adcock ingram
Adding value to life

Abridged Audited Group Results

for the year ended 30 September 2009

adcock ingram
Adding value to life

Adcock Ingram provides an extensive portfolio of branded and generic medicines, has a strong presence in over-the-counter (OTC) brands, is South Africa's largest supplier of hospital and critical-care products and supplies established brand name consumables and equipment to medical, research and servicing pathology laboratories.

highlights

"We are very pleased that a year after listing on the JSE, Adcock Ingram has delivered strong financial performance and a sound balance sheet."

CEO, Jonathan Louw

Consolidated income statements

for the years ended 30 September

	Note	2009 R'000 Audited	% change	*Pro forma* 2008 R'000 Audited	Statutory[1] 2008 R'000 Audited
REVENUE	2	**4 115 265**		3 463 333	1 772 659
TURNOVER	2	**4 005 153**	21,3	3 300 894	1 758 808
Cost of sales		**(1 968 238)**		(1 478 123)	(813 272)
Gross profit		**2 036 915**	11,7	1 822 771	945 536
Selling and distribution expenses		**(421 969)**		(365 295)	(193 277)
Marketing expenses		**(130 026)**		(115 286)	(65 765)
Research and development expenses		**(64 472)**		(56 245)	(33 066)
Fixed and administrative expenses		**(375 619)**		(281 312)	(151 879)
Operating profit		**1 044 829**		1 004 633	501 549
Finance income	2	**100 493**		151 739	11 042
Finance costs		**(118 224)**		(188 406)	(67 666)
Dividend income	2	**9 619**		10 700	2 809
Profit before taxation and abnormal items		**1 036 717**		978 666	447 734
Abnormal items	3	**–**		(71 295)	(17 791)
Profit before taxation		**1 036 717**	14,3	907 371	429 943
Taxation		**(246 835)**		(243 996)	(105 209)
Net profit for the year		**789 882**	19,1	663 375	324 734
Attributable to:					
Owners of the parent		**782 396**		653 087	318 399
Minority interests		**7 486**		10 288	6 335
		789 882		663 375	324 734
Number of ordinary shares in issue (000's)		**173 626**		173 055	173 055
Weighted average number of ordinary shares on which headline earnings and basic earnings per share are based (000's)		**173 206**		172 554	172 630
Diluted number of shares (000's)		**173 810**		173 645	173 721
Basic earnings per ordinary share (cents)		**451,7**	19,3	378,5	184,4
Diluted basic earnings per ordinary share (cents)		**450,1**	19,7	376,1	183,3
Headline earnings per ordinary share (cents)		**450,0**	16,1	387,6	195,6
Diluted headline earnings per ordinary share (cents)		**448,4**	16,4	385,2	194,3
Reconciliation between earnings and headline earnings:					
Earnings as reported		**782 396**		653 087	318 399
Adjustments:					
Impairment of intangible assets		**–**		17 791	17 791
(Profit)/loss on disposal of property, plant and equipment		**(3 050)**		(2 040)	1 428
Headline earnings		**779 346**	16,5	668 838	337 618

1: Statutory represents six months of trading

Consolidated statements of comprehensive income

for the years ended 30 September

	2009 R'000 Audited	*Pro forma* 2008 R'000 Audited	Statutory[1] 2008 R'000 Audited
Net profit for the year	**789 882**	663 375	324 734
Other comprehensive income	**(12 910)**	5 523	(4 284)
Exchange differences on translation of foreign operations	**(5 045)**	1 735	(5 097)
Movement in cash flow hedge accounting reserve, net of tax	**(7 865)**	4 004	813
Legal reserves and other	**–**	(216)	–
Total comprehensive income for the year, net of tax	**776 972**	668 898	320 450
Attributable to:			
Owners of the parent	**769 486**	658 610	314 115
Minority interests	**7 486**	10 288	6 335
	776 972	668 898	320 450

1: Statutory represents six months of trading

Consolidated statements of changes in equity

for the years ended 30 September

	Attributable to holders of the parent						
	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	Minority interests R'000	Total R'000
STATUTORY 2008 – Audited							
1 April 2008	17 248	1 187 121	32 018	73 849	1 310 236	16 277	1 326 513
Share issue	58	8 431			8 489		8 489
Capital distribution out of share premium		(1 890)			(1 890)		(1 890)
Share-based payment expense				7 741	7 741		7 741
Total compre-hensive income			318 399	(4 284)	314 115	6 335	320 450
Dividends			(10 300)		(10 300)		(10 300)
Balance at 30 September 2008	17 306	1 193 662	340 117	77 306	1 628 391	22 612	1 651 003
2009 – Audited							
Share issue	57	10 192			10 249		10 249
Share-based payment expense				13 098	13 098		13 098
Total compre-hensive income			782 396	(12 910)	769 486	7 486	776 972
Dividends			(120 571)		(120 571)	(5 155)	(125 726)
Balance at 30 September 2009	**17 363**	**1 203 854**	**1 001 942**	**77 494**	**2 300 653**	**24 943**	**2 325 596**

Consolidated balance sheets

at 30 September

	2009 R'000 Audited	Statutory/ *Pro forma* 2008 R'000 Audited
ASSETS		
Property, plant and equipment	**599 746**	452 019
Deferred tax	**20 030**	12 447
Investments	**138 037**	138 037
Investment in associate	**12 200**	–
Intangible assets	**304 240**	222 186
Non-current assets	**1 074 253**	824 689
Inventories	**583 704**	566 580
Trade and other receivables	**1 036 605**	915 585
Cash and cash equivalents	**692 938**	406 025
Current assets	**2 313 247**	1 888 190
Total assets	**3 387 500**	2 712 879
EQUITY AND LIABILITIES		
Capital and reserves		
Issued share capital	**17 363**	17 306
Share premium	**1 203 854**	1 193 662
Non-distributable reserves	**77 494**	77 306
Retained income	**1 001 943**	340 117
Total shareholders' funds	**2 300 653**	1 628 391
Minority interests	**24 943**	22 612
Total equity	**2 325 596**	1 651 003
Long-term liabilities	**117 076**	277 833
Post-retirement medical liability	**14 298**	13 698
Deferred tax	**6 683**	4 013
Non-current liabilities	**138 057**	295 544
Bank overdraft	**221**	10 727
Trade and other payables	**630 743**	543 401
Short-term borrowings	**194 405**	161 119
Provisions	**68 752**	30 719
Taxation payable	**29 726**	20 366
Current liabilities	**923 847**	766 332
Total equity and liabilities	**3 387 500**	2 712 879
Net cash/(debt)	**381 236**	(43 654)

Consolidated cash flow statements

for the years ended 30 September

	Note	2009 R'000 Audited	*Pro forma* 2008 R'000 Audited	Statutory[1] 2008 R'000 Audited
Cash flows from operating activities				
Operating profit before working capital changes		**1 176 280**	1 071 686	576 740
Cash related abnormal items		**–**	(53 504)	–
Working capital changes		**(46 120)**	(276 702)	(255 361)
Cash generated from operations		**1 130 160**	741 480	321 379
Finance income		**100 493**	151 739	11 042
Finance costs		**(118 224)**	(188 406)	(67 666)
Dividend income		**9 619**	10 700	2 809
Dividends paid		**(125 726)**	(42 725)	(11 016)
Taxation paid		**(242 635)**	(233 712)	(49 170)
Net cash inflow from operating activities		**753 687**	439 076	207 378
Cash flows from investing activities				
(Increase)/decrease in Black Managers' Trust		**–**	(16 343)	38 607
Purchase of intangible assets		**(11 025)**	(18 756)	(18 350)
Cost of business acquired	5	**(79 049)**	(31 930)	(101 180)
Purchase of property, plant and equipment		**(228 609)**	(230 387)	(162 013)
Proceeds on disposal of property, plant and equipment		**4 163**	17 361	8 831
Cost of investment in associate		**(12 200)**	–	–
Net cash outflow from investing activities		**(326 720)**	(280 055)	(234 105)
Cash flows from financial activities				
Proceeds from issue of share capital		**10 249**	1 210 968	6 599
(Increase)/decrease in amounts owing by related parties		**–**	(133 057)	475 150
Repayment of borrowings		**(138 966)**	(79 513)	(55 440)
Net cash (outflow)/inflow from financing activities		**(128 717)**	998 398	426 309
Net increase in cash and cash equivalents		**298 250**	1 157 419	399 582
Net foreign exchange difference on cash and cash equivalents		**(831)**	–	–
Foreign currency translation reserve		**–**	1 735	(5 097)
Movement in hedge accounting reserve		**–**	4 004	813
Cash and cash equivalents at beginning of year		**395 298**	(767 860)	–
Cash and cash equivalents at end of year		**692 717**	395 298	395 298

1: Statutory represents six months of trading.

Segment report

	2009 R'000 Audited	*Pro forma* 2008[2] R'000 Audited	Statutory[1] 2008[2] R'000 Audited
Turnover			
Over the counter	**1 288 966**	1 087 900	580 862
Prescription	**1 466 736**	1 041 710	560 597
Pharmaceuticals	**2 755 702**	2 129 610	1 141 459
Hospital products	**1 249 451**	1 171 284	617 349
	4 005 153	3 300 894	1 758 808
Depreciation and amortisation			
Pharmaceuticals	**37 367**	32 073	18 332
Hospital products	**45 403**	36 535	18 454
	82 770	68 608	36 786
Impairment losses			
Over the counter	**–**	–	–
Prescription	**–**	11 558	11 558
Pharmaceuticals	**–**	11 558	11 558
Hospital products	**–**	6 233	6 233
	–	17 791	17 791
Operating profit			
Over the counter	**402 448**	417 368	201 111
Prescription	**421 788**	336 811	171 613
Pharmaceuticals	**824 236**	754 179	372 724
Hospital products	**220 593**	250 454	128 825
	1 044 829	1 004 633	501 549
Capital expenditure [3]			
Pharmaceuticals	**156 605**	190 339	136 651
Hospital products	**72 004**	40 048	25 362
	228 609	230 387	162 013

1: Statutory represents six months of trading.

2: The group has elected to early adopt IFRS 8 Operating Segments and comparative information has been restated in accordance with IFRS 8.

3: Capital expenditure consists of additions to property, plant and equipment, but excludes additions to intangible assets.

Notes to the financial statements

1. BASIS OF PREPARATION

The abridged audited results have been prepared in accordance with International Financial Reporting Standards, IAS 34 *Interim Financial Reporting*, the South African Companies Act and the Listings Requirements of the JSE Limited. The condensed financial information has been audited by Ernst & Young Inc. in accordance with the bases of preparation as detailed below. The unqualified opinions are available for inspection at the company's registered office. The consolidated financial statements have been revised to bring it in line with the IAS1R – *Presentation of Financial Statements* and IFRS 8 *Operating Segments*.

BASES OF PREPARATION OF 2008 INFORMATION

Statutory information

On 31 March 2008, Adcock Ingram Holdings Limited acquired 100% of Adcock Ingram Healthcare (Pty) Limited, Adcock Ingram Critical Care (Pty) Limited and Adcock Ingram Intellectual Property (Pty) Limited. On 1 April 2008, Adcock Ingram Holdings Limited acquired 100% of Adcock Ingram Limited and 49,9% of Adcock Ingram Limited India (joint venture). On 1 July 2008, Adcock Ingram Holdings Limited acquired 50% of Thembalami Pharmaceuticals (Pty) Limited, a dormant company.

Statutory information therefore represents only six months of trading.

Pro forma information

The basis of preparation and the disclosures of the *pro forma* information are not intended to be in compliance with the requirements of International Financial Reporting Standards. Such Standards do not set out standards of preparation of "*pro forma* information". It is acknowledged however that the financial information upon which the *pro forma* information has been prepared in accordance with such Standards and been reported on by the independent auditors without qualification.

Pro forma figures have been presented on the following basis:

- These figures have been presented as if the Adcock group as at 30 September 2008 had been in existence for the entire year.
- Accounting policies adopted by the group for statutory purposes have been consistently applied to these figures.
- Business combinations as a result of the unbundling have not been separately disclosed.
- No *pro forma* statement of changes in equity has been provided.
- The earnings per share calculation has been done as if shares were in issue from the first day of the financial year.
- As Adcock was part of the Tiger Brands group for 11 months of the year, Tiger Brands was regarded as a related party for disclosure purposes.

The *pro forma* financial information is the responsibility of the directors and has been presented to provide a meaningful year-on-year comparison of the business.

The *pro forma* financial information is prepared for illustrative purposes only and because of its nature, it may not fairly present Adcock's financial position, changes in equity, results of operations or cash flows.

	2009 R'000 Audited	*Pro forma* 2008 R'000 Audited	Statutory[1] 2008 R'000 Audited
2. REVENUE			
Revenue comprises			
– Turnover	**4 005 153**	3 300 894	1 758 808
– Finance income	**100 493**	151 739	11 042
– Dividend income	**9 619**	10 700	2 809
	4 115 265	3 463 333	1 772 659
3. ABNORMAL ITEMS			
Impairment of intangible assets	**–**	(17 791)	(17 791)
Competition Commission settlement	**–**	(53 504)	–
	–	(71 295)	(17 791)

4. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The company and the group have adopted the following new and amended IFRS interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

IAS 1 (Revised) Presentation of Financial Statements

The group has elected to early adopt IAS 1 (Revised). The amendment mandates requirements for the presentation of financial statements on the basis of shared characteristics. Changes in equity arising from transactions with owners in their capacity as owners are separated from other changes in equity. The statement of changes in equity for the prior periods is therefore restated.

IFRS 8 Operating segments

The group has elected to early adopt IFRS 8 *Operating Segments*, which requires the disclosure of information based on the "management approach" to reporting on the financial performance of operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments.

IFRIC 14 The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions

The group adopted IFRIC 14 from 1 October 2008, which addresses the measurement of an asset and specifies whether a surplus represents an economic benefit for the entity.

5. BUSINESS COMBINATIONS

Tender Loving Care (Pty) Limited (TLC)

On 2 April 2009, Adcock Ingram Holdings Limited acquired 100% of the shareholding in Tender Loving Care – Hygienic, Cosmetic and Baby Products (Pty) Limited, an unlisted company in South Africa.

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

	2009 R'000
Property, plant and equipment	817
Other intangibles	65 248
Cash and cash equivalents	1 346
Inventories	11 707
Accounts receivable	12 746
Short-term borrowings	(16 151)
Accounts payable	(7 335)
Deferred tax	(21)
Receiver of Revenue	(3 284)
Long-term liabilities	(73)
Fair value of net assets	65 000
Cash and cash equivalents	(1 346)
Goodwill	15 395
Net cash purchase price	(79 049)

From the date of acquisition, TLC contributed R26,9 million towards revenue and R4,9 million towards profit before income tax.

6. CAPITAL COMMITMENTS

	2009 R'000	2008 R'000
Capital commitments	932 784	614 704
– contracted	143 693	115 879
– approved	789 091	498 825

7. EVENTS AFTER THE BALANCE SHEET DATE

7.1 **Unique Formulations**

On 17 November 2009, the group acquired 100% of the assets as a going concern of Unique Formulations, a vitamin and mineral supplement company based in Cape Town, for a cash consideration of R35 million. The consideration will be paid in three tranches over a two-year period. The acquisition of Unique Formulations is congruent with the group's expansion strategy into the complementary medicines market.

7.2 **Long-term loan finance facilities**

The group signed a long-term loan facility to the value of R800 million to finance the group's capital expenditure in relation to an upgrade and refurbishment of a current manufacturing facility in the Hospital Products segment as well as the construction of a new high-volume liquids manufacturing plant in the Pharmaceutical division over the next four years.

7.3 **Broad-based Black Economic Empowerment (BEE) transaction**

In March 2009, Adcock Ingram announced its intention to facilitate the introduction of meaningful and sustainable black economic empowerment (BEE) equity participation in Adcock Ingram. Adcock Ingram has today announced the key terms of its BEE equity ownership transaction to shareholders, which has been done in a separate announcement. Adcock Ingram is committed to transformation through the introduction of broad-based BEE equity partners into the business to add to the significant progress it has made in the areas of, *inter alia*, employment equity, skills development, preferential procurement and enterprise development. For more details of Adcock Ingram's broad-based BEE transaction, please refer to the SENS announcement of 24 November 2009.

7.4 **Ayrton**

On 20 November 2009, Adcock Ingram delivered a letter to the board of directors of Ayrton Drug Manufacturing Limited ("Ayrton") in terms of which Adcock Ingram specified its firm intention to make an offer to acquire the entire issued ordinary share capital of Ayrton, subject to obtaining a minimum of 51% of the company. The offer price of GH¢ 0,16 per share values Ayrton at the equivalent of R178 million.

For and on behalf of the board

JJ Louw
Chief Executive Officer

KDK Mokhele
Chairman

23 November 2009

SALIENT FEATURES

- Turnover up 21% to R4,0 billion
- Earnings per share improved 19,3% to 451,7 cents
- Cash on hand R693 million
- Final dividend 80 cents per share

We are very pleased to present Adcock Ingram's annual results in respect of its first full year as an independent group. We are satisfied to have delivered very strong revenue growth, significant improvement in headline earnings per share (HEPS) and a strong balance sheet, despite the operational challenges encountered and a demanding external environment.

FINANCIAL REVIEW

Headline earnings

Headline earnings for the year ended 30 September 2009 of R779,3 million (2008: R668,8 million) reflect an increase of 16,5% over the prior year. At the HEPS level, this translates into an improvement of 16,1% to 450,0 cents (2008: 387,6 cents), based on 173,2 million (2008: 172,6 million) weighted average number of shares in issue.

Earnings per share (EPS) improved by 19,3% to 451,7 cents (2008: 378,5 cents), marginally more than the increase in HEPS as a result of the impairment of intangible assets in 2008 reducing earnings in that year.

Turnover

Turnover was 21,3% higher at R4,0 billion (2008: R3,3 billion) benefiting from 12% volume growth, the Single Exit Pricing (SEP) increase and changed product mix. The Prescription segment had an excellent volume increase, primarily through ARVs, and the Hospital division showed 3% volume growth in a particularly tough trading environment. Over-the-counter (OTC) volumes were maintained year-on-year despite significant down-trading in this portfolio.

Turnover grew against the backdrop of:

- an SEP price increase of 13,2% granted in January 2009. The price increase was effective for the entire second half of the financial year in the Pharmaceutical division, but the Hospital Products division did not benefit from the price increase as discussions with the Department of Health on unit-based (per millilitre) pricing are still ongoing;
- contract manufacturing revenue in the OTC business valued at R92 million that terminated at the end of August 2009; and
- the loss of two significant agencies in the Hospital Products division which on a combined basis contributed R90 million to revenue in 2008.

Profits

Gross profit increased by 11,7% to R2,0 billion (2008: R1,8 billion), while the gross profit margin declined from 55% in 2008 to 51% in 2009. The primary contributing factors were:

- significant Rand weakness in the first half of the year, which unfavourably impacted imported raw materials and finished products; and
- a change in the product sales mix with increased anti-retroviral sales, the contract manufacturing business and inventory impairments. Against the backdrop of Rand appreciation, however, gross margins showed a notable improvement to 52% in the second half of the financial year from 49% in the first half. This improvement was evident across all business units.

Operating profit before abnormal items increased by 4,0% to R1 045 billion (2008: R1 005 billion), with margins reducing to 26,1% (2008: 30,4%). Operating expenses increased by 21% to R992 million (2008: R818 million). Additional distribution costs during the start-up phase of the Midrand distribution centre and the establishment of a new sorting centre amounted to R14 million, half of which is expected to be a recurring expense. Operating costs in 2009 are inclusive of TLC (R8,2 million), Adcock Ingram East Africa (R4,3 million) expenditure for the first time and IFRS2 charges of R32,7 million (2008: R21,0 million).

Operating profit after abnormal items rose 11,9% to R1 045 billion (2008: R933 million), the prior year having been negatively impacted by abnormal expenses of R53,5 million through the settlement of the Competition Commission and intangible asset impairments amounting to R17,8 million.

Finance costs, net of dividend income of R9,6 million (2008: R10,7 million), amounted to R8,1 million (2008: R25,9 million), inclusive of commitment fees.

Profit before tax grew by 14,3% to R1 037 billion (2008: R907,4 million). The effective tax rate is 23,8% (2008: 26,9%). This resulted in profit after tax growing by 19,1% to R789,9 million (2008: R663,4 million).

Cash flows and gearing

Cash operating profit increased by 15.5% from R1.02 billion to R1.18 billion. After working capital changes, finance costs, taxation and dividend outflows, net cash inflow was R754 million (2008: R439 million). Inventory levels of R584 million at year-end are R17 million higher than the prior year, R33 million down since March 2009. Days in inventory are 105, significantly down by 25 days when compared to September 2008. Trade accounts receivable, net of provisions, are R937 million at year-end and R247 million higher than the prior year. Whilst the absolute balance has increased, the days outstanding in debtors at year-end are 62, a slight improvement on the prior year. Trade accounts payable, including accrued expenses and provisions, increased by R125 million to R699 million, with days outstanding at 60. The current ratio remains healthy at 2,5 times (2008: 2,4 times).

The Group generated net operating cash inflows of R427 million, funding Adcock Ingram's capital expenditure programme during the year under review. The Group has secured facilities of R800 million subsequent to year-end to fund the extensive regulatory upgrade at the Aeroton facility and the construction of the high-volume liquids facility at Clayville. After net cash outflows of R129 million in financing activities, the Group generated cash of R298 million. Adcock Ingram is carrying interest-bearing debt of R311 million (2008: R439 million). The Group has adequate cash reserves of R693 million at year-end (2008: R395 million) and is ungeared with a net cash position of R381 million (2008: R44 million net debt) and R500 million of aggregate available unutilised short-term facilities.

OPERATIONAL REVIEW

Pharmaceutical Division

The Pharmaceutical Division manages a wide and comprehensive portfolio of branded and generic prescription medicines across various therapeutic categories, as well as South Africa's leading portfolio of branded OTC products.

Sales of R2,8 billion are 29% higher than 2008 (R2,1 billion) on the back of a sterling performance from ARVs and branded prescription products, augmented by the SEP price increase. Operating profits, although impacted by exchange rate fluctuations, increased 9% to R824 million (2008: R754 million).

The financial year under review was challenging for the Pharmaceutical Division, not only due to the economic slowdown, but also consequent on the investment in supply chain infrastructure, which hampered stock availability and our ability to service our customers. The economic conditions impacted consumer spending patterns in both Pharmacy and FMCG channels, with the FMCG channel being hardest hit. The second six months of the year saw a recovery of the premium brands in pharmacy, mainly due to the seasonality in the cold and flu portfolio.

The new distribution centre is now fully operational and service levels have returned to normalised levels with the establishment of an in-house sortation centre.The Clayville and Bangalore plant upgrades were completed during the year under review and significant progress was made at the Wadeville plant where output of ARVs has met all of the requirements under the state tender. Additional upgrades at the latter site are due for completion in February 2010. Other factory upgrades and expansionary projects will be finalised in 2012.

As part of our growth into the rest of Africa, Adcock Ingram delivered a letter to the board of directors of Ayrton Drug Manufacturing Limited ("Ayrton") in terms of which Adcock Ingram specified its firm intention to make an offer to acquire the entire issued ordinary share capital of Ayrton, subject to obtaining a minimum of 51% of the company. The offer price of GH¢ 0,16 per share values Ayrton at the equivalent of R178 million.

Hospital Products

Adcock Ingram Hospital Products Division consists of Critical Care and The Scientific Group.

Adcock Ingram Critical Care (AICC)

AICC's sales increased by 12%, including volume growth of 4%, price increases of 5%, outside of SEP regulated products, and the balance in sales mix, when compared with last year. AICC's renal operation, including growth from new products, reflected 19% growth compared to last year. In addition, the Company's export division realised an overall growth of 30% over last year, while increased blood donor drives produced double-digit growth from this division.

The performance of AICC is sensitive to a number of both local and international issues, including negative currency fluctuations which impact raw material purchases, inflation and local medicine pricing controls. While the private hospital sector continued to reflect organic growth and strong demand on the backdrop of increases in admissions, hospital beds, and maternity and theatre cases, the public sector proved to be less robust, with budgetary constraints, chronic shortages of healthcare professionals and the negative impact of the doctors' pay dispute all taking their toll. The full impact of the loss of public sector tender business for intravenous fluids was realised during this period.

The relationship with multinational, Baxter Healthcare, which has an option to purchase 50% of AICC and gain control of the business in 2010, remains mutually beneficial. AICC also sources some product lines from other world leading principals.

During the next financial period, the potential growth areas are the generic injectable range and renal products as well as a new range of oncology products following the launch of our first-to-market Granisetron generic.

The Scientific Group

The Scientific Group (SG) reflected a decline in turnover of 8%, albeit against the background of strong organic growth over the last three years. The business realised a decline in turnover of R62 million as a result of the loss of Becton Dickinson Pre Analytical Systems (BD PAS) from 1 October 2008. SG delivered turnover growth of 12% after excluding the impact of the BD PAS.

Next year SG expects to see continued organic growth within the clinical diagnostics and bioscience product ranges, while building critical mass in the medical portfolio via select niche acquisitions of medical companies and new agencies.

REGULATORY ENVIRONMENT

Health Minister Aaron Motsoaledi announced the appointment of Kuben Pillay, Adcock Ingram's Strategic Trade Executive, to Government's new advisory committee on the proposed National Health Insurance (NHI) legislation. Adcock looks forward to constructive healthcare industry engagement with Government on regulatory issues, including NHI.

On 21 April 2009, the amended Medicines and Related Substance Act came into effect. It includes a broader definition of "medicine", and the provisions for a new Medicine Regulatory Authority (MRA) and a Marketing Code of Practice. Adcock Ingram is satisfied with the progress made with this Act and we look forward to a more efficient MRA and improved industry self-policing in the marketing arena.

Good Manufacturing Practices, as prescribed by the MCC, PICs, WHO and FDA, will continue to be Adcock Ingram's benchmark standard in our commitment to the provision of safe, high quality and efficacious medicines. This applies to locally manufactured as well as imported medicines.

TRANSFORMATION

Adcock Ingram, as a proudly South African company and responsible corporate citizen, remains committed to broad based transformation. The Group has made excellent progress towards its transformation objectives for preferential procurement and corporate social investments and employment equity is in line with our targets. On 6 March 2009, Adcock Ingram commenced its Broad-based Black Economic Empowerment (BEE) transaction (the Proposed Transaction) with a public call for expressions of interest. It is envisaged that the Proposed Transaction will be implemented at the Adcock Ingram listed level. The magnitude of the Transaction will equate to approximately 13% of Adcock Ingram's issued share capital. The preferred BEE partners will be allocated a minimum of 75% of the Proposed Transaction with a maximum of 25% of the Proposed Transaction being allocated to qualifying Adcock Ingram employees. Following a very thorough external partner selection process, Kagiso Consortium (Pty) Limited and Kurisani Youth Development Trust have been selected as Adcock Ingram's preferred BEE partners.

STRATEGY

Adcock Ingram's growth strategy is focused on South Africa, the rest of Africa, and other emerging markets.

In South Africa, our core market, volumes in the period under review indicate reasonable organic growth across both divisions, albeit with reduced margins. Further, we continue to pursue growth through innovation in existing product categories through a pipeline of New Chemical Entities (NCEs), generics and OTC products.

Our organic growth strategy in South Africa will build upon the Tender Loving Care (TLC) brand, which allows Adcock Ingram access to an established range of baby care, supplements and personal care products. This acquisition has provided Adcock Ingram with a vehicle to launch these products, expanding the Group's portfolio and reinforcing our presence in the FMCG market. Subsequent to the year under review, Adcock Ingram also acquired Unique Formulations which will expand the Group's presence in vitamins, minerals and supplements (VMS). Growth of new and existing products in the FMCG market is also a strategic focus for the business.

In Africa, we opened our Kenya operations in March 2009, with 24 employees. Kenya will serve as the hub for Adcock Ingram's expansion into East Africa. In addition, we acquired a Kenyan OTC analgesic brand and we have made an offer to acquire Ayrton in West Africa.

Other emerging markets represent potential growth areas for the Group. In India, our Bangalore facility has been approved by the Medicines Control Council (MCC) and is now fully operational.

We have continued with our capital expenditure programme for regulatory upgrades and expansionary activities and it is expected that up to R555 million will be invested in fixed assets during the 2010 financial year, largely on Clayville's high-volume liquids facility and Aeroton's regulatory upgrade, with the balance of the capital commitments of R378 million to be disbursed in subsequent years.

We will continue our manufacturing focus on areas of competitive advantage and volume growth in South Africa, particularly for the OTC market and for major opportunities that exist in the public sector general tender and ARV market.

PROSPECTS

Whilst current economic conditions remain challenging, particularly at a consumer level, we expect further volume growth in our core businesses. Gross margin should be maintained while the Rand remains at current levels.

On the regulatory front, we await the outcome of the NHI advisory committee to the Minister of Health during the course of 2010. We also note the issuance of the Government Gazette in late October detailing the mechanics of the SEP increase for 2010 and the amended dispensing fee for pharmacists.

We look forward to achieving success for Adcock Ingram in the various government tenders in both the Pharmaceutical and Hospital Products division and remain committed to supporting government in its rollout of ARVs.

Adcock Ingram continues to seek opportunities to access other high growth emerging markets and expects to diversify its earnings beyond the borders of South Africa. We will leverage the capacity in our efficient supply chain, product pipeline and competence in brand building in these markets and we are well placed for acquisitive growth given our significant financial capacity.

DECLARATION OF ORDINARY DIVIDEND

The directors of Adcock Ingram have declared a final cash dividend of 80 cents per share in respect of the 2009 financial year, payable to shareholders recorded in the register of the Company at the close of business on Friday, 15 January 2010.

The salient dates for the payment of the final dividend are detailed below:

Last day to trade *cum* dividend	Friday, 8 January 2010
Shares trade *ex* dividend	Monday, 11 January 2010
Record date	Friday, 15 January 2010
Payment date	Monday, 18 January 2010

Share certificates may not be dematerialised or rematerialised between Monday, 11 January 2010 and Friday, 15 January 2010, both dates inclusive.

R Naidoo
Company Secretary

Johannesburg
23 November 2009

For and behalf of the Board

KDK Mokhele
Chairman

JJ Louw
Chief Executive Officer

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")

Executive directors
JJ Louw (Chief Executive Officer)
AG Hall (Chief Financial Officer)

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

Company secretary
R Naidoo

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Sponsor
Deutsche Securities (SA) (Pty) Limited

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for more information please visit
www.adcock.com