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Unaudited financial results

for the six-month period ended 31 March 2011

Foreword

The multinational partner of choice strategy has delivered attractive value as Adcock Ingram diversifies its revenue streams and decreases its dependence on mature products.

CEO, Jonathan Louw

Adcock Ingram provides an extensive portfolio of branded and generic medicines, has a strong presence in over-the-counter (OTC) brands and is South Africa's largest supplier of hospital and critical-care products.

Salient features

Turnover from continuing operations increased **14%** to **R2,2 billion**

EBITDA from continuing operations increased **3%** to **R580 million**

HEPS from continuing operations decreased **1%**

Distribution per share increased **4%** to **81 cents**

2,5% of issued ordinary shares bought back

Consolidated statements of comprehensive income

Continuing operations	Note	**Unaudited six months ended 31 Mar 2011 R'000**	Change %	Unaudited six months ended 31 Mar 2010 R'000	Audited year ended 30 Sep 2010 R'000
REVENUE	2	**2 221 575**	13	1 961 474	4 200 022
TURNOVER	2	**2 152 267**	14	1 884 378	4 130 087
Cost of sales		**(1 093 230)**		(889 462)	(1 928 956)
Gross profit		**1 059 037**	6	994 916	2 201 131
Selling and distribution expenses		**(250 046)**		(214 976)	(442 805)
Marketing expenses		**(91 377)**		(80 562)	(162 442)
Research and development expenses		**(33 213)**		(31 528)	(65 287)
Fixed and administrative expenses		**(158 153)**		(146 082)	(362 290)
Operating profit		**526 248**	1	521 768	1 168 307
Finance income	2	**61 857**		70 665	59 288
Finance costs		**(41 483)**		(64 232)	(37 931)
Dividend income	2	**7 451**		6 431	10 647
Profit before taxation and abnormal items		**554 073**	4	534 632	1 200 311
Abnormal items	3	**–**		–	(269 000)
Profit from continuing operations before taxation		**554 073**	4	534 632	931 311
Taxation		**(165 645)**		(143 854)	(308 542)
Profit for the period from continuing operations		**388 428**	(1)	390 778	622 769
(Loss)/profit after taxation for the period from a discontinued operation	7	**(28 152)**		7 937	20 459
Profit for the period		**360 276**	(10)	398 715	643 228
Other comprehensive income		**(19 209)**		3 716	(528)
Exchange differences on translation of foreign operations		**(19 046)**		1 560	(4 156)
Movement in cash flow hedge accounting reserve, net of tax		**(163)**		2 156	3 628
Total comprehensive income for the period, net of tax		**341 067**		402 431	642 700
Net profit attributable to:					
Owners of the parent		**353 361**		393 744	631 459
Non-controlling interests		**6 915**		4 971	11 769
		360 276		398 715	643 228
Total comprehensive income attributable to:					
Owners of the parent		**334 152**		397 460	630 931
Non-controlling interests		**6 915**		4 971	11 769
		341 067		402 431	642 700
Continuing operations:					
Basic earnings per ordinary share (cents)	8	**221,3**	(1)	223,3	354,9
Diluted basic earnings per ordinary share (cents)	8	**220,8**	(1)	222,7	354,1
Headline earnings per ordinary share (cents)	8	**221,3**	(1)	223,1	354,8
Diluted headline earnings per ordinary share (cents)	8	**220,7**	(1)	222,5	354,0
Total operations:					
Basic earnings per ordinary share (cents)	8	**204,9**	(10)	226,6	363,5
Diluted basic earnings per ordinary share (cents)	8	**204,3**	(10)	226,0	362,7
Headline earnings per ordinary share (cents)	8	**221,5**	(2)	226,5	363,4
Diluted headline earnings per ordinary share (cents)	8	**221,0**	(2)	225,9	362,6

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Consolidated statement of changes in equity

	Attributable to holders of the parent						
	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
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	22	2 383			2 405		2 405
Share-based payment expense				133	133		133
Total comprehensive income			393 744	3 716	397 460	4 971	402 431
Profit for the period			393 744		393 744	4 971	398 715
Other comprehensive income				3 716	3 716		3 716
Dividends			(138 922)		(138 922)	(838)	(139 760)
Balance at 31 March 2010 (unaudited)	17 385	1 206 237	1 256 764	81 343	2 561 729	29 076	2 590 805
Share issue	11	1 981			1 992		1 992
Movement in treasury shares	(31)	(17 928)			(17 959)		(17 959)
Share-based payment expense				271 962	271 962		271 962
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			237 715	(4 244)	233 471	6 798	240 269
Profit for the period			237 715		237 715	6 798	244 513
Other comprehensive income				(4 244)	(4 244)		(4 244)
Dividends			(135 618)		(135 618)	(4 506)	(140 124)
Balance at 30 September 2010 (audited)	17 365	1 190 290	1 357 939	349 061	2 914 655	158 685	3 073 340
Share issue	4	465			469		469
Movement in treasury shares	(471)	(272 158)			(272 629)		(272 629)
Share-based payment expense				3 185	3 185		3 185
Acquisition of non-controlling interests			1 387		1 387	(1 414)	(27)
Disposal of business (Note 7)				(831)	(831)	(12 644)	(13 475)
Total comprehensive income			353 361	(19 209)	334 152	6 915	341 067
Profit for the period			353 361		353 361	6 915	360 276
Other comprehensive income				(19 209)	(19 209)		(19 209)
Dividends			(177 157)		(177 157)	(21 045)	(198 202)
Balance at 31 March 2011 (unaudited)	**16 898**	**918 597**	**1 535 530**	**332 206**	**2 803 231**	**130 497**	**2 933 728**

Consolidated statements of financial position

	Note	**Unaudited 31 Mar 2011 R'000**	Unaudited 31 Mar 2010 R'000	Audited 30 Sep 2010 R'000
ASSETS				
Property, plant and equipment		**983 322**	679 128	857 471
Deferred tax		**18 060**	19 241	23 967
Investments		**139 012**	138 037	139 012
Investment in associate		**12 200**	12 200	12 200
Intangible assets		**388 775**	334 869	424 149
Non-current assets		**1 541 369**	1 183 475	1 456 799
Inventories		**731 746**	553 392	719 236
Trade and other receivables		**1 173 341**	1 047 007	1 150 393
Cash and cash equivalents		**1 110 401**	918 007	1 430 917
Current assets		**3 015 488**	2 518 406	3 300 546
Total assets		**4 556 857**	3 701 881	4 757 345
EQUITY AND LIABILITIES				
Capital and reserves				
Issued share capital	9	**16 898**	17 385	17 365
Share premium		**918 597**	1 206 237	1 190 290
Non-distributable reserves		**332 206**	81 343	349 061
Retained income		**1 535 530**	1 256 764	1 357 939
Total shareholders' funds		**2 803 231**	2 561 729	2 914 655
Non-controlling interests		**130 497**	29 076	158 685
Total equity		**2 933 728**	2 590 805	3 073 340
Long-term liabilities		**340 934**	206 431	453 830
Post-retirement medical liability		**17 192**	15 487	15 808
Deferred tax		**23 415**	7 023	23 961
Non-current liabilities		**381 541**	228 941	493 599
Trade and other payables		**793 264**	607 496	957 922
Short-term borrowings		**400 454**	215 899	126 787
Provisions		**31 579**	38 107	84 464
Taxation payable		**16 291**	20 633	21 233
Current liabilities		**1 241 588**	882 135	1 190 406
Total equity and liabilities		**4 556 857**	3 701 881	4 757 345

Consolidated abridged statements of cash flows

	Note	Unaudited six months ended 31 Mar 2011 R'000	Unaudited six months ended 31 Mar 2010 R'000	Audited year ended 30 Sep 2010 R'000
Cash flows from operating activities				
Operating profit before working capital changes		**538 504**	547 919	1 319 448
Working capital changes		**(274 374)**	666	115 364
Cash generated from operations		**264 130**	548 585	1 434 812
Finance income		**61 857**	70 665	59 288
Finance costs		**(41 483)**	(64 232)	(37 931)
Dividend income		**7 451**	6 431	10 647
Dividends paid		**(198 202)**	(139 760)	(279 884)
Taxation paid		**(171 306)**	(154 646)	(324 832)
Net cash (outflow)/inflow from operating activities		**(77 553)**	267 043	862 100
Cash flows from investing activities				
Increase in Investments		**–**	–	(975)
Cost of business acquired		**–**	(35 000)	(139 502)
Proceeds on disposal of business	7	**84 989**	–	–
Purchase of property, plant and equipment		**(217 343)**	(118 877)	(333 062)
Proceeds on disposal of property, plant and equipment		**892**	708	2 819
Net cash outflow from investing activities		**(131 462)**	(153 169)	(470 720)
Cash flows from financing activities				
Acquisition of non-controlling interest		**(27)**	–	(991)
Proceeds from issue of share capital		**469**	2 405	4 397
Purchase of treasury shares		**(272 629)**	–	(17 959)
Subscription for "A" shares		**–**	–	93 750
Increase in borrowings		**161 357**	109 138	269 033
Net cash (outflow)/inflow from financing activities		**(110 830)**	111 543	348 230
Net (decrease)/increase in cash and cash equivalents		**(319 845)**	225 417	739 610
Net foreign exchange difference on cash and cash equivalents		**(671)**	(127)	(1 410)
Cash and cash equivalents at beginning of period		**1 430 917**	692 717	692 717
Cash and cash equivalents at end of period		**1 110 401**	918 007	1 430 917

Notes to the consolidated financial statements

1. BASIS OF PREPARATION

1.1 Introduction

The abridged interim results 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 financial results for the six-month period ended 31 March 2011 have not been reviewed or audited.

1.2 Changes in accounting policies

The accounting policies and the methods of computation 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:

* IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
* IAS 32 *Classification of Rights Issues – Amendment to IAS 32*
* Amendment to IFRS 2 *Share-based Payments – Group Cash-settled Share-based Payment Arrangements*

The adoption of standards and interpretations above did not have any effect on the financial performance or position of the Group.

		Unaudited six months ended 31 Mar 2011 R'000	Unaudited six months ended 31 Mar 2010 R'000	Audited year ended 30 Sep 2010 R'000
2.	**REVENUE**			
	Continuing operations			
	Revenue comprises			
	– Turnover	**2 152 267**	1 884 378	4 130 087
	– Finance income	**61 857**	70 665	59 288
	– Dividend income	**7 451**	6 431	10 647
		2 221 575	1 961 474	4 200 022
3.	**ABNORMAL ITEMS**			
	Share based payment expenses	**–**	–	(269 000)
4.	**SEGMENTAL REPORTING**			
	Turnover			
	Continuing operations			
	Over the Counter	**803 436**	634 817	1 427 291
	Prescription	**826 498**	748 696	1 666 373
	Pharmaceuticals	**1 629 934**	1 383 513	3 093 664
	Hospital Products	**522 333**	500 865	1 036 423
		2 152 267	1 884 378	4 130 087
	Discontinued operations			
	Hospital Products (Note 7)	**90 103**	144 020	310 567
		2 242 370	2 028 398	4 440 654
	Operating income			
	Continuing operations			
	Over the Counter	**289 440**	207 900	407 082
	Prescription	**167 688**	203 810	540 440
	Pharmaceuticals	**457 128**	411 710	947 522
	Hospital Products	**69 120**	110 058	220 785
		526 248	521 768	1 168 307
	Discontinued operations			
	Hospital Products (Note 7)	**4 528**	12 695	31 995
		530 776	534 463	1 200 302
5.	**INVENTORY**			
	The amount of inventories written down recognised as an expense in cost of inventories	**11 890**	20 279	28 110
6.	**CAPITAL COMMITMENTS**			
	Capital commitments			
	– contracted	**406 191**	552 414	503 362
	– approved	**110 555**	291 054	154 992
		516 746	843 468	658 354

7. 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 (TSG).

	Unaudited six months ended 31 Mar 2011 R'000	Unaudited six months ended 31 Mar 2010 R'000	Audited year ended 30 Sep 2010 R'000
The results of TSG are presented below and the 31 March 2011 figures include trading for the four-month period ended 31 January 2011:			
Turnover	**90 103**	144 020	310 567
Cost of sales	**(52 265)**	(88 507)	(176 871)
Gross profit	**37 838**	55 513	133 696
Selling and distribution expenses	**(20 397)**	(26 705)	(57 126)
Marketing expenses	**(794)**	(514)	(1 266)
Fixed and administrative expenses	**(12 119)**	(15 599)	(43 309)
Operating profit	**4 528**	12 695	31 995
Finance costs	**(1 046)**	(1 142)	(2 542)
Profit before taxation	**3 482**	11 553	29 453
Taxation	**(2 780)**	(3 616)	(8 994)
Profit for the period from discontinued operation	**702**	7 937	20 459
Loss on disposal of the discontinued operation	**(27 737)**	–	–
Attributable taxation	**(1 117)**	–	–
(Loss)/profit after tax for the period from a discontinued operation	**(28 152)**	7 937	20 459
Cash inflow on disposal:			
Consideration received	**77 827**		
Net overdraft disposed of with the discontinued operation	**7 162**		
Net cash inflow	**84 989**		

8. HEADLINE EARNINGS

Earnings attributable to owners of Adcock Ingram	**353 361**	393 744	631 459
Adjusted for:			
Profit on disposal of property, plant and equipment	**(64)**	(238)	(221)
Loss on disposal of business net of tax	**28 854**	–	–
Headline earnings	**382 151**	393 506	631 238

9. SHARE CAPITAL

	Number of shares		
	'000	'000	'000
Number of ordinary shares in issue	**199 941**	173 849	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	**(728)**	–	(309)
Number of ordinary shares held by subsidiary	**(4 285)**	–	–
Net shares in issue	**168 984**	173 849	173 651
Weighted average number of ordinary shares on which headline earnings and basic earnings per share are based	**172 496**	173 766	173 712
Diluted weighted average number of shares	**172 929**	174 231	174 101

10. SUBSEQUENT EVENTS

10.1 NutriLida (Pty) Limited (NutriLida)

Adcock Ingram announced on 29 March 2011, the acquisition of the business of NutriLida, a vitamin, mineral and supplements company based in Johannesburg, pending Competition Commission approval. The acquisition will strengthen Adcock Ingram's foothold in the growing supplements market and further enable the Group to gain market share in the FMCG category. The submission to the Competition Commission was made on 4 May 2011.

10.2 Ayrton Drug Manufacturing Limited

Since 31 March 2011, Adcock Ingram International (Pty) Limited acquired an additional 4% of the issued shares of Ayrton Drug Manufacturing Limited (Ghana), increasing its ownership to more than 71%.

10.3 Bioswiss (Pty) Limited (Bioswiss)

On 16 May 2011, Adcock Ingram acquired a 51% share in the business of Bioswiss, a specialised diabetes pharmaceutical company.

SALIENT FEATURES

- Turnover from continuing operations increased 14% to R2,2 billion
- EBITDA from continuing operations increased 3% to R580 million
- HEPS from continuing operations decreased 1%
- Distribution per share increased 4% to 81 cents
- 2,5% of issued ordinary shares bought back

FINANCIAL REVIEW

Headline earnings

The Group achieved headline earnings for the six months ended 31 March 2011 of R382,2 million. This represents a 3,0% decrease from the comparable figure for 2010 of R393,5 million. After including the effects of a share buy-back of 2,5% of issued shares by a subsidiary in the Group, this translates into a decrease of 1% from continuing operations at both the headline earnings per share (HEPS) and earnings per share (EPS) level. This result was achieved during a period in which Adcock Ingram was allocated a disappointing 4% of the Anti-retroviral (ARV) tender, saw the temporary suspension of sales of dextropropoxyphene-containing (DPP) products and experienced significant upgrade-related production disruptions in its Critical Care facility.

Continuing operations

Turnover

The impact of the acquisition of Ayrton Drug Manufacturing Limited (Ayrton) in Ghana, and the conclusion of various co-promotion and distribution agreements with multinational (MNC) partners, supported turnover growth of 14% to R2 152 million (2010: R1 884 million). Despite the significant reduction in DPP and ARV revenue, the growth excluding acquisitions and MNC revenue was 1%.

Price reductions averaged 2% for the half 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. Prices in the ARV portfolio reduced by 19%, resulting in an overall price decrease for the segment of 4%. Against this pricing pressure, Prescription revenue growth of 10% was achieved. Over-the-counter (OTC) turnover growth of almost 27% reflects a 7% price inflation, while the Hospital Products division revenue growth of 4% includes an 11% decrease in pricing due to increased volumes being sold into the public sector.

Profits

Gross profit from continuing operations for the six months increased by 6,4% to R1 059 million (2010: R995 million) with margins declining from 52,8% to 49,2% (September 2010: 53,3%). Gross margins as a percentage of sales benefited from the strong Rand, which affected imported raw materials and finished products. The average exchange rates for procurement were R7,06 (2010: R7,50) and R9,64 (2010: R11,07) for US Dollar and Euro imports respectively with total contracts settled during the period amounting to R330,8 million (2010: R313,5 million). This benefit was offset by increased adverse manufacturing variances of R25 million in plants undergoing upgrades, very low margins in the public sector 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 improved by 1% to R526 million (2010: R522 million) with the percentage on sales reducing from 27.7% to 24.4% (September 2010: 28.3%). Operating expenses increased by 12.6% to R533 million (2010: R473 million), with new businesses not in the base contributing 2.2% to the increase. The primary drivers of the increase in expenses were selling, distribution and marketing, including additional expenditure of R26,8 million to support the MNC partnerships.

After net finance income and dividends received, profit before tax grew 4% to R554 million (2010: R535 million). The effective tax rate for the period was 29.9% (2010: 26.9%), resulting in profit after tax from continuing operations declining 1% to R388 million (2010: R391 million).

Discontinued operations

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.

Cash flows and financial position

Cash generated from operations was R264 million (2010: R549 million) after working capital increased by R274 million.

Trade accounts and other receivables increased by R95 million with trade accounts receivable days at the end of the period being 63 days, a deterioration from the 58 days reported in September 2010. This negative performance was influenced by overdue amounts of R42 million due from the Government. In accordance with agreed contract terms with MNC partners, R55 million was settled shortly after 31 March 2011. Less than R1 million was written off during the period in relation to doubtful debts.

Inventory increased by R75 million, mainly as a result of increased stockholding of co-promotion items. In addition, the inventory holdings of certain key items were increased to take advantage of the stronger Rand. Trade and other accounts payable reduced by R104 million, the significant movement being in relation to non-trade payables.

After net finance income, dividends and taxation, cash outflow from operations was R78 million. The upgrade at the Aeroton facility and the construction of the high-volume liquids facility at Clayville progressed well with total capital expenditure amounting to R217 million (2010: R119 million).

During the period, 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 R25 million of treasury shares purchases were made by the special purpose vehicles party to the Broad Based Black Economic Empowerment (BBBEE) transaction concluded in April 2010. Subsequent to September 2010, an additional R270 million was drawn down from the Capex loan facility. The total facility (R290 million) for the upgrade at the Aeroton plant will be repaid in one bullet payment in November 2011. The facility for the high-volume liquids plant (R510 million) will be repaid in quarterly instalments from December 2011 with the final instalment due in the last quarter of the 2013 calendar year. Cash equivalents decreased by R320 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 interim dividend

The Board has declared a distribution of 81 cents per share for the period ended 31 March 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 produced a strong performance despite the setback of the temporary suspension of sales of DPP-containing products and the disappointing ARV tender award during the period. The recent agreements with MNC partners (MSD, Lilly, Roche, Novartis) have contributed towards the 18% turnover increase to R1 630 million (2010: R1 384 million). This increase is despite a reduction in DPP and ARV sales of R145 million.

Profit before interest and tax has shown a pleasing increase of 11% to R457 million (2010: R412 million) during the period under review. A strong performance by the branded OTC portfolio, as well as the strong Rand, compensated partially for the lower margins earned on the MNC partnerships, and the loss of ARV and DPP revenue.

The OTC segment has grown turnover by 27% from R635 million in the comparable period to R803 million in the current period, while operating profit increased by 39% to R289 million (2010: R208 million). The operating margin was positively impacted by sales and marketing synergies achieved from the improved integration of acquisitions. Economy OTC brands continue to perform well, although there has been some shift back to premium brands in Pharmacy over the period. The Personal Care and Wellbeing businesses acquired during 2010 have been integrated and are starting to contribute to the OTC performance. The Wellbeing portfolio has achieved significant market share gains, which will be further enhanced by the acquisition of NutriLida (subject to Competition Commission approval) announced during March 2011. Within Pharmacy, Adcock Ingram's OTC range has significantly outgrown the market in both value and volume terms.

In the Prescription segment, the objective to become the multinational partner of choice has borne fruit during the period and supported turnover growth of 10% to R826 million (2010: R749 million). Further opportunities with current and other partners continue to be explored. The segment has also been boosted by the return to growth of the generics portfolio in both value and volume terms. Regrettably, the segment has been negatively impacted by the regulator's actions on DPP-containing products and the ARV tender award.

Our Ghanaian subsidiary, Ayrton, continues to deliver good performance and offers further growth in the region. A basket of Adcock Ingram OTC brands has recently been launched in Ghana. Due to an increase in demand, the Bangalore facility will manufacture several Ayrton brands whilst the manufacturing capacity in Ghana is being increased.

The Kenyan operation continues to deliver encouraging results. The conclusion of MNC partnerships is supporting increased sales and the introduction of Dawanol into neighbouring territories has proved successful and further growth is anticipated.

Upgrades to the supply chain remain on schedule. The new MCC- and Pharmacy Council-accredited warehouse and distribution facility in Durban is fully operational. The upgrade of our various distribution facilities has allowed the business to attract third party distribution opportunities through the collaboration agreements. The construction of the high-volume liquids plant in Clayville is progressing to plan and is anticipated to be commissioned during the second half of 2012.

With the loss of ARV volumes, the division has embarked on corrective measures by repatriating production previously outsourced due to capacity constraints. This, together with the potential for toll manufacturing, will allow the facilities to adequately recover factory overheads within due course.

Hospital Products Division

Turnover increased only 4,3% over the comparable period to R522 million (2010: R501 million). Whilst the public sector tender wins in 2010 were significant, the required volumes exceeded published estimates on certain products, resulting in an overall market share gain on a unit level but not on a monetary basis. This, combined with the upgrade activities and intermittent factory shut-downs, negatively impacted our supply of products as market share gains in the public sector were realised at the expense of losses in the private sector. Products were imported to meet customers' needs and eroded gross margins from 38,6% in 2010 to 31,3% in the current period.

At the end of the period under review, the R290 million plant upgrade is progressing according to planned timeframes, but with significant disruption to production. Final completion and validation of the facility is planned for December 2011. This facility, 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 and enhanced efficiencies are expected.

The renal division continues to grow market share with growth reflected in all portfolios including haemodialysis, peritoneal dialysis (PD) and new dialysis treatments in acute care. In the generic market the division continued to invest in the injectable analgesics, antibiotics and speciality drugs. Both Medicine Delivery and Transfusion Therapy were impacted by stock issues due to the reduced factory output. Blood donor numbers increased by 5% and, with the trend expected to continue, the Transfusion Therapy division is likely to grow.

Following the decision by Baxter not to exercise their call option, Adcock Ingram remains committed to growing its relationship with Baxter.

REGULATORY ENVIRONMENT

The Department of Health has announced that no SEP increase will be implemented during 2011.

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

TRANSFORMATION

Following the conclusion of Adcock Ingram's BBBEE transaction in April 2010, an independent verification was conducted, measuring the Group's Broad Based Black Economic Empowerment status against the Codes of Good Practice. This has resulted in Adcock Ingram being rated a Level 4 BBBEE contributor, from Level 6 only a year ago. To date more than 1 400 black employees have benefited from Mpho ea Bophelo, Adcock Ingram's Employee Share Option Scheme. Having demonstrated excellent performance in other elements of the scorecard, a concerted effort is being placed on Enterprise Development in this financial year.

CHANGES TO DIRECTORS' RESPONSIBILITIES AND APPOINTMENT OF COMPANY SECRETARY

Mr LE Schonknecht resigned as Chairman of the Human Resources, Remuneration and Nominations Committee. However, he will continue to serve the Board as an independent non-executive director and member of the Risk and Sustainability Committee. Mr CD Raphiri, an independent non-executive director, will assume the role of Chairman of the Human Resources, Remuneration and Nominations Committee and Mr AM Thompson, an independent non-executive director, has been appointed to the Human Resources, Remuneration and Nominations Committee. Mr Thompson remains a member of the Audit Committee and Transformation Committee. These changes became effective on 28 January 2011.

The Company appointed Mr Ntando Simelane as Company Secretary with effect from 1 April 2011.

PROSPECTS

The integration of the Hospital and Pharmaceutical businesses has been slower than expected, but we foresee the integration gaining momentum in the second half of the year.

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 sub-Saharan Africa continues.

We await the approval of the Competition Commission for the acquisition of NutriLida, with the decision expected within the next six weeks.

The Group maintains its focus on the acquisition of businesses and brands in high growth emerging markets as well as the acquisition of intellectual property that is globally relevant.

We are still awaiting MCC approval for key ARV registrations in South Africa, as well as several first-to-market generics. The MCC has not adequately addressed its capacity constraints which result in registration delays.

For and on behalf of the Board

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

CAPITAL REDUCTION OUT OF SHARE PREMIUM IN LIEU OF INTERIM DIVIDEND

The Board has declared a capital reduction distribution (in lieu of an interim dividend) out of share premium of 81 cents per ordinary share, payable to shareholders, in respect of the six months ended 31 March 2011.

The salient dates for the capital reduction are detailed below:

Last date to trade *cum* distribution	Friday, 17 June 2011
Shares trade *ex* distribution	Monday, 20 June 2011
Record date	Friday, 24 June 2011
Payment date	Monday, 27 June 2011

Share certificates may not be dematerialised or rematerialised between Monday, 20 June 2011 and Friday, 24 June 2011, both dates inclusive.

By order of the Board

NE Simelane
Company Secretary

Johannesburg
23 May 2011

Notes

adcock ingram

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")

Directors:
KDK Mokhele *(Chairman)**
JJ Louw *(Chief Executive Officer)*
EK Diack*
AG Hall *(Chief Financial Officer)*
T Lesoli*
CD Raphiri*
LE Schönknecht*
RI Stewart*
AM Thompson*
**Non-executive*

Company secretary:
NE Simelane

Registered office:
1 New Road, Midrand, 1682

Postal address:
Private Bag X69, Bryanston, 2021

Transfer secretaries:
Computershare Investor Services (Pty) Limited
70 Marshall Street, Johannesburg, 2001

Postal address:
PO Box 61051, Marshalltown, 2107

Auditors:
Ernst & Young Inc.
Wanderers Office Park, 52 Corlett Drive, Illovo, 2196

Sponsor:
Deutsche Securities (SA) (Pty) Limited
3 Exchange Square, 87 Maude Street, Sandton, 2146

Bankers:
Nedbank Limited
135 Rivonia Road, Sandown, Sandton, 2146

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

Attorneys:
Read Hope Phillips
30 Melrose Boulevard, Melrose Arch, 2196

www.adcock.com

Midrand
24 May 2011

Sponsor to Adcock Ingram:
Deutsche Securities (SA) (Proprietary) Limited

for more information please visit
www.adcock.com