adcock ingram

ABRIDGED PRELIMINARY AUDITED GROUP RESULTS

for the year ended 30 September **2013**

Heritage | Quality | Integrity

SALIENT FEATURES

- Turnover increased **18% to R5,45 billion**
- EBITDA increased **11% to R1,1 billion**
- HEPS decreased **17%** to **350,5 cents**
- Acquisition of Cosme brands in India concluded at a cost of **R782 million**
- Shareholder approval pending for scheme of arrangement proposing a cash and shares transaction with CFR
- Departure from stated dividend policy and no final dividend proposed

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 the leading 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, 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	Audited Year ended 30 Sep 2013 R'000	Change %	Audited Year ended 30 Sep 2012 R'000
REVENUE	2	**5 482 783**	18,1	4 644 406
TURNOVER	2	**5 445 639**	18,4	4 599 249
Cost of sales		**(3 208 798)**		(2 505 167)
Gross profit		**2 236 841**	6,8	2 094 082
Selling and distribution expenses		**(699 635)**		(571 500)
Marketing expenses		**(211 930)**		(208 625)
Research and development expenses		**(104 941)**		(81 601)
Fixed and administrative expenses		**(329 530)**		(363 535)
Operating profit		**890 805**	2,5	868 821
Finance income	2	**24 531**		18 285
Finance costs		**(82 504)**		(26 637)
Dividend income	2	**12 613**		26 872
Equity accounted earnings		**2 663**		–
Profit before taxation		**848 108**	(4,4)	887 341
Taxation		**(246 878)**		(168 265)
Profit for the year		**601 230**	(16,4)	719 076
Other comprehensive income, which will subsequently be recycled to profit or loss		**370**		(37 896)
Exchange differences on translation of foreign operations		**(772)**		(26 181)
Net profit on available-for-sale asset, net of tax		**247**		–
Movement in cash flow hedge accounting reserve, net of tax		**895**		(11 715)
Total comprehensive income for the year, net of tax		**601 600**		681 180
Profit attributable to:				
Owners of the parent		**587 844**		705 641
Non-controlling interests		**13 386**		13 435
		601 230		719 076
Total comprehensive income attributable to:				
Owners of the parent		**587 203**		670 434
Non-controlling interests		**14 397**		10 746
		601 600		681 180
Basic earnings per ordinary share (cents)		**348,6**	(16,6)	417,8
Diluted basic earnings per ordinary share (cents)		**348,3**	(16,5)	417,2
Headline earnings per ordinary share (cents)		**350,5**	(17,0)	422,4
Diluted headline earnings per ordinary share (cents)		**350,2**	(17,0)	421,8
Net asset value per share (cents)		**2 160,1**	6,5	2 028,8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to holders of the parent						
	Issued share capital R'000	Share premium R'000	Retained income R'000	Non-distri-butable reserves R'000	Total attribut-able to ordinary share-holders R'000	Non-controlling interests R'000	Total R'000
As at 1 October 2011	16 888	765 288	1 932 212	371 368	3 085 756	137 624	3 223 380
Share issue	57	7 011			7 068		7 068
Movement in treasury shares	(73)	(45 610)			(45 683)		(45 683)
Share-based payment expense				20 068	20 068		20 068
Disposal of non-controlling interests in National Renal Care (Pty) Limited			11 279		11 279	9 108	20 387
Acquisition of non-controlling interests in Ayrton Drug Manufacturing Limited			(2 148)		(2 148)	(8 912)	(11 060)
Total comprehensive income			705 641	(35 207)	670 434	10 746	681 180
Profit for the year			705 641		705 641	13 435	719 076
Other comprehensive income				(35 207)	(35 207)	(2 689)	(37 896)
Dividends			(144 474)		(144 474)	(10 882)	(155 356)
Distribution out of share premium		(179 289)			(179 289)		(179 289)
Balance at 30 September 2012 (audited)	16 872	547 400	2 502 510	356 229	3 423 011	137 684	3 560 695
Share issue	39	5 060			5 099		5 099
Movement in treasury shares	(79)	(48 396)			(48 475)		(48 475)
Movement in share-based payment reserve				13 077	13 077		13 077
Acquisition of non-controlling interests in Ayrton Drug Manufacturing Limited			(119)		(119)	(223)	(342)
Total comprehensive income			587 844	(641)	587 203	14 397	601 600
Profit for the year			587 844		587 844	13 386	601 230
Other comprehensive income				(641)	(641)	1 011	370
Share issue expenses incurred by subsidiary				(3 669)	(3 669)		(3 669)
Dividends			(340 138)		(340 138)	(6 980)	(347 118)
Balance at 30 September 2013 (audited)	**16 832**	**504 064**	**2 750 097**	**364 996**	**3 635 989**	**144 878**	**3 780 867**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Audited 30 Sep 2013 R'000	Audited 30 Sep 2012 R'000
ASSETS		
Property, plant and equipment	**1 766 464**	1 560 177
Intangible assets	**1 435 716**	710 960
Deferred tax	**14 507**	5 097
Other financial assets	**139 646**	139 751
Other non-financial asset	**36 987**	–
Investment in associates	**2 663**	–
Loans receivable	**16 489**	27 060
Non-current assets	**3 412 472**	2 443 045
Inventories	**1 558 467**	956 164
Trade and other receivables	**1 618 947**	1 320 191
Cash and cash equivalents	**163 070**	492 716
Taxation receivable	**65 871**	70 170
Current assets	**3 406 355**	2 839 241
Total assets	**6 818 827**	5 282 286
EQUITY AND LIABILITIES		
Capital and reserves		
Issued share capital	**16 832**	16 872
Share premium	**504 064**	547 400
Non-distributable reserves	**364 996**	356 229
Retained income	**2 750 097**	2 502 510
Total shareholders' funds	**3 635 989**	3 423 011
Non-controlling interests	**144 878**	137 684
Total equity	**3 780 867**	3 560 695
Long-term borrowings	**5 172**	104 625
Post-retirement medical liability	**15 108**	15 341
Deferred tax	**139 066**	101 910
Non-current liabilities	**159 346**	221 876
Trade and other payables	**1 340 333**	983 589
Bank overdraft	**1 307 993**	–
Short-term borrowings	**135 507**	431 368
Cash-settled options	**39 150**	39 983
Provisions	**55 631**	44 775
Current liabilities	**2 878 614**	1 499 715
Total equity and liabilities	**6 818 827**	5 282 286

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Audited Year ended 30 Sep 2013 R'000	Audited Year ended 30 Sep 2012 R'000
Cash flows from operating activities		
Operating profit before working capital changes	**1 204 899**	1 077 581
Working capital changes	**(630 598)**	(292 138)
Cash generated from operations	**574 301**	785 443
Finance income, excluding receivable	**21 720**	19 369
Finance costs, excluding accrual	**(73 715)**	(22 672)
Dividend income, excluding receivable	**12 613**	27 035
Dividends paid	**(347 118)**	(155 356)
Taxation paid	**(216 090)**	(196 158)
Net cash (outflow)/inflow from operating activities	**(28 289)**	457 661
Cash flows from investing activities		
Decrease in other financial assets	**409**	457
Acquisition of Cosme business, net of cash	**(821 593)**	–
Purchase of property, plant and equipment – Expansion	**(65 262)**	(276 401)
– Replacement	**(279 111)**	(235 392)
Purchase of intangible assets	**–**	(13 109)
Proceeds on disposal of property, plant and equipment	**377**	1 732
Increase in loans receivable	**–**	(11 221)
Net cash outflow from investing activities	**(1 165 180)**	(533 934)
Cash flows from financing activities		
Acquisition of non-controlling interests in Ayrton Drug Manufacturing Limited	**(342)**	(11 060)
Proceeds from issue of share capital	**5 099**	7 068
Purchase of treasury shares	**(48 475)**	(45 683)
Share issue expenses incurred by subsidiary	**(3 669)**	–
Distribution out of share premium	**–**	(179 289)
Increase in borrowings	**31 339**	16 503
Repayment of borrowings	**(426 995)**	(321 777)
Net cash outflow from financing activities	**(443 043)**	(534 238)
Net decrease in cash and cash equivalents	**(1 636 512)**	(610 511)
Net foreign exchange difference on cash and cash equivalents	**(1 127)**	(355)
Cash and cash equivalents at beginning of year	**492 716**	1 103 582
Cash and cash equivalents at end of year	**(1 144 923)**	492 716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PREPARATION

1.1 Introduction

The abridged preliminary consolidated annual financial statements for the year ended 30 September 2013 have been prepared in compliance with the Listings Requirements of the JSE Limited, the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the requirements of the International Accounting Standards ("IAS") 34: Interim Financial Reporting, SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the Companies Act, No. 71 of 2008. These statements were compiled under the supervision of Mr AG Hall (CA (SA)), Deputy Chief Executive and Financial Director and have been audited in terms of section 29(1) of the Act.

The accounting policies used in the preparation of these results are in accordance with IFRS and are consistent in all material respects with those used in the audited annual financial statements for the year ended 30 September 2012. The following revised Interpretation has been adopted in the current year: IAS 1: *Presentation of Financial Statements*.

External auditors, Ernst & Young Inc., have issued their opinion on the Group's annual financial statements for the year ended 30 September 2013. The audit was conducted in accordance with International Standards on Auditing. The auditor responsible for the audit is WK Kinnear. They have issued an unmodified audit opinion on the consolidated annual financial statements and abridged preliminary consolidated financial statements. These preliminary abridged summarised consolidated financial statements have been derived and are consistent in all material respects with the Group's annual financial statements. A copy of their audit report is available for inspection at the Company's registered office.

1.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended IFRS interpretation during the year. When the adoption of the interpretation is deemed to have an impact on the financial position or performance of the Group, its impact is described below:

IAS 1: Presentation of Financial Statements (Amendment)

The IASB has issued an amendment to IAS 1: *'Presentation of Financial Statements'*, which was effective for the Group from 1 October 2012. The main change resulting from this amendment is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are subsequently potentially reclassifiable to profit or loss (reclassification adjustments). The amendment does not address which items are presented in other comprehensive income.

	Audited 30 Sep 2013 R'000	Audited 30 Sep 2012 R'000
2 REVENUE		
Turnover	**5 445 639**	4 599 249
Finance income	**24 531**	18 285
Dividend income	**12 613**	26 872
	5 482 783	4 644 406
3 SEGMENT REPORTING		
Turnover		
Southern Africa	**5 030 767**	4 435 938
OTC	**2 002 279**	1 791 875
Prescription	**1 852 759**	1 520 219
Hospital	**1 175 729**	1 123 844
Rest of Africa	**220 635**	155 112
India	**386 331**	140 433
	5 637 733	4 731 483
Less: Intercompany sales	**(192 094)**	(132 234)
	5 445 639	4 599 249

	Audited 30 Sep 2013 R'000	Audited 30 Sep 2012 R'000
3 SEGMENT REPORTING continued		
Contribution after marketing expenses (CAM)		
Southern Africa	**1 177 249**	1 245 746
OTC	**707 403**	660 492
Prescription	**321 704**	371 801
Hospital	**148 142**	213 453
Rest of Africa	**48 253**	27 315
India	**108 968**	48 388
	1 334 470	1 321 449
Less: Intercompany	**(9 194)**	(7 492)
	1 325 276	1 313 957
Less: Other operating expenses	**(434 471)**	(445 136)
Research and development	**(104 941)**	(81 601)
Fixed and administrative	**(329 530)**	(363 535)
Operating profit	**890 805**	868 821
Total assets		
Southern Africa	**5 357 946**	4 927 864
Pharmaceuticals	**4 585 199**	4 312 443
Hospital	**772 747**	615 421
Rest of Africa	**286 104**	187 352
India	**1 174 777**	167 070
	6 818 827	5 282 286
4 INVENTORY		
The amount of inventories written down recognised as an expense in profit or loss	**38 283**	45 606
5 CAPITAL COMMITMENTS		
– Contracted	**34 737**	64 632
– Approved	**117 342**	143 403
	152 079	208 035
6 HEADLINE EARNINGS		
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.		
Headline earnings is determined as follows:		
Earnings attributable to owners of Adcock Ingram	**587 844**	705 641
Adjusted for:		
Impairment of leasehold improvements and intangible assets	**–**	1 887
Tax indemnity on discontinued operation	**–**	2 355
Loss on disposal of property, plant and equipment	**3 877**	4 238
Tax effect on loss on disposal of property, plant and equipment	**(685)**	(712)
Headline earnings	**591 036**	713 409

7 SHARE CAPITAL

	Number of shares 2013 '000	2012 '000
Number of ordinary shares in issue	**201 128**	200 735
Number of A and B shares held by the BEE participants	**(25 944)**	(25 944)
Number of ordinary shares held by the BEE participants	**(2 571)**	(1 782)
Number of ordinary shares held by Group company	**(4 285)**	(4 285)
Net shares in issue	**168 328**	168 724
Headline earnings and basic earnings per share are based on:		
Weighted average number of shares	**168 618**	168 894
Diluted weighted average number of shares	**168 753**	169 131

8 BUSINESS COMBINATION

8.1 Cosme Farma Laboratories Limited (Cosme)

On 17 January 2013, the Group acquired certain assets of Cosme, a division of the Cosme Group, based in Goa, India. Cosme is a mid-sized sales and marketing pharmaceutical business which has been operating in the Indian domestic pharmaceutical market for the past 40 years and is ranked in the top 70 in India, per IMS Health, with a sales force of approximately 1 000 staff.

The fair value of the identifiable assets as at the date of acquisition was:

	Audited 30 Sep 2013 R'000
Assets	
Property, plant and equipment	**130**
Marketing-related intangible assets	**618 748**
Customer-related intangible assets	**87 368**
Contract-related intangible assets	**13 040**
Manufacturing-related intangible assets	**1 630**
Total identifiable net assets at fair value	**720 916**
Goodwill arising on acquisition	**61 484**
Purchase consideration	**782 400**
VAT recoverable and deposits	**39 193**
Included in cash flows from investing activities	**821 593**

The significant factors that contributed to the recognition of goodwill of R61,5 million include, but are not limited to, the establishment of a presence within the domestic Indian market, with local management and expertise to drive the company's product sales into the various channels and customers that exist within this market.

The purchase price consideration includes an amount of R48,1 million which was paid into an escrow account, to cover any possible breaches of warranties as per the asset purchase agreement.

From the date of acquisition, Cosme contributed R168,8 million towards revenue.

As the assets purchased were fully integrated into the Indian business, it is not possible to determine the exact contribution towards profit before income tax.

	R'000
Cash outflow on acquisition	**4 248**

Transaction costs of R4,2 million have been expensed during the year and are included in fixed and administrative expenses.

9 SUBSEQUENT EVENTS

9.1 Bank overdraft

Subsequent to year-end, a secured term loan of R1 billion was agreed with Nedbank, replacing a portion of the current bank overdraft. The secured loan will bear interest at JIBAR +176 points. Interest will be payable quarterly in arrears and the capital will be repaid in December 2018.

9.2 CFR Pharmaceuticals S.A. (CFR)

In announcements released by the Company on the JSE Limited's Stock Exchange News Service ("SENS") on 3 July 2013, 15 August 2013, 11 September 2013 and 30 October 2013, the Company notified Adcock Ingram shareholders of a potential offer, to acquire control of the Company, by CFR, incorporated in Chile.

On 15 November 2013, the Company announced on SENS:

- CFR's firm intention to make an offer for the Company:
- the Adcock Ingram Board's agreement to propose and recommend a Scheme of Arrangement ("Scheme") in relation to the offer;
- certain arrangements with the Company's black economic empowerment partners and participants in the Company's employee incentive schemes; and
- if the Scheme is implemented, the delisting from the JSE of the Company's shares and the listing of CFR on the JSE by way of a secondary listing.

SALIENT FEATURES

Turnover increased 18% to R5,45 billion
EBITDA increased 11% to R1,1 billion
HEPS decreased 17% to 350,5 cents
Acquisition of Cosme brands in India concluded at a cost of R782 million
Shareholder approval pending for scheme of arrangement proposing a cash and shares transaction with CFR
Departure from stated dividend policy and no final dividend proposed

This was a particularly challenging year for the Company. Reasonable revenue growth was obtained, but trading margins came under pressure as a result of competitive market conditions and the weaker Rand. Also, the Board-led process to respond to expressions of interest for control of the Company necessitated very significant effort and resources and also required that certain other strategic growth initiatives be suspended.

FINANCIAL REVIEW

Turnover

The acquisition of Cosme, a mid-sized Indian pharmaceutical sales and marketing business, was concluded in January 2013. This acquisition, together with recent South African tender awards and the effect of multinational (MNC) contracts concluded towards the end of 2012, supported turnover growth of 18,4% to R5,446 million (2012: R4,599 million).

Volumes increased 10,1%, influenced by the South African tender awards and new business in the product mix accounted for 5,4% of the overall increase. Price increases across the business averaged only 2,9% for the year, but an improvement from the figure of 1,9% at the half-year. In the Prescription segment, the Single Exit Price (SEP) increase of 5,8% granted by the State in March 2013 was implemented only on products where market conditions allowed.

Profits

Gross profit for the year increased by 6,8% to R2,237 million (2012: R2,094 million) with the margin declining from 45,5% to 41,1%. Gross margin as a percentage of sales was adversely impacted by the change in mix with higher volumes of low-margin MNC and tender sales, and the significantly weaker Rand, which affected imported raw materials and finished products. The average exchange rates for inventory procurement were R9,20 (2012: R7,85) and R11,71 (2012: R10,50) for US Dollar and Euro imports respectively, with total contracts settled during the year amounting to R1,28 billion (2012: R755 million).

Operating expenses increased by R121 million or 9,9% to R1,346 million (2012: R1,225 million). The increase includes Cosme operating expenses not in the base (including amortisation of R33,4 million) of R137,8 million, a foreign exchange gain of R42,4 million and M&A-related project costs of R35 million relating to the current corporate activity.

Operating profit increased by 2,5% to R891 million (2012: R869 million) with the percentage on sales reducing from 18,9% to 16,4%. Finance costs, net of investment income, were R45,4 million, compared to R18,5 million income realised in the prior year as the average cash position turned into a net overdraft position following the acquisition of Cosme.

After net finance costs, equity accounted earnings and dividends received, profit before tax decreased 4,4% to R848 million (2012: R887 million). The effective tax rate for the year normalised at 29,1% (2012: 19,0%). The previous year's tax rate benefitted from a Strategic Industrial Project (SIP) allowance for capital projects, which reduced that year's tax charge by R86 million.

Headline earnings

The improved turnover, lower margins, good cost control and expiry of tax allowances, all combined, delivered headline earnings for the year ended 30 September 2013 of R591,0 million. This represents a 17,2% decrease over the comparable figure for 2012 of R713,4 million and translates into a decrease of 17,0% in headline earnings per share.

Cash flows and financial position

Cash generated from operations was R574 million (2012: R785 million) after working capital increased by R631 million (2012: R292 million). Although receivables increased by R311 million, trade accounts receivable days at the end of the year of 62 days improved on the 65 days reported in 2012.

Inventory increased by R602 million, including inventory relating to new MNC and tender business of R127 million and R54 million relating to Datlabs and the Cosme business in India. The overall inventory holding cost also increased (R123 million) due to the exchange rate impact. The increase in inventory experienced during the year is a function of a deliberate decision to grow the business and improve service levels, but stringent focus will be placed on normalising these inventory levels in the coming year.

The increase in accounts receivable and inventory was partly offset by the increase in payables of R356 million. After net finance income, equity accounted earnings, dividends of R347 million (2012: R155 million) and taxation, the cash outflow was R28 million (2012: R458 million inflow).

Total capital expenditure for the year amounted to R344 million (2012: R512 million) which includes upgrading the distribution facility (R80 million), as well as the construction of the central laboratory at the high-volume liquids facility in Clayville (R72 million). Wadeville invested almost R50 million on the addition of two new granulation suites.

During the year R400 million was repaid on the loan facility for the factory upgrades. The remaining balance of R100 million will be paid in December 2013. Following the acquisition of the Cosme business for R821 million, cash decreased by R1,6 billion, leaving the business in a year-end overdraft position of R1,1 billion (2012: R493 million net cash position).

Dividend

In terms of the conditions of the scheme of arrangement, more fully detailed in the combined circular to shareholders of the Company dated 18 November 2013, the Board of directors has agreed not to pay a final dividend in respect of the year ended 30 September 2013. This amounts to a departure from the stated dividend policy of paying dividends covered between two and three times by headline earnings.

BUSINESS OVERVIEW

Southern Africa

This segment encompasses all of the businesses in the Southern African region namely OTC, Prescription and Hospital. Overall, the region posted a sales increase of 13,4%, despite consumers remaining under pressure. Volumes were boosted by increased tender awards and we expect to see further increases in volumes of ARV's supplied in terms of the current ARV tender award.

Margins have been negatively impacted by the weakening of the Rand, competitive trading conditions, inflation-plus cost increases, and the change in mix, with higher proportions of MNC and tender business at lower margins, resulting in the contribution after marketing expenses (CAM) decreasing almost 6% to R1,177 million (2012: R1,246 million).

OTC sales increased by 12% to R2,002 million (2012: R1,792 million), with a good performance from economy brands in pharmacy and schedule 0 brands in the FMCG channel. Premium brands remain under pressure but are showing growth relative to the market. Adcock Ingram is number 1 in 5 categories in the Pharmacy channel including: Pain, Colds & Flu, Allergy, Digestive Care and Feminine Health and number 2 in Supplements, as measured by IMS at 30 September 2013. In the FMCG channel, Adcock Ingram is number 1 in Supplements and Feminine Health and is number 2 in Pain and Digestive Wellbeing, as measured by Aztec and Nielsen at year-end.

The OTC portfolio comprises a basket of both premium and economy brands from Schedule 2 medicines to Complementary Alternative Medicines, and some Personal Care products. These are sold through both the Pharmacy and FMCG channel. The broad portfolio has benefited Adcock Ingram, considering the economic pressure on consumers, as has the increase in proactive self-care and self-medication. The core OTC brands – Panado, Corenza, Citro Soda and Allergex – have managed to hold or improve their market positions, despite aggressive competition.

The strategic move to participation in economy brands in OTC over the last few years has reduced the Company's reliance on a few core brands, driven volume growth and will continue to grow competitive advantage in the OTC sector.

Turnover in the **Prescription** business increased by 21,9% to R1,853 million (2012: R1,520 million). This was impacted by new multinational collaborations and success in the most recent ARV and other oral dosage tender awards.

Hospital turnover increased by 4,6% over the comparable year to R1,176 million (2012: R1,124 million) with increased tender volumes. However, the change in mix impacted margins negatively. The Renal portfolio reflects continued growth through peritoneal dialysis, haemodialysis and Continuous Renal Replacement Technology (CRRT).

Rest of Africa and India

Turnover growth in the Rest of Africa was 42% over last year. In **Ghana**, Adcock Ingram product sales continue to grow due to expansion in territorial coverage and increased marketing activities, but the core Ayrton brands' performance was almost flat.

In **East Africa**, sales increased by 60% compared to the same period last year, driven by expansion in the OTC therapeutic areas, increased marketing activities and the re-introduction of Dawanol.

In **Zimbabwe** sales growth was supported by efficiencies in the supply chain and the introduction of CamphaCare which has received country-wide acceptance.

India recorded total sales of R386 million (2012: R140 million), with the Cosme business contributing R169 million since its acquisition in January 2013. These sales were adversely impacted during a six-week transition phase, when sales force union activity reduced productivity. These union issues were subsequently resolved and the business is well placed to provide satisfactory growth next year.

SUPPLY CHAIN

The capacity at Wadeville for tableting will be doubled through the addition of the two granulation suites; these are expected to be completed by the end of this calendar year, with commercial production in March 2014. The expansion is being done with little or no disruption in the operation of the rest of the factory and will place Adcock Ingram in a stronger position to take advantage of additional capacity for both of Government's next general tablet tender and ARV tablet tender.

Product-by-product approval is being granted by the Medicines Control Council (MCC), following completion of validation batches for manufacturing in the Clayville plant. Various MNC's have also conducted audits at the facility with positive outcomes.

The inventory supply issues experienced during the upgrade at Aeroton have been resolved and the focus is now on efficiency and cost reduction. Additional equipment to increase the capacity at the Bangalore facility has been installed and is showing benefits.

LOGISTICS

Distribution volumes on a unit basis have increased by 23% compared to the previous financial year, with pallet capacities in the network remaining a challenge. Distribution expenses, as a cost per unit, have decreased by 6% year on year, after cost saving initiatives and synergies were realised following the closure of certain warehouses.

REGULATORY ENVIRONMENT

The industry is currently responding to the Department of Health's (DoH) request for commentary regarding the 2014 SEP adjustment. The DoH guideline calculation should yield an increase of 8,9%.

In India, the new National Pricing Policy of 2013 covering the National List of Essential Medicines (NLEM), which includes 342 drugs and its formulations, was announced, effective 1 August 2013. All companies in India are now required to issue revised prices for products covered under this Policy. The introduction of the NLEM necessitated a price reduction in five Cosme brands. The total annual sales of these brands is approximately R20 million with price erosion of approximately 40% expected.

SUBSEQUENT EVENTS

On Friday, 15 November 2013 the Company published a joint announcement together with CFR Pharmaceuticals S.A. (incorporated in the Republic of Chile) ("CFR") regarding the firm intention by CFR to make an offer to acquire 100% of the issued share capital of the Company, other than the issued A and B ordinary share capital of the Company and any ordinary shares held by subsidiaries of the Company, by way of a scheme of arrangement. On Monday, 18 November 2013, a combined circular to the shareholders of the Company ("the combined circular") was distributed, and is available on the Company's website www.adcock.com. The combined circular contains notices convening general meetings of shareholders of the Company to be held on Wednesday, 18 December 2013.

PROSPECTS

The tender business is benefiting from significantly increased volumes which are expected to drive greater efficiencies in the supply chain.

The multinational partner of choice strategy continues to deliver attractive value with the recent addition of Lundbeck. Additional collaborations are to be explored to continue the path of revenue stream diversification and to decrease mature product dependence. Supply chain collaborations will support the extension of multinational partnerships into sub-Saharan Africa.

Recent successful product launches have included Adco-Irbesartan, Adco-Allopurinol and Metformin. However, registration delays at the MCC continue to impede the ability of the Company to bring new products to the market.

The East Africa turnaround is continuing with regulatory bottlenecks in Uganda and Tanzania having been resolved. Inspection of Adcock Ingram's factories by the Ethiopian Pharmaceutical Regulatory Authorities has commenced and bodes well for entry into that growing market. In Ghana, the new management team is progressing well with revamping the manufacturing and distribution infrastructure.

The impact of the current economic climate on consumer spending is concerning. Margins will continue to be impacted by cost pressures, including the impact of the weak Rand on active ingredient prices.

The continuing consolidation of the global pharmaceutical market has again challenged the long-term sustainability of Adcock Ingram's business, which has almost 90% of turnover derived from South Africa, a small market representing less than 0,5% of the global market. It has become increasingly apparent that Adcock Ingram should pursue a tie-up with another international pharmaceutical player to optimise its value, now that modernisation of its facilities is essentially complete.

The offer from CFR to acquire control of the Company would result in Adcock Ingram becoming part of a leading, diversified, emerging markets pharmaceuticals company with a presence in more than 23 countries and employing more than 10 000 people. The combined company would benefit Adcock Ingram with access to high-growth markets for certain products in its OTC and ARV portfolio, and expanded manufacturing opportunities.

South Africa would remain core to the proposed merged company with Adcock Ingram's factories playing a key role in the combined group. The planned increase in production in South Africa would require additional investment and increased employment in the factories, and lead to increased exports from South Africa.

By order of the Board

KDK Mokhele
Chairman

JJ Louw
Chief Executive Officer

AG Hall
Deputy Chief Executive and Financial Director

Johannesburg
26 November 2013

NOTES

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), AG Hall (Deputy Chief Executive and Financial Director),
M Haus*, T Lesoli*, PM Makwana*, CD Raphiri*, LE Schönknecht*, RI Stewart*, AM Thompson*
* Independent 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, corner 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.

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