

Unaudited financial results

for the six-month period ended 31 March 2012

Heritage | Quality | Integrity

adcock ingram 

Salient features

- Turnover increased **5%** to **R2,25 billion**
- EBITDA decreased **15%** to **R490 million**
- HEPS decreased **10%** to **198,7 cents**
- Dividend per share increased **6,2%** to **86 cents**
- Cash on hand: **R568 million**

Adcock Ingram is a leading South African pharmaceutical manufacturer, marketer and distributor. The Company has 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.

Consolidated statements of comprehensive income

| | Note | Unaudited six months ended 31 March 2012 R'000 | Change % | Unaudited six months ended 31 March 2011 R'000 | Audited year ended 30 September 2011 R'000 |
|---|------|---|-------------|---|---|
| Continuing operations | | | | | |
| REVENUE | 2 | 2 276 815 | 4 | 2 195 740 | 4 534 235 |
| TURNOVER | 2 | 2 251 450 | 5 | 2 152 267 | 4 453 567 |
| Cost of sales | | (1 200 931) | | (1 093 230) | (2 284 606) |
| Gross profit | | 1 050 519 | (1) | 1 059 037 | 2 168 961 |
| Selling and distribution expenses | | (294 405) | 18 | (250 046) | (530 005) |
| Marketing expenses | | (102 843) | 13 | (91 377) | (206 981) |
| Research and development expenses | | (40 173) | 21 | (33 213) | (70 723) |
| Fixed and administrative expenses | | (177 746) | 12 | (158 153) | (292 614) |
| Operating profit | | 435 352 | (17) | 526 248 | 1 068 638 |
| Finance income | 2 | 8 151 | | 36 022 | 63 778 |
| Finance costs | | (11 081) | | (15 648) | (30 225) |
| Dividend income | 2 | 17 214 | | 7 451 | 16 890 |
| Profit from continuing operations before taxation | | 449 636 | (19) | 554 073 | 1 119 081 |
| Taxation | | (107 913) | | (165 645) | (326 129) |
| Profit for the period from continuing operations | | 341 723 | (12) | 388 428 | 792 952 |
| Loss after taxation for the period from a discontinued operation | | | | (28 152) | (28 152) |
| Profit for the period | | 341 723 | (5) | 360 276 | 764 800 |
| Other comprehensive income | | (45 135) | | (19 209) | 17 591 |
| Exchange differences on translation of foreign operations | | (31 690) | | (19 046) | 4 709 |
| Movement in cash flow hedge accounting reserve, net of tax | | (13 445) | | (163) | 12 882 |
| Total comprehensive income for the period, net of tax | | 296 588 | | 341 067 | 782 391 |
| Net profit attributable to: | | | | | |
| Owners of the parent | | 335 296 | | 353 361 | 754 205 |
| Non-controlling interests | | 6 427 | | 6 915 | 10 595 |
| | | 341 723 | | 360 276 | 764 800 |
| Total comprehensive income attributable to: | | | | | |
| Owners of the parent | | 293 246 | | 334 152 | 770 658 |
| Non-controlling interests | | 3 342 | | 6 915 | 11 733 |
| | | 296 588 | | 341 067 | 782 391 |
| Continuing operations | | | | | |
| Basic earnings per ordinary share (cents) | | 198,4 | (10) | 221,3 | 458,5 |
| Diluted basic earnings per ordinary share (cents) | | 198,1 | (10) | 220,8 | 457,5 |
| Headline earnings per ordinary share (cents) | | 198,7 | (10) | 221,3 | 465,1 |
| Diluted headline earnings per ordinary share (cents) | | 198,4 | (10) | 220,7 | 464,2 |

Consolidated statement of changes in equity

| | Attributable to holders of the parent | | | | | | |
|--|---------------------------------------|------------------------|-------------------------------------|--------------------------|--|-----------------------------------|------------------|
| | 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 interest R'000 | Total R'000 |
| Balance at 30 September 2010 (audited) | 17 365 | 1 190 290 | 349 061 | 1 357 939 | 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 | | | | | | | |
| – continuing operations | | | 3 185 | | 3 185 | | 3 185 |
| – discontinued operation | | | (831) | | (831) | | (831) |
| Subsequent acquisition of non-controlling interests in: | | | | | | | |
| – Ayrton Drug Manufacturing Limited | | | | 42 | 42 | (69) | (27) |
| – Addclin Research (Pty) Limited | | | | 1 345 | 1 345 | (1 345) | |
| Disposal of business | | | | | | (12 644) | (12 644) |
| Total comprehensive income | | | (19 209) | 353 361 | 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 | 332 206 | 1 535 530 | 2 803 231 | 130 497 | 2 933 728 |
| Share issue | 21 | 2 903 | | | 2 924 | | 2 924 |
| Movement in treasury shares | (31) | (19 269) | | | (19 300) | | (19 300) |
| Share-based payment expense | | | 3 500 | | 3 500 | | 3 500 |
| Acquisition through business combination | | | | | | 14 072 | 14 072 |
| Subsequent acquisition of non-controlling interests in Ayrton Drug Manufacturing Limited | | | | (4 162) | (4 162) | (5 156) | (9 318) |
| Total comprehensive income | | | 35 662 | 400 844 | 436 506 | 4 818 | 441 324 |
| Profit for the period | | | | 400 844 | 400 844 | 3 680 | 404 524 |
| Other comprehensive income | | | 35 662 | | 35 662 | 1 138 | 36 800 |
| Dividends | | | | | | (6 607) | (6 607) |
| Distribution out of share premium | | (136 943) | | | (136 943) | | (136 943) |
| Balance at 30 September 2011 (audited) | 16 888 | 765 288 | 371 368 | 1 932 212 | 3 085 756 | 137 624 | 3 223 380 |
| Share issue | 45 | 5 031 | | | 5 076 | | 5 076 |
| Movement in treasury shares | (41) | (25 509) | | | (25 550) | | (25 550) |
| Share-based payment expense | | | 9 069 | | 9 069 | | 9 069 |
| Subsequent acquisition of non-controlling interests in Ayrton Drug Manufacturing Limited | | | | (2 000) | (2 000) | (8 752) | (10 752) |
| Total comprehensive income | | | (42 050) | 335 296 | 293 246 | 3 342 | 296 588 |
| Profit for the period | | | | 335 296 | 335 296 | 6 427 | 341 723 |
| Other comprehensive income | | | (42 050) | | (42 050) | (3 085) | (45 135) |
| Dividends | | | | | | (1 280) | (1 280) |
| Distribution out of share premium | | (183 831) | | | (183 831) | | (183 831) |
| Balance at 31 March 2012 (unaudited) | 16 892 | 560 979 | 338 387 | 2 265 508 | 3 181 766 | 130 934 | 3 312 700 |

Consolidated statements of financial position

| | Note | Unaudited 31 March 2012 R'000 | Unaudited 31 March 2011 R'000 | Audited 30 September 2011 R'000 |
|-------------------------------------|------|--|--|--|
| ASSETS | | | | |
| Property, plant and equipment | | 1 377 191 | 983 322 | 1 161 558 |
| Intangible assets | | 720 431 | 388 775 | 728 474 |
| Other financial assets | | 139 013 | 139 012 | 140 210 |
| Deferred tax | | 5 058 | 18 060 | 3 775 |
| Investment in associate | | – | 12 200 | – |
| Non-current assets | | 2 241 693 | 1 541 369 | 2 034 017 |
| Inventories | | 819 041 | 731 746 | 864 465 |
| Trade and other receivables | | 1 312 297 | 1 173 341 | 1 202 858 |
| Cash and cash equivalents | | 567 762 | 1 110 401 | 1 103 977 |
| Taxation receivable | | 32 467 | – | 30 143 |
| Current assets | | 2 731 567 | 3 015 488 | 3 201 443 |
| Total assets | | 4 973 260 | 4 556 857 | 5 235 460 |
| EQUITY AND LIABILITIES | | | | |
| Capital and reserves | | | | |
| Issued share capital | 7 | 16 892 | 16 898 | 16 888 |
| Share premium | | 560 979 | 918 597 | 765 288 |
| Non-distributable reserves | | 338 387 | 332 206 | 371 368 |
| Retained income | | 2 265 508 | 1 535 530 | 1 932 212 |
| Total shareholders' funds | | 3 181 766 | 2 803 231 | 3 085 756 |
| Non-controlling interests | | 130 934 | 130 497 | 137 624 |
| Total equity | | 3 312 700 | 2 933 728 | 3 223 380 |
| Long-term borrowings | | 322 031 | 340 934 | 346 811 |
| Post-retirement medical liability | | 14 883 | 17 192 | 13 987 |
| Deferred tax | | 69 412 | 23 415 | 93 884 |
| Non-current liabilities | | 406 326 | 381 541 | 454 682 |
| Trade and other payables | | 752 481 | 714 964 | 954 076 |
| Short-term borrowings | | 419 312 | 400 454 | 496 032 |
| Cash-settled options | | 43 834 | 78 300 | 64 036 |
| Provisions | | 38 607 | 31 579 | 42 859 |
| Bank overdraft | | – | – | 395 |
| Taxation payable | | – | 16 291 | – |
| Current liabilities | | 1 254 234 | 1 241 588 | 1 557 398 |
| Total equity and liabilities | | 4 973 260 | 4 556 857 | 5 235 460 |

Consolidated abridged statements of cash flows

| | Unaudited six months ended 31 March 2012 R'000 | <i>Unaudited six months ended 31 March 2011 R'000</i> | <i>Audited year ended 30 September 2011 R'000</i> |
|--|---|---|---|
| Cash flows from operating activities | | | |
| Operating profit before working capital changes | 496 707 | 538 504 | 1 152 101 |
| Working capital changes | (315 534) | (274 374) | (130 197) |
| Cash generated from operations | 181 173 | 264 130 | 1 021 904 |
| Finance income | 8 151 | 36 022 | 63 778 |
| Finance costs | (11 081) | (15 648) | (30 225) |
| Dividend income | 17 214 | 7 451 | 16 890 |
| Dividends paid | (1 280) | (198 202) | (204 809) |
| Taxation paid | (129 180) | (171 306) | (341 156) |
| Net cash inflow/(outflow) from operating activities | 64 997 | (77 553) | 526 382 |
| Cash flows from investing activities | | | |
| Decrease/(Increase) in other financial assets | 1 197 | – | (6) |
| Acquisition of businesses, net of cash | – | – | (328 775) |
| Proceeds on disposal of business | – | 84 989 | 84 989 |
| Purchase of intangible assets | (13 508) | – | – |
| Purchase of property, plant and equipment | (273 539) | (217 343) | (432 979) |
| Proceeds on disposal of property, plant and equipment | 346 | 892 | 4 220 |
| Net cash outflow from investing activities | (285 504) | (131 462) | (672 551) |
| Cash flows from financing activities | | | |
| Acquisition of non-controlling interest | (10 752) | (27) | (9 345) |
| Proceeds from issue of share capital | 5 076 | 469 | 3 393 |
| Purchase of treasury shares | (25 550) | (272 629) | (291 929) |
| Distribution out of share premium | (183 831) | – | (136 943) |
| Increase in borrowings | 4 521 | 260 149 | 371 536 |
| Repayment of borrowings | (103 848) | (98 792) | (117 329) |
| Net cash outflow from financing activities | (314 384) | (110 830) | (180 617) |
| Decrease in cash and cash equivalents | (534 891) | (319 845) | (326 786) |
| Net foreign exchange difference on cash and cash equivalents | (929) | (671) | (549) |
| Cash and cash equivalents at beginning of period | 1 103 582 | 1 430 917 | 1 430 917 |
| Cash and cash equivalents at end of period | 567 762 | 1 110 401 | 1 103 582 |

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 AC 500 standards as issued by the Accounting Practices Board or its successor. The financial results for the six-month period ended 31 March 2012 have not been reviewed or audited.

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 Executive, Ms Dorette Neethling.

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:

* IAS 24 *Related Party Disclosures (Amendment)*

* IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment)*

* Improvements to IFRS (issued in May 2010)

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

| | Unaudited six months ended 31 March 2012 R'000 | Unaudited six months ended 31 March 2011 R'000 | Audited year ended 30 September 2011 R'000 |
|--|---|---|---|
| 2 REVENUE | | | |
| Continuing operations | | | |
| Revenue comprises: | | | |
| – Turnover | 2 251 450 | 2 152 267 | 4 453 567 |
| – Finance income | 8 151 | 36 022 | 63 778 |
| – Dividend income | 17 214 | 7 451 | 16 890 |
| | 2 276 815 | 2 195 740 | 4 534 235 |
| 3 SEGMENTAL REPORTING | | | |
| Continuing operations | | | |
| Turnover | | | |
| Southern Africa | 2 161 865 | 2 070 643 | 4 296 829 |
| OTC | 874 685 | 740 675 | 1 608 046 |
| Prescription | 752 145 | 815 535 | 1 632 071 |
| Hospital | 535 035 | 514 433 | 1 056 712 |
| Rest of Africa and India | 144 117 | 125 609 | 257 476 |
| | 2 305 982 | 2 196 252 | 4 554 305 |
| Less: Inter-company sales | (54 532) | (43 985) | (100 738) |
| | 2 251 450 | 2 152 267 | 4 453 567 |
| Contribution after marketing expenses (CAM) | | | |
| Southern Africa | 620 555 | 685 571 | 1 369 231 |
| OTC | 318 870 | 327 312 | 680 703 |
| Prescription | 198 037 | 253 704 | 485 182 |
| Hospital | 103 648 | 104 555 | 203 346 |
| Rest of Africa and India | 35 116 | 32 043 | 62 744 |
| Less: Inter-company | (2 400) | – | – |
| | 653 271 | 717 614 | 1 431 975 |
| Less: Other operating expenses ⁽¹⁾ | (217 919) | (191 366) | (363 337) |
| Fixed and administrative expenses | (177 746) | (158 153) | (292 614) |
| Research and development expenses | (40 173) | (33 213) | (70 723) |
| Operating profit | 435 352 | 526 248 | 1 068 638 |

(1) Other operating expenses including Research and Development and shared services are managed on a central basis and are not allocated to operating segments.

| | Unaudited six months ended 31 March 2012 R'000 | <i>Unaudited six months ended 31 March 2011 R'000</i> | <i>Audited year ended 30 September 2011 R'000</i> |
|--|---|---|---|
| 4 INVENTORY | | | |
| The amount of inventories written down recognised as an expense in cost of inventories | 17 029 | 11 890 | 20 907 |
| 5 CAPITAL COMMITMENTS | | | |
| Capital commitments | | | |
| – contracted | 235 873 | 406 191 | 292 983 |
| – approved | 54 024 | 110 555 | 120 845 |
| | 289 897 | 516 746 | 413 828 |
| 6 HEADLINE EARNINGS | | | |
| Earnings per share is derived by dividing earnings attributable to owners of Adcock Ingram from continuing operations for the period, by the weighted average number of shares in issue. | | | |
| Headline earnings is determined as follows: | | | |
| Earnings attributable to owners of Adcock Ingram from total operations | 335 296 | 353 361 | 754 205 |
| <i>Adjusted for:</i> | | | |
| Earnings attributable from discontinued operation | – | 28 397 | 28 397 |
| Earnings attributable to owners of Adcock Ingram from continuing operations | 335 296 | 381 758 | 782 602 |
| <i>Adjusted for:</i> | | | |
| Loss/(Profit) on disposal of property, plant and equipment | 509 | (64) | (857) |
| Impairment of investment | – | – | 12 200 |
| Headline earnings | 335 805 | 381 694 | 793 945 |
| 7 SHARE CAPITAL | | | |
| | Number of shares '000 | Number of shares '000 | Number of shares '000 |
| Number of ordinary shares in issue | 200 604 | 199 941 | 200 156 |
| Number of A and B shares held by the BEE participants | (25 944) | (25 944) | (25 944) |
| Number of ordinary shares held by the BEE participants | (1 451) | (728) | (1 042) |
| Number of ordinary shares held by Group company | (4 285) | (4 285) | (4 285) |
| Net shares in issue | 168 924 | 168 984 | 168 884 |
| Headline earnings and basic earnings per share are based on: | | | |
| Weighted average number of shares | 168 982 | 172 496 | 170 697 |
| Diluted weighted average number of shares | 169 254 | 172 929 | 171 049 |
| 8 SUBSEQUENT EVENTS | | | |
| There are no material events which have occurred subsequent to the reporting date and up until the issue of these results which require additional disclosure. | | | |

SALIENT FEATURES

Turnover increased 5% to R2,25 billion

EBITDA decreased 15% to R490 million

HEPS decreased 10% to 198,7 cents

Dividend per share increased 6,2% to 86 cents

Cash on hand: R568 million

FINANCIAL REVIEW

The six-month period under review saw Adcock Ingram facing several challenges, both internal and external, that tested the Company's business model and strategy. Although the financial results achieved were disappointing, the Company continues to invest in its supply chain, products and people, all of which give confidence for improved future performance.

Headline earnings

The Company achieved headline earnings for the six months ended 31 March 2012 of R335,8 million. This represents a 12% decrease from the comparable figure for 2011 of R381,7 million. This translates into a decrease of 10,2% at the headline earnings per share (HEPS) level and 10,4% at the earnings per share (EPS) level.

Turnover

The acquisition of NutriLida and the conclusion of new co-promotion and distribution agreements with multi-national (MNC) partners supported turnover growth of 5% to R2,251 million (2011: R2,152 million). This was achieved notwithstanding the loss of sales of DPP-containing products and the reduced Anti-Retroviral (ARV) tender award. Price reductions averaged 2% for the half-year.

In the Prescription division, no Single Exit Price (SEP) increase was granted during the period under review and revenue declined by 8%. Over-the-counter (OTC) turnover growth of 18% benefited from the inclusion of NutriLida, with volumes increasing by 8%. However, price deflation of 3% was experienced in this segment, reflecting increased competition. Hospital revenue grew by 4% as full production resumed post the factory upgrade, but the business segment continued to experience price deflation.

Profits

Gross profit for the six months decreased by 0,8% to R1 050 million (2011: R1 059 million) with margins declining from 49,2% to 46,7% (September 2011: 48,7%). Gross margin as a percentage of sales was adversely impacted by the inclusion of MNC revenue at lower than average gross margins, production inflation and by the weaker Rand, which affected imported raw materials and finished products. The average exchange rates for procurement were R7,57 (2011: R7,06) and R10,48 (2011: R9,64) for US Dollar and Euro imports, respectively, with total contracts settled during the period amounting to R366,1 million (2011: R330,8 million).

Operating profit declined by 17% to R435 million (2011: R526 million) with the percentage on sales reducing from 24,5% to 19,3% (September 2011: 24,0%). Operating expenses increased by 15,5% to R615 million (2011: R533 million), with new businesses, including amortisation of the acquired trademarks, not in the base contributing R24 million to the increase and M&A-related project costs increasing by R22 million. Excluding these, base costs were up by 7%.

After net finance costs and dividends received, profit before tax declined 19% to R450 million (2011: R554 million). The effective tax rate for the period was 24,0% (2011: 29,9%), as the Company utilises the remaining portion of its Strategic Industrial Project allowance of R308 million. As a result, the profit after tax from continuing operations declined 12% to R342 million (2011: R388 million).

Cash flows and financial position

Cash generated from operations was R181 million (2011: R264 million) after working capital increased by R316 million.

Trade accounts and other receivables increased by R117 million with trade accounts receivable days at the end of the period being 62 days, an improvement from the 65 days reported at September 2011.

Inventory decreased by R40 million with inventory days improving from 134 days at September 2011 to 123 days. Trade and other accounts payable decreased by R239 million.

After net finance income, dividends and taxation, the cash inflow was R65 million. The upgrade at the Aeroton facility has been completed and the construction of the high-volume liquids facility at Clayville is progressing well, with total capital expenditure amounting to R274 million (2011: R217 million).

A further R25 million of treasury share 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 2011, an amount of R100 million was repaid on the capex loan facility. The remaining loans of R254 million for the upgrade at the Aero-ton plant and of R446 million for the high-volume liquids plant are being repaid in quarterly instalments from March 2012, with the final instalment due in the last quarter of the 2013 calendar year. Cash equivalents decreased by R535 million during the six months, leaving a healthy gross cash position of R568 million (September 2011: R1,1 billion).

Interim dividend

The Board has declared a gross interim dividend out of income reserves of 86 cents per share for the six months ended 31 March 2012, an increase of 6% over the comparable distribution in 2011. The dividend will be subject to Dividend Tax of 15% which will result in a net dividend to those shareholders who are not exempt from paying dividend tax of 73,1 cents per share. No Secondary Tax on Companies (STC) credits have been utilised. As at the declaration date, Adcock Ingram has 174 697 484 ordinary shares in issue, including 5 736 163 treasury shares. There are also 25 944 261 "A" and "B" ordinary shares in issue, all held as treasury shares, which are entitled to a dividend.

BUSINESS OVERVIEW

COMMERCIAL

Southern Africa

The segment encompasses all of the businesses in the Southern African region namely, OTC, Prescription and Hospital. The most significant impact on the period has been the withdrawal of DPP-containing products and the disappointing ARV tender award at the last adjudication in December 2010. The negative net sales impact in the half-year under review was R55 million for DPP-containing products and R100 million for ARV's. The NutriLida acquisition has offset this effect by R98 million for the period. The region overall posted a sales increase of 4,4% in a tough economic climate that has seen pressure on the consumer as well as aggressive competition.

Overall the business, as measured in IMS, has performed well in the private market with a value growth of 10,1% (excluding DPP) in pharmacy and market share has increased in a declining FMCG market.

OTC sales increased by 18% to R875 million (2011: R741 million), assisted by the acquisition of NutriLida in the last quarter of 2011. Adcock Ingram is now number 1 in the Wellbeing category in FMCG⁽¹⁾ and number 2 in Pharmacy⁽²⁾. Dependence on SEP products has reduced from 66% to 62%. Contribution after marketing expenses decreased by 2,6% to R319 million (2011: R327 million). This business has experienced the impact of the poor economic climate as consumers have continued to be under pressure. Adcock has however managed to increase market share in this highly competitive environment.

Excluding the DPP and ARV tender impact, the **Prescription** business has performed well due to new multi-national collaborations, sound performance of Adcock Ingram's core brands and continued progress in the generics business. Overall turnover has declined by 7,8% (14,7% increase excluding DPP and ARV tenders) to R752 million (2011: R816 million).

Hospital turnover increased by 4% over the comparable period to R535 million (2011: R514 million), as volumes increased by almost 5%.

The Renal division continues to grow market share in the public and private sectors with growth reflected in all portfolios. In the generic market, the division continued to invest in injectable analgesics, antibiotics and speciality drugs. The Transfusion Therapy division was impacted by lower blood donor numbers which increased only 2% compared to the 2011 comparable period.

The relationship with Baxter remains collaborative, with Baxter having performed an audit of the upgraded facility in February 2012. No additional product has been imported from Baxter during the period under review, as the Aero-ton factory is now able to meet market demand.

Rest of Africa and India

It has been a challenging six months for the business, but revenue growth of 14,7% over the same period last year was still achieved. There was good growth in the first quarter of the year, driven mainly by aggressive media advertising and promotions in Ghana as well as strong growth of the core pharmaceutical export business. In the second quarter, results were adversely affected by product recalls in Kenya and the temporary shutdown of the liquids plant in Ghana.

(1) Source: Nielsen

(2) Source: IMS

In Kenya, sales of our flagship OTC analgesic, Dawanol, fell due to the introduction of counterfeit Dawanol in the market which required a recall of stock in the trade. The recall is complete and the business has obtained authority to distribute new stock with hologram security measures. In addition, two key products were withdrawn from the Kenyan market by their regulator after a third party manufacturing site failed a regulatory inspection in January 2012. A new manufacturing site has been approved and the relaunch of one of the products is planned for June 2012.

In Ghana, poor quality water supply at the liquids factory led to the temporary shutdown of the facility in February. A rapid but significant upgrade of the plant to the required standards was initiated and 70% of manufacturing capacity was restored by the end of April 2012.

SUPPLY CHAIN

The upgrade at the Wadeville facility is now complete. The plant underwent a US Food and Drug Administration (FDA) audit in the first quarter of the financial year. The outcome of the audit was satisfactory and the final report is awaited. Oracle manufacturing software was implemented at the plant in January 2012, which temporarily disrupted production.

The Clayville effervescent plant is performing well and the high-volume liquids plant is progressing, albeit with some time extensions. The plant will be ready for validation batches in July 2012 and inspection by the South African Medicines Control Council (MCC) in August 2012.

The completion of the construction of the Aero-ton facility was achieved in late January 2012 and validations are expected to be performed until December 2012. The finalisation of this project will result in the facility attaining compliance with the international Pharmaceutical Inspection Convention and Pharmaceutical Co-operation Scheme – jointly referred to as PIC/s – standards adopted by the MCC.

LOGISTICS

Distribution volumes on a unit basis have increased 23% compared to the same period last year, and warehouse capacity remains a focus. Distribution expenses, as a cost per unit, have decreased year-on-year, and further transport and cost-saving opportunities have been identified and remedial action to realise the savings has been instituted. Further cost-savings initiatives are being explored by rationalising the different distribution networks in the Group.

TRANSFORMATION

Adcock Ingram's BBBEE transformation scorecard was certified by an accredited verification agency in February 2012, maintaining a level 4 BBBEE status, but importantly benefitted from the Black Employee Share Scheme which was finalised in March 2011.

The Owner Driver Scheme is progressing well and is expected to be fully implemented by September 2012. This should increase the Enterprise Development score and support an improvement to level 3 BBBEE status.

REGULATORY ENVIRONMENT

The Department of Health announced an SEP increase of 2,14% in March 2012. An announcement on the regulation of logistics fees is still awaited.

PROSPECTS

The upgrades to the Critical Care and Wadeville manufacturing plants have been completed and these will operate at full capacity for the second half of the year. The expansion to the Midrand distribution centre remains on course to be finished by the end of the financial year. The completion and commissioning of the high-volume liquids plant at Clayville, also scheduled for this year, will conclude the Group's investment in its supply chain. Internationally-accredited manufacturing plants and direct to customer distribution capability will strengthen the Group's competitiveness.

The multi-national partner of choice strategy continues to deliver value with the recent addition of co-operation agreements with Novo Nordisk and Lundbeck. Additional collaborations are being explored to continue the path of revenue stream diversification and decrease the dependence on mature products. Supply chain collaborations will address the challenge in extending multi-national collaboration partnerships into sub-Saharan Africa.

Whilst registration delays at the MCC continue to impede the ability of the Group to bring new products to market, new product launches are planned for early in the third quarter in the Feminine Health and OTC segments.

The Group continues to search for acquisition opportunities in high growth emerging markets, particularly Africa and India. The successful registration and resourcing of its wholly-owned Indian subsidiary represents important capacity in support of this objective.

The effect of the current economic climate on consumer spending is concerning. Margins will continue to be impacted by cost pressures, particularly labour, transport and utilities, and by active ingredient prices which are directly linked to currency fluctuations.

CHANGES TO DIRECTORS

Mr Mpho Makwana was appointed as an independent non-executive director with effect from 1 February 2012.

DIVIDEND

The Board has declared a gross interim dividend out of income reserves of 86 cents per share, for the six months ended 31 March 2012.

The salient dates for the dividend are as follows:

| | |
|-----------------------------|----------------------|
| Last date to trade: | Friday, 15 June 2012 |
| Shares trade "ex" dividend: | Monday, 18 June 2012 |
| Record date: | Friday, 22 June 2012 |
| Payment date: | Monday, 25 June 2012 |

Share certificates may not be dematerialised or rematerialised between Monday, 18 June 2012 and Friday, 22 June 2012, both dates inclusive.

By order of the Board

NE Simelane

Company secretary

Johannesburg
28 May 2012

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

Corporate Information

ADCOCK INGRAM HOLDINGS LIMITED

Incorporated in the Republic of South Africa

Registration number 2007/016236/06

Income tax number 9528/919/15/3

Share code: AIP ISIN: ZAE000123436

("Adcock Ingram" or "the Company" or "the Group")

Directors:

KDK Mokhele (Chairman)*, JJ Louw (Chief Executive Officer), EK Diack*, AG Hall (Deputy Chief Executive Officer and Financial Director), T Lesoli*, M Makwana*, 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

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

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.

