase was granted during the 2011 year. Prices in the ARV portfolio reduced by 20%, resulting in overall price deflation for the segment of 4%. Against this pricing pressure, Prescription revenue declined by 1,2%. Over-the-counter (OTC) turnover growth of 21,5% includes 4% price inflation, while the Hospital Products division revenue growth of 3% includes a 5% decrease in pricing, with increased volumes being sold into the public sector.

Profits

Gross profit decreased by 1,5% to R2 169 million (2010: R2 201 million) with margins declining from 53,3% to 48,7%. Gross margin benefited from the strong Rand, which affected imports of raw materials and finished products. The average exchange rates for procurement were R6,98 (2010: R7,50) and R9,76 (2010: R10,52) for US Dollar and Euro imports respectively, a benefit of R56 million in cost of sales. This benefit was offset by increased adverse manufacturing variances of R17,1 million in plants undergoing upgrades, under utilisation of the Wadeville plant following the low ARV tender allocation, an industry wide strike in July and August, low margins in Critical Care as finished goods needed to be imported to meet demand, and the inclusion of MNC revenue at significantly lower than average gross margins.

Operating profit, excluding the prior year abnormal item, decreased by 8,6% to R1 068 million (2010: R1 168 million) with the percentage on sales reducing from 28,3% to 24,0%. Operating expenses increased by 6,5% to R1 100 million (2010: R1 033 million), with new businesses not in the base contributing 2,6% to the expense increase.

After net finance income and dividends received, profit before tax and abnormal item decreased 6,8% to R1 119 million (2010: R1 200 million). The effective tax rate for the year was 29,1% (2010: 33,1%).

Discontinued operation

The Group disposed of its 74% holding in The Scientific Group (Pty) Limited on 31 January 2011, realising a net cash inflow of R85 million and a loss, including impairments of intangibles, of R28,2 million.

Cash flows and financial position

Cash generated from operations was R1,0 billion (2010: R1,4 billion) after working capital increased by R130 million (2010: R115 million decrease).

Trade accounts and other receivables increased by R70 million from September 2010, with trade accounts receivable days at the end of the period at 65 days, a deterioration over the 58 days reported in September 2010. However, this is not an indication of a deterioration in the general book, as aside from a single debtor provided for to the extent of

R5,4 million in Critical Care, there were no bad debts, and in fact some small previously written-off debts were recovered in the Pharmaceutical business.

Inventory increased by R163 million, 134 days of inventory (2010: 121 days), mainly as the inventory holdings of certain key items were increased to take advantage of the stronger Rand. Trade and other accounts payable increased by R103 million, the significant movement being in relation to trade payables.

After net finance income, dividends and taxation, cash inflow from operations was R526 million. The upgrade at the Aeroton facility and the construction of the high-volume liquids facility at Clayville continued with total capital expenditure amounting to R433 million (2010: R333 million).

During the year, the Group bought back 2,5% (4 285 163 shares) of its ordinary shares over a two week period in February at an average cost, including taxes and transaction fees, of R58,07 per share, R248 million in aggregate. A further amount of R43 million of share purchases was made by the special purpose vehicles party to the BBBEE transaction. During the year an additional R364 million was drawn down from the Capex loan facility, with the final draw down of R5,8 million subsequent to year end on 1 October 2011. Cash equivalents decreased by R327 million, giving the business a gross cash position of R1,1 billion (September 2010: R1,4 billion).

Distribution incorporating a reduction of share premium in lieu of final dividend

The Board has declared a distribution of 106 cents per share for the year ended 30 September 2011 out of share premium, an increase of 4% over the comparable dividend distribution in 2010. The Company's objective of an annual dividend or distribution, covered three times by headline earnings, remains in place.

BUSINESS OVERVIEW

Pharmaceutical Division

The division has continued with a strong revenue performance in its core businesses, including a strong OTC performance and an increase of R408 million in turnover from MNC partnerships. Unfortunately the MNC revenue growth was entirely offset by the setback of the hampered commercialisation of DPP-containing products and the reduced ARV tender volumes. Operating profit in the Pharmaceutical division declined by 1,7%.

The business of NutriLida, a vitamins, minerals and supplements (VMS) company, was acquired on 31 July 2011 and contributed R43,1 million turnover in the subsequent two months. The acquisition makes Adcock the leader in VMS in the FMCG sector.

Margins during the year have declined as a result of the increased mix in turnover towards the lower margin collaboration business. This has been partially offset by the strong Rand during the year as well as the OTC performance.

The OTC segment has grown turnover by 21,5% from R1 427 million to R1 735 million for the year, while operating profit increased by 51% to R615 million (2010: R407 million). The operating margin was positively impacted by synergies achieved from the improved integration of acquisitions. Economy OTC brands continue to perform well, offering price sensitive consumers an alternative in the current economic climate. The Wellbeing portfolio has achieved significant market share gains and ended the year as number 1 in FMCG by volume and value.

In the Prescription segment, turnover remained relatively flat at R1 646 million (2010: R1 666 million). The MNC partner-of-choice strategy assisted with top line growth and will continue as Adcock uses its infrastructure to support the growth strategies of multinational companies. The generics portfolio, outside of ARVs, has continued to show good growth in both value and volume terms.

Ayrton continues to deliver a good performance and has grown exports from Ghana into neighbouring territories. The Adcock Ingram OTC brands recently registered in Ghana are starting to generate revenue. The East African operation continues to deliver encouraging results. Strong growth in the Adcock brands has been bolstered by the performance of the newly signed multinational contracts. Exports into neighbouring territories have been positive.

The upgrades to the general facilities and the construction of the high-volume liquids plant in Clayville continue to be on schedule. The division experienced a strike during the year which had an impact on inventory levels, impacting on supply for a period. Despite the strike, service levels have shown an improvement year on year.

The business has experienced tough trading conditions during the second half of the year due to the generally difficult economic climate and the pressure on the consumer. This trend has continued into the new financial year. The business will continue to focus on branding and innovation to extract growth in the local market, coupled with a focus on cost containment. Appropriate acquisitions in current and adjacent categories will continue to be a focus area.

Hospital Products Division

Turnover increased by 3,5% to R1 073 million (2010: R1 036 million). The public sector tender gains effective from March 2010 have exceeded published estimates on critical items, resulting in core product unit growth, but at significantly lower margins. Products were imported to meet customer demand, contributing to an erosion of gross margins from 38,2% in the prior year to 30,9% in the current year. Increased competition in the private sector has also seen lower prices on core products. Manufacturing disruptions, due to the factory upgrade activities, contributed to reduced factory output, compounded by product supply being adversely affected by the national strike.

At the end of the year under review, the R290 million upgrade is progressing according to planned timeframes, but with greater than anticipated disruption to production. Final completion and validation of the facility is planned for January 2012. This facility, the only medical grade plastics manufacturer in Southern Africa, built to world class standards, will see the division achieving compliance with the international Pharmaceutical Inspection Convention and Pharmaceutical Co-operation Scheme – jointly referred to as PIC/S – standards, adopted by the South African Medicines Control Council (MCC). On completion of the upgrade, improved output is expected.

The renal division continues to gain market share with growth reflected in all portfolios including haemodialysis, peritoneal dialysis and new dialysis treatments in acute care in the hospital. In the generic market, the division continued to invest in injectable antibiotics and speciality drugs. Penetration into the Oncology market has been slow. The Transfusion Therapy division, in spite of inventory shortages in the early part of the year due to reduced factory output, achieved growth in line with expectations. Blood donor numbers increased by 5% and this trend is expected to continue.

REGULATORY ENVIRONMENT

Indications are that, with the current price calculation procedure, the Department of Health (DoH), as was the case in 2011, is unlikely to grant an SEP increase during 2012. If we anticipate that the pricing mechanism will bring adverse unintended consequences for our customers, we will engage with DoH.

International benchmarking and the capping of logistics fees are likely to have an impact on Adcock Ingram, with these regulations anticipated in the next financial year. However, the quantum for each will not be known with any certainty until the final regulations are published. Adcock Ingram has cooperated with the DoH and the Pharmaceutical Task Group in its submissions made to DoH on these issues.

In 2011, the Minister of Health announced the establishment of a National Health Insurance (NHI) plan in order to provide better access to quality care for the South African population. Adcock Ingram embraces the principles of NHI, and awaits further details on the framework and implementation.

TRANSFORMATION

Adcock Ingram's key focus for 2011 was to consolidate the new BEE shareholdings in the Group and to increase Enterprise Development activities. The 2010 BEE equity transaction and the awarding of shares in March 2011 to all qualifying black employees resulted in a maximum BEE scorecard rating for Equity Ownership. The Owner Driver project which was initiated earlier in the year, is an important Enterprise Development initiative which is now being implemented.

DEXTROPROPOXYPHENE (DPP)-CONTAINING MEDICINES

On 15 November 2011, the court has re-instated a 'Dear Healthcare Professional' Letter issued by the Medicines Control Council (MCC) on 28 September 2011, withdrawing DPP-containing products from the market in South Africa. As a response, the Company immediately suspended the sale of products containing DPP pending the outcome of the appeal process. In the best interests of patients requiring analgesia, Adcock has called on the Department of Health to expedite the appeal committee process into the review of products containing DPP. The Company believes that this appeal process remains the most competent channel in resolving any arguments for, or against, the continued availability of products containing DPP and that an expedited process is in the best interests of all parties involved. Critical to this is an understanding that no scientific evidence exists to substantiate potential risks surrounding the continued sale and use of these products. Adcock has rejected in the strongest possible terms any arguments that DPP-containing products are so called "killer drugs" and fervently maintains that an accelerated MCC appeal process will correctly position the available scientific data in support of these objections. Adcock Ingram maintains that the study used by the MCC as the basis for its actions is not credible enough to substantiate its actions in respect of DPP-containing products as this study made use of a single non-representative sample of six patients. We replicated the study conducted by the FDA through an independent CRO, but with increased patient numbers, in order to fully outline the suspected risks with Synap Forte, the results of which did not detect any negative medical signals, and were comparable to placebo. DPP products remain in use in both the UK and Europe with tighter controls on scheduling and availability. In addition to this, the Company has clinical and epidemiological data that supports the safety of its DPP-containing products. These products have been used safely for over 30 years, are still used in 39 countries and DPP use in South Africa represents less than 1% of global use by value, according to IMS. It is important to note that DPP containing drugs tested overseas are not the same formulation as those used in South Africa. Critically, there is no evidence of cardiotoxicity in SA safety data. We place the health of patients at the centre of our business. At no stage would we ever compromise on this ethic.

PROSPECTS

Adcock Ingram maintains its Horizon 1 and 2 focus on the acquisition of businesses and brands in high growth emerging markets in Africa. Several acquisition opportunities in South Africa in the personal care and well-being categories are being investigated by our OTC business development team and importantly, the business continues to invest in brands, people and customers from our existing platform.

The multinational partner of choice strategy has delivered attractive value as Adcock Ingram diversifies its revenue streams and decreases its dependence on mature products. We expect to extend the MNC partnerships as Adcock Ingram's expansion into the rest of Africa continues.

The current economic climate remains uncertain and the impact on consumer spending is concerning. In addition, if prices for SEP-regulated products are not able to be adjusted in 2012, margins will be reduced by cost pressures, particularly in labour, transport and utilities, and active ingredient prices which are directly impacted by current Rand weakness.

The implementation of international benchmarking and the capping of logistics fees depending on the final regulations may have a negative impact on the Group.

The completion of our manufacturing facility upgrades, which will enable international accreditation of facilities, remains a key focus area during the next year.

We welcome the recently published amendment to the Preferential Procurement Policy Framework Act. This is a significant development for local manufacturers.

Adcock Ingram's core businesses remain strongly cash generative. This, together with an ungeared balance sheet, supports continued execution of the Group's growth strategies.

The financial information, on which the above prospects statement is based, has not been reviewed or reported on by the Company's external auditors.

For and on behalf of the Board

KDK Mokhele	**JJ Louw**	**AG Hall**
Chairman	*Chief Executive Officer*	*Deputy Chief Executive and Financial Director*

CAPITAL REDUCTION OUT OF SHARE PREMIUM

The Board has declared a capital reduction distribution (distribution) out of share premium of 106 cents per ordinary share, payable to shareholders, in respect of the year ended 30 September 2011.

The salient dates for the distribution are detailed below:

Last day to trade *cum* distribution	Friday, 6 January 2012
Shares trade *ex* distribution	Monday, 9 January 2012
Record date	Friday, 13 January 2012
Payment date	Monday, 16 January 2012

Share certificates may not be dematerialised or rematerialised between Monday, 9 January 2012 and Friday, 13 January 2012, both dates inclusive.

By order of the Board

NE Simelane
Company Secretary

Johannesburg
21 November 2011

Comprehensive additional information is available on our **website: www.adcock.com**

Corporate Information

ADCOCK INGRAM HOLDINGS LIMITED
(Registration number 2007/016236/06)
(Incorporated in the Republic of South Africa)
Share code: AIP ISIN: ZAE000123436
("Adcock" or "the company" or "the group" or "Adcock Ingram")

Executive directors:
JJ Louw (Chief Executive Officer), AG Hall (Deputy Chief Executive and Financial Director)

Non-executive directors:
KDK Mokhele (Chairman), EK Diack, T Lesoli, CD Raphiri, LE Schönknecht, RI Stewart, AM Thompson

Company secretary:
NE Simelane

Registered office:
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Wanderers Office Park, 52 Corlett Drive, Illovo, 2196

Sponsor:
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Nedbank Limited
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Rand Merchant Bank
1 Merchant Place, cnr Fredman Drive and Rivonia Road, Sandton, 2196

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

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