Integrated report 2011

Heritage | Quality | Integrity

adcock ingram

Our profile

Adcock Ingram is a leading South African manufacturer, marketer and distributor of healthcare products with a market capitalisation of ***R10 billion.***

The Company enjoys 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.

Sustainability is core to our business to add value to people's lives. This includes those of our shareholders, customers, employees, suppliers and the communities in which we operate. We aim to reduce our environmental footprint through continuous improvement. We have achieved meaningful Broad Based Black Economic Empowerment (BBBEE) targets within the business.

Our vision

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

For more information on our history –
visit our website: ***www.adcock.com***

Our heritage

Adcock Ingram has a proud heritage which spans more than 120 years. The business started as a small Krugersdorp pharmacy. Its founders branched out into new product development, manufacturing, distribution, and sales and marketing.

Adcock Ingram was first listed on the Johannesburg Stock Exchange (JSE) in 1950 and enjoyed blue chip status. In the year 2000 Tiger Brands (then the majority shareholder) acquired the minority shares, and Adcock Ingram was delisted and operated as a wholly owned subsidiary of Tiger Brands. On 25 August 2008, Adcock Ingram was unbundled from Tiger Brands and relisted on the JSE.

Recognised in our industry

2011 awards and recognition

Campbell Belman 2011 survey	Adcock Ingram rated as the overall leader in the pharmacy category out of 41 over the counter (OTC)/self-medication companies in South Africa
Green Supply Chain Award for the best project in excess of R10 million	Awarded for energy savings in the new Midrand Distribution Centre
WHO prequalification	Research and Development facility
Ernst & Young's Excellence in Corporate Reporting Survey	2011 Annual Report rated "Good"
ISO compliance SANS ISO 9001:2008	Critical Care factory
Millward Brown award for the most liked advertisement	Panado 'parrot' TV commercial

GRI: 2.10, 4.8, 2.1

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Integrated report

for the year ended 30 September 2011

About this report

This year, Adcock Ingram has made changes to the way it reports, working towards producing a more integrated publication as recommended in the revised King Code on Governance Principles for South Africa (King III).

King III and the Framework for Integrated Reporting discussion paper recommend that companies should report not only on their financial performance, but also on their sustainability by disclosing social, environmental and economic impacts and influences, both positive and negative.

Adcock Ingram has embarked on a journey towards providing a more comprehensive picture of the Group in one document. Adcock Ingram regards this process as a valuable opportunity to engage with its stakeholder groups and to respond to issues that have been raised.

GRI: 2.6

Scope and boundary of this report

Adcock Ingram's integrated report covers the financial year 1 October 2010 to 30 September 2011. The report is released at least 15 business days prior to its Annual General Meeting on 24 January 2012.

The report provides a general narrative on the performance of the Group, which includes the holding company and its subsidiaries and joint ventures across all territories, but focuses its detailed commentary on the operational performance of its main business in South Africa as the performance in South Africa has a material impact on the overall sustainability of the Group. Reports are given, where information is available, about our businesses in East Africa, Ghana and India. Comparatives are included where possible.

The Group's consolidated annual financial statements are included in this report and include details regarding all subsidiaries and joint ventures as detailed **on page 102**

Reporting principles

Adcock Ingram is a company incorporated in South Africa in accordance with the provisions of the Companies Act and complies with the principles of King III, unless otherwise stated, the Companies Act and the JSE Limited Listings Requirements and other legislative requirements. The Group subscribes to high ethical standards and principles of corporate governance.

For more details, and an overview of the Group governance structure, please see the corporate governance section **on pages 16 and 17**

In addition to the above, the Group adheres to International Financial Reporting Standards (IFRS) in compiling its annual financial statements.

For reporting on sustainability issues it also complies with Global Reporting Initiative (GRI) standards to facilitate comparability with the reports of other organisations. Adcock Ingram has assessed its reporting to be Application Level B.

Assurance

The board of directors acknowledges its responsibility to ensure the integrity of the integrated report. The board has accordingly applied its mind to the integrated report and in its opinion, the report presents fairly the integrated performance of the Group and its impacts.

Annual financial statements 2011

The annual financial statements for the year ended 30 September 2011 were approved by the board of directors on 21 November 2011. Ernst & Young Inc., the independent auditors, have audited the annual financial statements as disclosed in their unqualified audit report.

Sustainability information

The sustainability information has not been assured in 2011.

GRI: 3.1 – 3.3, 3.5 – 3.11, 3.13

The sustainability overview can be found **on pages 10 and 11**

BBBEE status

Our BBBEE status has been assured by Empowerlogic, an independent verification agency, for the 2011 financial year. Through the external assurance received from the agency, we have been assessed as a level 4 contributor in terms of the BBBEE Act.

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Easy referencing and usability features

Where we have succeeded in our objectives

Where we have not yet achieved our goals

Have we succeeded in our 2010/11 strategic objective?

Get more information online

This icon indicates more information available online at ***www.adcock.com***

Cross-reference information

This icon indicates more information can be cross-referenced ***on pages within report sections***

Information contains GRI compliant information

This icon indicates the information adjacent contains ***GRI compliance elements***

2011 highlights

Financial

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

Environmental

	2011**	2010*
Energy – usage (KWH)	**30 351 169**	28 499 353
Water – usage (kilolitres)	**301 484**	286 209
Carbon emissions (tonnes)	**106 291**	102 375
Carbon emissions per employee (tonnes)	**19,01**	28,37

** 2010 includes South Africa and India.*

*** 2011 includes South Africa, India, Kenya and Ghana.*

Social

	2011
BBBEE Scorecard	**Level 4**
Training spend*	**R6 million**
Employees	**3 310**

**Of R6 million, 60% was spent on previously disadvantaged individuals.*

Clinical trials performed on products containing Dextropropoxyphene (for more please refer to: ***www.adcock.com***)

Share statistics

	2011	2010
Share price (cents)		
High of the year	**6 845**	6 535
Low of the year	**5 100**	5 400
Closing	**6 014**	6 350
Shares traded		
Number of shares ('000)	**175 725**	99 286
Value of shares (R'bn)	**10 442**	5 478
Total deals ('000)	**93**	70

Market share

	Value	Counting units
Total pharmacy market	9,1%	**19,2%**
Private sector	10,0%	**30,6%**
Public sector	4,2%	**4,7%**
Prescription	6,4%	**13,7%**
Ethical	4,8%	**15,6%**
Generics	9,2%	**12,7%**
OTC	19,5%	**36,8%**
FMCG	15,7%	**23,3%**

GRI: 2.8, EN1, EN3 – 8

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Our business footprint

Southern African footprint

Key information

- **Offices** Midrand (South Africa)
Bulawayo (Zimbabwe)
- **Activities** Manufacturing, distribution, selling and marketing, and research and development
- **Customers** Wholesale, retail and government
- **Turnover** **R4 297 million**
- **Employees** More than **2 200** employees

Research and development

Adcock Ingram's Research and Development (R&D) site is one of 23 Quality Control laboratories in the world (and one of two in South Africa and one of six in Africa) to have received World Health Organisation (WHO) Pre-Qualification accreditation. This is an achievement we've attained by maintaining a high standard in all processes from inception to completion. In addition, Adcock Ingram's R&D site was the first stand-alone R&D site in South Africa to secure Medicines Control Council (MCC) accreditation for the manufacture and testing of pharmaceutical products for human consumption. Adcock Ingram owns a Phase I clinical research facility which offers a one-stop clinical research service extending from study design, writing of protocols, obtaining necessary regulatory approvals, clinical execution, reports and post-marketing surveillance. It has a 36-bed bio-equivalence unit.

Manufacturing sites

Location	Capacity per annum	Accreditations	Progress 2011	Achieved	Targets 2012
Wadeville	Liquids: 6 million litres Creams/Ointments: 100 000 kilograms Tablets and capsules: 2 billion	MCC, PIC/S, Ghana, Botswana, Malawi and Kenya	Reduction in ARV tender resulted in under-recoveries		To insource products to utilise available capacity To obtain FDA approval
Clayville	Effervescent tablets: 28 million Effervescent granules and powders: 400 000 kilograms Liquids: 2 million litres	MCC, PIC/S, Ghana, Botswana, Malawi and Kenya	New high-volume liquids facility progressed well		To complete new high-volume liquids facility
Aeroton	Large volume parenterals: 28,5 million filled units Small volume parenterals: 18,3 million filled units Pour bottles: 2,3 million Blood collection bags: 1 million	MCC SANS ISO 9001:2008 The only medical grade plastics manufacturing facility in Africa	Factory upgrade resulted in disruptions		To complete upgrade

Distribution centres

Location	Capacity (pallets)	Accreditations	Progress 2011	Achieved	Targets 2012
Gauteng	17 000 pallets	MCC compliant	Inefficiencies due to two sites in Midrand		• Combine sites in Midrand • Introduce owner-driver scheme as an Enterprise Development initiative • Comply with MCC standards in all warehouses • Online monitoring of order status to be developed • Explore possibility of managing inventory levels at vendors • Complete integration of recently acquired businesses, including NutriLida
Durban	4 400 pallets	MCC compliant	Durban warehouse opened in November 2010		
Cape Town	2 400 pallets	Awaiting MCC approval in 2012	New layout added 1 000 pallets in Cape Town		
Port Elizabeth	1 500 pallets	MCC compliant	• TLC and Unique integrated into Pharmaceutical network • Hospital and pharmaceutical businesses consolidated		
Bloemfontein	900 pallets	MCC compliant			

Rest of Africa

Key information

- **Offices** Accra (Ghana)
  Nairobi (Kenya)
- **Activities** Manufacturing in Ghana
  Distribution from Kenya into East Africa
  Distribution from Ghana into West Africa
- **Manufacturing capabilities and capacity per annum**
  Tablets and capsules: **1 billion**
  Liquids: **1,5 million litres**
  Powders: **40 000 kg**
  Creams and ointments: **36 000 kg**
- **Accreditation** Food and Drugs Board in Ghana (FDB)
  The Economic Community of West African States (ECOWAS)
- **Customers** Wholesale and retail
- **Turnover** **R155 million**
- **Employees** **23** employees in Kenya
  307 permanent and **216** temporary staff in Ghana

Performance focus

Ghana

- New tablet and liquid manufacturing facility under construction
- Opportunity to grow public sector business
- Launching of Adcock Ingram brands

Kenya

- Growing brand presence in surrounding countries

India

Key information

- **Office** Bangalore
- **Activities** Manufacturing and transactional support for Southern Africa
- **Manufacturing capabilities and capacity per annum**
  Tablets and capsules: **3,5 billion**
- **Accreditation** UK, Australia, South Africa, France, Tanzania, Kenya, Ghana, Namibia and Uganda
- **Customers** Wholesale, retail and other multinationals
- **Turnover** **R102 million**
- **Employees** **384** permanent staff

Performance focus

- Supporting the Southern Africa business in effective operations management with strong cost effective back office transactional support
- Creating a local business in India for marketing some of the key brands
- Contract manufacturing and formulation development for Adcock Ingram and its partners in Africa
- Expanding the R&D capabilities and the product pipeline

GRI: 2.4, 2.5, 2.7 – 2.9, PR6, EN12

Key operating areas

Adcock Ingram has three key operating areas, each delivering essential products and services to a wide customer base.

Over the Counter (OTC)

Adcock Ingram competes in the following three core areas of the OTC self-medication and wellness market:

- Curative (analgesics, colds and flu and allergy)
- Wellbeing (supplements, digestive wellbeing and energy)
- Personal care (wipes, facial care, hand and body topical creams and ointments and feminine care) with the core target market *LSM 5-10

**LSM – Living Standard Measures.*

Financial performance

- Turnover
  R1 735 million
- Top 10 brands' turnover
  R733 million
- Operating profit
  R615 million

Key Brands

Pain management
- Syndol
- Adco-Dol
- Compral
- Panado
- Betapyn
- Spasmend
- Pynstop
- Mypaid

Colds and flu
- Corenza
- Dilinct
- Adco Sinal
- LCC
- Cepacol
- Grippon
- Medi-Keel A
- Expigen
- Alcophyllex

Digestive wellbeing
- Citro Soda
- Freshen
- Inteflora
- Pectrolyte
- Scopex
- ProbiFlora

Supplements and energy
- Vita-Thion
- Bioplus
- Unique
- ArthroGuard
- GynaGuard
- ViralGuard

Allergy and nasal
- Allergex
- Nazene Z

Personal care
- TLC Premium baby wipes
- TLC Kids
- TLC Skin Care

Prescription

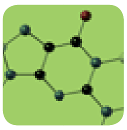
Adcock Ingram is a leader in the total private pharmaceutical market. The division markets a broad range of affordable branded and generic medicines in the Schedules 3-6 categories.

"Deals with drugs considered safe for use only under medical supervision – may only be prescribed by a registered physician and thereafter dispensed with a prescription by a licensed professional."

Financial performance

- Turnover
  R1 646 million
- Top 10 brands' turnover
  R521 million
- Operating profit
  R316 million

These are made up of:



Originator – a chemical molecule developed by an innovator company from early discovery through clinical trials and generally registered as a target for some disease. All originator drugs generally benefit from patent protection for a prescribed period.

Generics – a chemically equivalent copy designed from a brand-name equivalent drug whose patent has expired (typically less expensive and sold under the common name).

Market trends

- Increased access to affordable healthcare as envisaged by current NHI proposals will inevitably drive the development of the generics market
- Generics growth driven by more generic alternatives entering the market, managed care initiatives, greater awareness of generics by patients and providers, as well as by mandatory generic substitution at pharmacy level
- South Africa is used as a springboard for launching more products into the rest of the African continent

Key Brands

Analgesics/anaesthetics/Anti-inflammatory
- Myprodol
- Genpayne
- Macaine
- Xylotox

Anti-retrovirals
- Adco-Efavirenz

Central nervous system
- Stresam

Cardiovascular
- Adco-Simvastatin
- Adco-Zetomax
- Adco-Vascard
- Adco-Zildem
- Adco-Zetomax Co

Dermatology
- Dovobet
- Fucidin
- Elidel
- Acnetane
- Adco-Sporazole
- Fucidin H

Women's health
- Betadine
- Estalis
- Evista
- Forteo
- Estradot
- Estro-Pause

Ophthalmics
- Gemini
- Spersallerg
- Spersadex Comp
- Zaditen
- Fucithalmic
- Efemoline

Respiratory
- Prelone
- Solphyllex
- Uniphyl

Urology
- Urizone
- Urispas

Business focus

- Continued focus on "multinational partner of choice"
- Build critical mass in key therapeutic areas
- Access pipeline
- Expand into Africa

South African market share

	IMS		IMS
Women's Health	#2	Cardiovascular	#5
Dermatology	#2	NSAID	#1
CNS	#4	Speciality	#3
Respiratory	#2	ARV	#5
Ophthalmic	#3		

Market trends

- This segment of the business is impacted by the economy, consumer demographics, regulations, education and awareness
- Gauteng, KwaZulu-Natal and the Western Cape are the three largest provinces for the target market
- Social networking, including cell phones, is a good medium for education and awareness
- Aggressive media spend is incurred to drive feet through stores

South African market share	IMS	Nielsens
Pain	#1	#2
Colds & Flu	#1	#3
Allergy	#1	(1)
Digestive Wellbeing	#1	#2
Supplements	#2	#1

(1) *Not measured*

Business focus

- Organic growth in the categories in which we operate
- Enter new categories through our product pipeline, by acquisition and strategic relationships with multinational companies
- Brand development of newly acquired NutriLida
- Geographic expansion
- Customer relationship development including:
  - OTC Training Academy for sales representatives;
  - Academy of Learning for Pharmacy Assistants; and
  - Pharmacist and Healthcare Summits
- Innovation through line extensions and new packaging

Critical Care

The Critical Care division is a leading supplier of life-saving products. The portfolio includes intravenous fluids, renal dialysis systems, and products for the storage of blood and blood components, infusion systems and accessories as well as a comprehensive range of wound care and ostomy products. The division partners with Baxter Healthcare and other global leaders in hospital products development.

Financial performance

- Turnover
  R1 073 million
- Top 10 brands' turnover
  R321 million
- Operating profit
  R138 million

Market trends

- Private hospitals are 23% of South Africa's hospital bed capacity
- 16% of the South African population has medical aid membership
- Private hospitals remain the largest recipients of medical funder disbursements
- More surgical cases are treated at private hospitals with more medical cases treated at public hospitals
- Nursing shortage remains critical

Business focus

- Grow the core by securing and retaining public sector business
- Innovate in acute hemodialysis and liver therapy
- Expand into adjacent and new categories
- Increase blood drives through our partnership with SANBS

Key customers

- South African Government
- Pharmaceutical wholesalers
- Corporate pharmacy groups
- Private hospitals
- FMCG wholesale and retail
- Doctors and specialists
- Independent pharmacies

For more information on our operations, *refer to pages 22 to 27*

GRI: 2.2

Key Brands

- Sabax intravenous fluids
- Oliclinomel intravenous nutrition
- Adco generic injectable drugs
- Baxter Colleague infusion pumps
- Amsino gravity sets\Baxter peritoneal dialysis
- Gambro hemodialysis
- One Alpha
- Fosrenol
- Fenwal blood bags
- FEIBA (Factor VIII inhibitor)
- BBraun ostomy and wound care

Financial summary

Consolidated statements of comprehensive income

	Audited 30 Sep 2011 R'000	Audited 30 Sep 2010 R'000
Continuing operations		
Revenue	**4 534 235**	4 200 022
Turnover	**4 453 567**	4 130 087
Cost of sales	**(2 284 606)**	(1 928 956)
Gross profit	**2 168 961**	2 201 131
Selling and distribution expenses	**(530 005)**	(442 805)
Marketing expenses	**(206 981)**	(162 442)
Research and development expenses	**(70 723)**	(65 287)
Fixed and administrative expenses	**(292 614)**	(362 290)
Operating profit	**1 068 638**	1 168 307
Finance income	**63 778**	59 288
Finance costs	**(30 225)**	(37 931)
Dividend income	**16 890**	10 647
Profit before taxation and abnormal item	**1 119 081**	1 200 311
Abnormal item	**–**	(269 000)
Profit from continuing operations before taxation	**1 119 081**	931 311
Taxation	**(326 129)**	(308 542)
Profit for the year from continuing operations	**792 952**	622 769
(Loss)/profit after taxation for the year from a discontinued operation	**(28 152)**	20 459
Profit for the year	**764 800**	643 228
Continuing operations:		
Basic earnings per ordinary share (cents)	**458,5**	354,9
Headline earnings per ordinary share (cents)	**465,1**	354,8

Headline earnings

Headline earnings from continuing operations increased by 31,1% taking into account the once-off, non tax-deductible International Financial Reporting Standards 2 share-based payment expense of R269 million incurred in the 2010 financial year, in relation to the Adcock Ingram Broad-Based Black Economic Empowerment (BEE) transaction. Excluding the once-off cost associated with the BEE transaction, normalised headline earnings decreased by 9% from 509,6 cents to 465,1 cents per share.

Headline earnings in the current year exclude capital profits of R0,9 million (2010: R0,2 million) and an impairment of investment in associate of R12,2 million. There are no impairments of intangible assets in the current or prior year.

Taxation

The effective tax rate is 29,1% (2010: 33,1%). The tax charge includes a further utilisation of the SIP allowance amounting to R23,3 million or R6,5 million at the tax line and an STC charge of R17,4 million. The balance of the SIP allowance (R314 million) is expected to be claimed in the 2012 financial year assuming that the HVL plant is commissioned in time.

Turnover

Turnover from continuing operations rose 7,8%, including revenue from acquired businesses of R49,9 million. NutriLida, which was acquired effective 1 August, had a solid subsequent two-month performance, contributing R43,1 million. Our diabetic company, Bioswiss, which was in the Group for the entire second half of the year, contributed R6,8 million. The multinational agreements signed during the prior year continue to grow and contributed R515 million towards revenue, compared with R107 million in the prior year.

Organic volumes declined by 2%, virtually all due to the reduction in the ARV tender and price decreases across the business averaged 2%, with price being lost in ARVs and Critical Care. Government granted no Single Exit Price increase during 2011 and an increase in 2012 remains unlikely.

Gross profit

Gross profit decreased by 1,5%, with the gross profit margin declining from 53,3% in 2010 to 48,7% in 2011. Gross margins across all businesses benefited from the strong Rand, which affected imported raw materials and finished products, but this was partially offset by increased adverse manufacturing variances of R17,1 million in plants undergoing upgrades, under-utilisation of the Wadeville plant following the low ARV tender allocation, and industry-wide strike in July and August, low margins in Critical Care as finished goods needed to be imported to meet demand, and the inclusion of MNC revenue at significantly lower than average gross margins.

Operating expenses

Operating expenses increased by 6,5% to R1,100 billion (2010: R1,033 billion), with new businesses not in the base contributing 2,6% to the expense increase. Selling and distribution expenses rose by 19,7%, measured as a percentage of sales as 11,9% (2010: 10,7%). The increase however includes R12 million in people servicing the multinational partnerships, significantly increased load numbers in Critical Care costing an additional R10 million, and R12 million of costs in acquired businesses which were not in the base. Marketing expenses increased 27,4% as we continued to advertise behind our large brands, with the spend paying off with nine of the top 10 brands in OTC showing growth. Additional marketing expenses of R8 million were incurred on people supporting the multinational partnerships and costs from acquisitions not in the base amounted to R5 million. These increases were offset to some extent by a decrease of 19,2% in fixed and administrative expenses as no incentive provision was raised during the year (2010: R41 million), IFRS 2 expenses decreased to R18 million compared to R43 million in the prior year and project related costs decreased by R13 million year-on-year. Exceptional expenses in 2011 include an impairment charge of R12,2 million on an investment in an associate and a bad debt provision of R5,4 million.

Operating profit

Operating income, excluding the prior year abnormal item, decreased by 8,6% with margins decreasing from 28,3% in 2010 to 24,0% in 2011, this loss in leverage being carried down from the gross profit line.

Abnormal items

The abnormal item in the prior year related to the once-off IFRS 2 charge pertaining to the strategic partners in the BEE transaction, implemented during April 2010. The current year charge relating to the employee component of the scheme amounts to R6,8 million and is effectively a six-month charge as the staff allocations were done in mid-year. This charge is included in fixed and administrative expenses.

Consolidated statements of financial position

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

Property, plant and equipment
Investment in property, plant and equipment amounted to R433 million:
- AICC: R120 million, with the upgrade due for completion in January 2012.
- Clayville: R192 million, with the high-volume liquids facility due for completion in the last quarter of the 2012 fiscal year.
- Wadeville: R22 million where we are currently seeking FDA accreditation.
- Midrand/Distribution and other: R99 million (including R33 million on IT).

Intangible assets
Goodwill and intangibles increased as a result of acquisitive activity, primarily NutriLida. Additional goodwill taken on this year was R174,0 million, intangibles with infinite lives R19,2 million and those with finite lives R139,3 million. Those with finite lives will be amortised over a period of 15 years on average.

Inventory
Inventory levels increased by 20% and days in inventory increased to 134 days. Included in inventory as at September 2011 are strategic stock holdings of certain inventory items to take advantage of the strong Rand and ensuring security of supply.

Trade and other receivables
Trade accounts receivable, net of provisions, decreased slightly. Whilst the absolute balance has decreased, the days outstanding in debtors at year-end are 64,9, a deterioration on the prior year figure of 58,1 days. However, this is not an indication of a deterioration in the book, as aside from the debtor written off in Critical Care there were no bad debts, and in fact some small recoveries were realised in the Pharmaceutical business.

Share capital
Shares issued in 2011 relate to the exercising of share options by current and former employees of Adcock Ingram and Tiger Brands Limited. Approximately 1,5 million equity options remain outstanding under these schemes, which are available for exercising between now and 1 September 2015, at offer prices ranging from R9,70 to R28,33.

During the year, the Group bought back 2,5% (4 285 163 shares) of its ordinary shares over a two week period in February at an average cost, including taxes and transaction fees, of R58,07 per share, R248 million in aggregate. A further R43 million of share purchases was made by the special purpose vehicles party to the BBBEE transaction.

Borrowings
The Group is carrying interest-bearing debt of R843 million (2010: R581 million) which includes the following:

(i) R7,5 million of finance leases for IT and office equipment;

(ii) R12,1 million in the joint venture, NRC, at a fixed rate of 9%, payable in 36 instalments from 1 August 2010 with the final instalment in July 2013;

(iii) R29 million for two loans in the joint venture in India bearing interest respectively at 1,25% and 2,75% below the State Bank of Hyderabad's lending rate, currently 15%;

(iv) R504 million bearing interest at JIBAR + 265 basis points. Interest is payable quarterly in arrears and the capital is repayable in eight quarterly instalments from March 2012. A final draw down was done subsequent to year-end on 1 October, utilising the total facility of R510 million. This loan is restricted to fund the construction of the high-volume liquids manufacturing facility;

(v) R290 million bearing interest at JIBAR + 230 basis points. Interest is payable quarterly in arrears and the capital repayment was due in November 2011 as a bullet payment. Subsequent to year-end the loan has been rolled and will now bear interest at JIBAR +180 basis points. Interest will continue to be serviced quarterly in arrears and the capital is repayable in eight quarterly instalments from March 2012; and

(vi) The short-term portion of the loans disclosed as R496 million are therefore now R315 million, had the new terms applied at 30 September.

For key financial ratios, ***refer to page 20***

Consolidated abridged statements of cash flows

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

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

Cash generated for operations

Adcock Ingram continued its strong cash generation with R526 million derived from operating activities, which allowed the Group to maintain its ability to fund the capital expenditure programme and acquire businesses from operating cash flows.

Investing activities

The significant outflow in investing activities relates to the acquisition of NutriLida and Bioswiss.

R85 million was raised through the sale of The Scientific Group.

The Group's capital expenditure was R433 million during the year, incurred primarily at Clayville and Aeroton.

Financing activities

Financing activities accounted for net cash outflows of R181 million after drawing down R364 million from the capex facilities and repaying R99 million on promissory notes, with the balance of the net increase in borrowings relating to NRC and India. The outflow as a result of the purchase of treasury shares, both by Adcock and the BEE shareholders, amounted to R291 million.

Cash and cash equivalents

The Group has adequate cash reserves of R1,104 billion at year-end and is ungeared with a net cash position of R261 million (2010: R850 million). The Group has R500 million of aggregate available unutilised short-term facilities with two South African financial institutions to service ongoing operational requirements, and has capacity for gearing in order to invest in its pipeline and product portfolios, and continue to implement its growth strategy. The Group has retained its investment grade status with the major South African financial institutions.

GRI: EC 1

Full annual financial statements can be found ***from page 43***

Strategy

In our journey to achieve our vision to be recognised as a leading world-class branded healthcare company, our strategy is based on two key and integrated goals:

- To ensure sustainable business growth to provide shareholders with expected returns on their investment.
- To balance stakeholder interests through economic, environmental, social and cultural sustainability.

Seven fundamental strategic imperatives underpin Adcock Ingram's vision.

7 must-win battles

to enable us to meet our **2012 commercial vision**

Leadership #1 Player in Africa

	Strategy	Progress 2011	Focus 2012
1	**Continue to grow in South Africa (horizon 1)**	Acquired NutriLida, ADDvance and Bioswiss Collaboration agreements signed with principals	Expand ARVs portfolio Local new product development New principals improve market shares
2	**Acquire and grow in sub-Saharan Africa and India (horizon 2)**	Increased shareholding in Ayrton to 71,35%. Dawanol exports into neighbouring countries Established office in India	Identify new territories Identify new principals Export Adcock Ingram products into Africa
3	**Low cost producer**	Continuous improvement initiatives achieved – R65 million	Complete upgrades to facilities Obtain international accreditations Cost benchmark
4	**Transformation**	Level 4 BEE status achieved Effective black ownership of 13,5% BEE options allocated to staff	Maintain Level 4 BEE status Implement owner-driver scheme Obtain 8 points in Enterprise Development
5	**Distribution excellence**	Integrated all businesses	Service levels Capex upgrade Benchmarking Increase direct deliveries
6	**Compliance**	WHO prequalification for R&D facility Environmental management plan introduced and audited at all SA manufacturing sites	Extend the environmental management plan and annual audit to distribution centres throughout South Africa Implement plastics recycling project with hospitals and home-based patients
7	**People/processes in place**	Critical Care and Pharmaceutical business in SA integrated	Performance culture coaching

Sustainability overview

Our strategic agenda

Focus area	Scope	Projects
Ethics and Governance	Commitment to and monitoring the core governance principles of transparency, accountability, fairness and responsibility in all operations	• Ethics training • Integrated reporting • Companies Act training • Consumer Protection Act training • Competition Act training
Employees	Our long-term sustainability is dependent upon meeting and surpassing employee expectations regarding transformation, leadership effectiveness, talent management, performance management and career development, industrial relations, fair employment practices	• Mpho ea Bophelo employee share scheme • "Adcock Unite" culture development programme • Expatriate management • Succession planning • Performance reviews • Talent development
Environment	Constructive contribution to reduce our carbon footprint through a programme of continuous improvement	• Environmental policy underway • Environmental management plan has been introduced at all SA manufacturing sites
Communities	Invest in the disadvantaged communities in which we operate through active involvement in projects aimed at community upliftment and healthcare	• Beds of Hope • Smile Foundation • Mercy Ships • Postnatal Depression South Africa • Bloemfontein TB Association • Various divisional initiatives • Martyrs of Uganda Catholic Church (Ghana contribution)
Health and Safety	Implement best practices to ensure the health and safety of our employees and compliance with safety, health and environmental legislation at all facilities	• Health and safety audits at all South African sites • Employee wellness programme • Mpilo-Nhle employee confidential counselling service
Education and Training	Develop a robust talent pipeline through recruitment, education, training, coaching, mentoring, and international assignments to enhance expertise in the workplace Provide continuing professional education to health professionals	• Leadership development • Adult Basic Education and Training (ABET) • Skills training • Health Summits for doctors and pharmacists • Training for nurses and pharmacy assistants
HIV/AIDS	Contribute to the fight against AIDS through in-house and community activities	• Comprehensive, voluntary and confidential AIDS management programmes in place for employees • CSI programme supports various initiatives that help to alleviate the burden of AIDS in South African communities
BEE	Adcock Ingram embraces BBBEE as a key transformation initiative	• Enterprise Development initiatives explored • Communication of benefits of employee share scheme • Allocations made to staff

Reference	Achieved 2011	Focus 2012
www.adcock.com/AboutUs_GovernanceValuesAndEthics Ethics & Values page 16	• Ethics Forum Training • Board trained on the new Companies Act • Consumer Protection Act training • The Audit and Risk and Sustainability committees received training on Integrated Reporting	• Competition Act training • Companies Act training for senior staff members • Staff training on contract management
People on pages 25 and 29	• BEE score improved to Level 4 • Black employee share scheme launched • "Adcock Unite" first phase completed	• Transformation and diversity management • Build the Adcock Ingram Culture • Leadership effectiveness • Alignment of total rewards strategy • Integrated talent management system • Human capital governance
Environment on page 28	• Environmental management programme introduced at South African manufacturing sites and the Midrand distribution centre • Audited by Alexander Forbes • Energy and water saving initiatives • Recycling project • Participation in energy and carbon disclosure projects	• Environmental management plan and audit to be extended to all South African distribution centres • Monitor continuous improvement progress in environmental management • Staff awareness campaigns • Participation in workshops about climate change • Compile Environmental Policy
www.adcock.com/Community Communities on page 31	• R2 million invested in communities	• CSI budgeted at 1% of net profit after tax • Increase employee participation in social initiatives • Ayrton plans to embark on free medical screening and medication to deprived communities
www.adcock.com/Healthwellness_OptimiseYourHealth People on page 30	• Health and safety audit achieved an average of 96% against 95% target, despite challenges at some sites due to upgrades	• Expand health and safety programmes
www.adcock.com/AboutUs_GPSummit *www.adcock.com/AboutUs_OTCAcademy* *www.adcock.com/AboutUs_Marketing* *www.adcock.com/AboutUs_Academy* People on page 30	• R6,1 million spent on training with 60% of expenditure for previously disadvantaged people • Doctors, pharmacists, pharmacy assistants and nurses attended Adcock Ingram training programmes	• Expected spend amounts to R16,6 million • Comprehensive leadership programme • Expand disabled learning and development • Extend wellness offering in Africa • Focus on continuing professional education and medical updates
www.adcock.com/Community_OurLatestInitiatives People on page 30	• 67 people on HIV programme	• Continue education and counselling for employees diagnosed with HIV AIDS • Seek opportunities to support AIDS initiatives in the community that meet the criteria of our CSI programme
www.adcock.com/AboutUs_Diversity People on page 25	• Preparation to launch owner-driver Enterprise Development initiative • Communication sessions held across South Africa • Employment Equity targets achieved	• Owner-driver Enterprise Development initiative to be launched early 2012 • Ongoing focus on maintaining and improving BBBEE status

GRI: SO1, SO6, EN3 –7, EN10

Board and governance structure

Board of directors

Jonathan J Louw (42)
MB ChB, MBA

Chief Executive Officer

Date appointed
15 July 2008

Appointed in 2008, overseeing the relisting of the Company on the JSE. Promoted to head of pharmaceutical business in 2002. Joined Adcock in 2001 as New Business Development executive.

Previous experience

- Joined AstraZeneca in South Africa in 1999
- Practised as an anaesthetist at St. Mary's Hospital in London in the 1990s

Full CVs available on the website: **www.adcock.com**

Khotso DK Mokhele (56)
PhD Microbiology, MSc Food Science, BSc Agriculture

Independent Chairman

Date appointed
15 July 2008

Chancellor of the University of the Free State. Chairman of Impala Platinum Holdings Limited. Serves on the boards of Tiger Brands Limited, Zimplats Holdings Limited and African Oxygen Limited.

Previous experience

- Founder President of the National Research Foundation
- Founder President of the Academy of Science of South Africa
- Served as Chairman of National Skills Authority
- Served on the Executive Board of the United Nations Education, Science and Culture Organisation (UNESCO)

Andy G Hall (49)
CA (SA), BPharm

Deputy Chief Executive and Financial Director

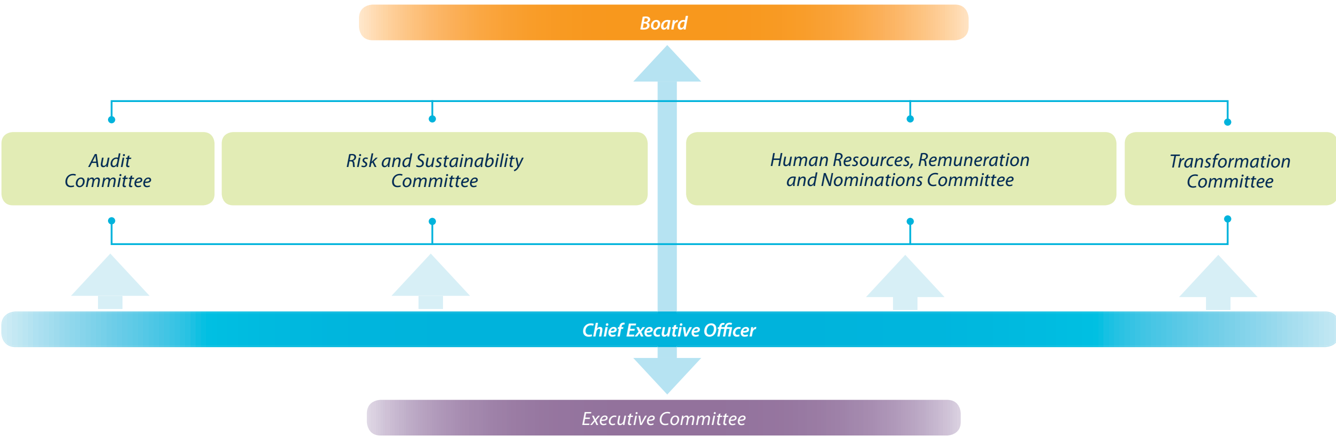
Date appointed
15 July 2008

Oversees Group Finance, Business Development, Corporate and Government Affairs, and the Company Secretariat.
Joined in 2007 as Chief Financial Officer.

Previous experience

- Partner in charge of health sciences at Ernst & Young
- Sales and marketing at Pfizer, and retail pharmacy

Governance structure



Board composition, meeting attendance and remuneration

Directors	Board	Board meeting attendance	Special board Meeting attendance	Audit Committee	Audit Meeting attendance	Risk and Sustainability Committee	Risk and Sustainability Meeting attendance
Executives							
JJ Louw [1]	Member	6/6	4/4				
AG Hall [1]	Member	6/6	4/4				
Non-executives							
KDK Mokhele [2]	Chairman	6/6	4/4				
T Lesoli	Member	6/6	3/4				
CD Raphiri	Member	4/6	2/4				
LE Schönknecht	Member	6/6	4/4			Member	3/3
AM Thompson	Member	6/6	3/4	Member	3/3		
EK Diack	Member	6/6	4/4	Chairman	3/3	Member	3/3
RI Stewart	Member	6/6	3/4	Member	3/3	Chairman	3/3

(1) For more details on the executive directors' remuneration, please refer to page 35.
(2) The Chairman only receives board attendance fees and is not paid for committee membership.
(3) Mr Raphiri was chairman for the last three meetings. He had not been a member of this committee prior to his appointment as chairman.
(4) Mr Thompson has been a member since January 2011.

Roger I Stewart (59)

MB ChB, PhD (Med), Grad Dip. Comp Dir. F Inst Directors

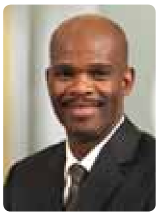
Independent non-executive director

Date appointed
15 July 2008

Lead partner in a business consulting practice.

Previous experience

- Associate professor of physiology at the University of Stellenbosch
- Fellow of the American College of Chest Physicians
- Group executive at the South African Medical Research Council



Clifford D Raphiri (48)

BSc Mechanical Engineering, Grad Dip. Engineering, MBA

Independent non-executive director

Date appointed
15 July 2008

Manufacturing and Technical Director of SA Breweries. Serves on the boards of various SA Breweries Limited subsidiaries.

Previous experience

- Design mechanical consulting engineer at BKS Inc.
- Project Engineer at Metal Box
- Consulting engineer at Andersen Consulting

Andrew M Thompson (54)

BSc (Civil Engineering), MBA

Independent non-executive director

Date appointed
15 July 2008

Experienced industrial executive
Serves as a non-executive director of MPact (previously Mondi Packaging).

Previous experience

- CEO of Mondi South Africa
- Non-executive director of Tongaat Hulett Group

Eric K Diack (54)

BAcc, CA (SA), AMP (Harvard) AMP (UCT)

Independent non-executive director

Date appointed
15 July 2008

Non-executive director of Bidvest Bank.

Previous experience

- CEO of Anglo Industries and Anglo American Ferrous and Industries Division
- Served on various boards, including Dorbyl, AMIC, AECI, ArcelorMittal, Highveld Steel, LTA, McCarthy and Tongaat Hulett

Leon E Schönknecht (58)

BCompt (Hons), CA (SA)

Independent non-executive director

Date appointed
15 July 2008

Managing Director of New Teltron (Pty) Limited.

Previous experience

- CEO of United Pharmaceutical Distributors (UPD)
- Non-executive Chairman of UPD and director of the Premier Group
- Qualified as CA with Deloitte & Touche

Tlalane Lesoli (61)

MB BS, Dip of Child Health

Independent non-executive director

Date appointed
15 July 2008

Qualified as medical doctor at the University of London. Registered practitioner with the HPCSA.

Previous experience

- Co-founded and managed Mother Earth Distributors and Nature Plan
- Non-executive director of Woman Investment Africa Network and Global Africa Resources
- Research in Neonatal Paediatrics at John Radcliffe Hospital Oxford UK
- Medical Director for Transmed Medical Aid

Directors	Transformation Committee	Transformation Meeting attendance	Human Resources, Remuneration and Nominations Committee	Human Resources, Remuneration and Nominations Meeting attendance	Remuneration 2011 R'000	Remuneration 2010 R'000
Executives						
JJ Louw [(1)]	Member	2/3				
AG Hall [(1)]	Member	3/3				
Non-executives						
KDK Mokhele [(2)]	Member	3/3	Member	5/5	**803**	976
T Lesoli	Chairman	3/3			**283**	286
CD Raphiri			Chairman [(3)]	3/3	**278**	262
LE Schönknecht					**331**	385
AM Thompson	Member	3/3	Member [(4)]	2/2	**381**	347
EK Diack					**501**	497
RI Stewart					**501**	497
					3 078	3 250

For more details regarding changes in directors' responsibilities, please refer to ***page 17***

Board and governance structure (continued)

***Board of directors** (continued)*

Details	*Audit Committee*	*Human Resources, Remuneration and Nominations Committee*	*Transformation Committee*	*Risk and Sustainability Committee*
Composition	Three non-executive directors	Three non-executive directors	Three non-executive directors Two executive directors	Three non-executive directors
Members	EK Diack (Chairman) RI Stewart AM Thompson	CD Raphiri (Chairman) AM Thompson KDK Mokhele	T Lesoli (Chairman) KDK Mokhele AM Thompson JJ Louw AG Hall	RI Stewart (Chairman) LE Schönknecht EK Diack
Responsibilities	Review financial statements and recommend their approval to the board Review accounting policies Oversee the development and implementation of processes to achieve compliance with all applicable legal and regulatory requirements Communicate with internal and external auditors Provide assurances to the Board as to the integrity and appropriateness of the financial management systems	Assist the Board in determining remuneration and performance measures of executive and senior management Determine remuneration philosophy and appropriate human capital management policies Review terms and conditions of key executive service agreements at least annually Oversee annual performance evaluation of the Board	Ensure Adcock Ingram's equity ownership and the demographic profile of its employees is representative in the South African context Establish, implement and monitor the framework for the Company's transformation plan Review and monitor procurement policies to encourage practices that are equitable and support black economic empowerment wherever possible	Ensure an appropriate and effective control environment and clear parameters within which risk is managed Oversee issues relating to sustainability Oversee the conduct of a business risk assessment to identify the most significant commercial, financial, compliance and sustainability risks and put in place steps to mitigate these Assist the Board in setting the risk strategy and policies in determining the Company's tolerance for risk
Optional attendance by invitation	Executive directors, internal and external auditors	CEO and Human Capital executive	Executive directors and Human Capital executive	Executive directors, internal and external auditors, insurance and risk advisers and members of management

Executive committee

Jonathan Louw
Chief Executive Officer

See page 12 for abridged CV
See page 18 for responsibilities and focus areas in 2012

Andy Hall
Deputy Chief Executive & Financial Director

See page 12 for abridged CV
See page 18 for responsibilities and focus areas in 2012

GRI: 2.3, 4.1 – 4.3, 4.9

Full CVs available on the website:
www.adcock.com

	Responsibilities within the Adcock Ingram Group	*Focus areas 2012*
 **Ntando Simelane** *B.Juris, LLB* *Company Secretary* • Appointed on 1 April 2011, after acting in the position for six month s • Joined in 2009 as the Group's Legal and Compliance Manager • Spent nine years at the SABC in various legal roles • Spent four years at the Advertising Standards Authority of SA (ASA) as a dispute resolution consultant	• Company secretariat • Legal affairs • Legal/risk compliance • Risk control	• Achieve full compliance with JSE Listing Requirements, Companies Act and legislative universe
 **Bill Tweedie** *BCompt (Hons) CA (SA)* *Commercial Executive – Southern Africa* • Appointed to his current position in 2011 • Managing executive of Pharmaceuticals Division since 2007 • Marketing and sales executive at Adcock Ingram since 2004 • Held various financial and general management positions in Adcock Ingram and Tiger Brands over the past 18 years	• Profit centre responsibility for Southern African business	• Pursue organic growth • Optimise portfolio • Continue to build brands • Customer interaction
 **Kofi Amegashie** *BSc (Hons) Chemical Engineering, MSc Management (UK)* *Commercial Executive – Rest of Africa* • Appointed on 1 October 2011 • Previously Chief Executive of Alexander Forbes business on the African continent outside of South Africa • Joined Coca Cola in Nigeria in 2006 as Director Consumer Marketing, Strategy and Business Planning for Nigeria and Equatorial Africa • 20 years' broad business experience in emerging and first world markets	• Business growth in sub-Saharan Africa • Drive regional exports in Africa	• Identify acquisition opportunities in Africa • Oversee completion of new Ghanaian manufacturing facility by end 2012 • Introduction of new products in Africa and growing the existing businesses
 **Pravin Iyer** *BCom AICWA, CMA* *Commercial Executive – India* • Joined Adcock Ingram in June 2011 • Director of Adcock Ingram Healthcare Private Limited, India • Previously CEO of the Medreich Group, Adcock Ingram's joint venture partner in India • CFO of Medreich for five years • 21 years' experience in the pharmaceutical industry	• Setting up office in Bangalore • Establish transactional support team for back office support to South Africa • Identify sales and marketing opportunities in India	• Investigate potential acquisitions of existing OTC and Prescription branded companies in India • Acquire new product developments and dossiers for marketing in Adcock Ingram territories • Evaluate and expand Adcock Ingram's business in Asia and the Far East economies
 **Abofele Khoele** *MB ChB* *Medical Executive* • Joined Adcock Ingram in 2010 • Medical director and Chief Scientific Officer at Novartis South Africa for two years • Various positions in medical affairs and clinical operations at Novartis • Prior to joining the industry he was a clinician in the field of general surgery	• Medical affairs • Regulatory affairs • Group quality assurance • Research and development	• New product pipeline • Product registrations • Transform quality systems to global standards
 **Basadi Letsoalo** *Hons Psych, CLDP MPsych MLCP* *Human Capital Executive* • Joined Adcock Ingram in 2008 • Previously head of Transformation at Standard Bank SA • Was head of HR information management at ABSA	• Transformation • Talent acquisition and management • Building leadership pipeline • Organisational culture • Learning and development • Organisational effectiveness • Remuneration • Drive performance culture	• Transformation • Retain key talent • Measurement of leadership effectiveness and succession management • Align total reward strategy

GRI: 2.3, 4.1 – 4.3, 4.9

Corporate governance

Corporate governance includes the structures, processes and practices that the Board uses to direct and manage the operations of Adcock Ingram Holdings Limited and the subsidiaries within the Adcock Group. These structures, processes and practices help ensure that authority is exercised and decisions are taken in a transparent manner, within an ethical framework that promotes the responsible consideration of all stakeholders and ensures that decision-makers are held appropriately accountable.

Adcock Ingram Holdings Limited is committed to the principles of good corporate governance as set out in the King III Report on Corporate Governance for South Africa, the JSE Listings Requirements and the Companies Act 71 of 2008.

The Company continues to strive to meet the Corporate Governance principles as contained in the Code of Governance Principles forming part of the King III Report since it took effect on 1 March 2010, save as specifically disclosed in this report.

Ethics

Ethics is the cornerstone of Adcock Ingram's business and an unequivocal commitment to fairness, transparency and integrity underlies all facets of the Group's operations. Adcock Ingram's Board is responsible for setting the ethical tone "at the top" and monitors its implementation, including training of employees regarding the code of ethics to help ensure that business is conducted in a manner that is beyond reproach at all levels in the Group. Adcock Ingram is committed to:

- Achieving the highest standards of transparency, accountability and integrity in all aspects of its operations and in its dealings with stakeholders and the community at large;
- Providing stakeholders and the investor community with clear, meaningful and timely information about Adcock Ingram's operations and results;
- Conducting its business on the basis of fair commercial and competitive practices;
- Building business relationships with suppliers and customers who endorse ethical business practices;
- Actively pursuing transformation and ensuring employment practices which are non-discriminatory and which seek to maximise the potential of all its employees through training and skills development; and
- Proactively accepting responsibility for and managing the environmental and sustainability issues associated with its business.

The King III Report provides clear guidance on acceptable business practices and ethical standards by which Adcock Ingram employees, suppliers and business partners are expected to conduct themselves in their business relationships. Training initiatives relating to ethics include Ethics Forum Training. We proudly employ three of the country's 114 certified trained ethics officers and one of these managers is also a certified fraud examiner. Employees are encouraged to report inappropriate, unethical or illegal activity through an independently operated ethics call line. This whistle-blowing facility is available 24 hours per day, 365 days per year.

Values

Our corporate values are aimed at building and maintaining a culture which promotes teamwork, commitment, professionalism, integrity and a focus on business ethics, creative thinking and open and honest communication.

Information technology (IT)

Adcock Ingram subscribes to the King III statement that IT governance can be considered as a framework that supports effective and efficient management of IT resources to facilitate the achievement of the Group's strategic objectives.

Adcock Ingram has implemented and is in the process of implementing a number of projects to achieve compliance such as:

- Business driven IT strategy;
- Standardisation of systems and processes to improve business operations and reporting;
- Replacement of outdated and obsolete systems to ensure compliance with King III and relevant legislation;
- Centralisation of IT facilities and upgrades to the IT infrastructure. In the process, environmental benefits will be realised through reduced power and air conditioning;
- Information security systems; and
- Disaster recovery procedures.

The Board of directors

Appointment and retirement

Adcock Ingram is led by a diverse board of nine directors, seven of whom are independent non-executives. Adcock Ingram's Memorandum of Incorporation (MOI) sets out a formal process for the appointment of directors to the Board. Criteria used in the selection of the directors of the Company include leadership qualities, depth of experience, skills, independence, personal integrity beyond reproach and business acumen. The directors collectively bring to the Group a wide range of skills and experience which include industry specific knowledge as well as broader business flair. The Board is led by a chairman who is an independent non-executive director. A clear separation of powers exists between the chairman of the Board and the chief executive officer.

As required by the Company's MOI, an annual general meeting is held each year. One-third of the directors retire by rotation and, if eligible, may offer themselves for re-election by shareholders. Thus, each director is rotated at least once every three years in accordance with the MOI. Retiring directors who offer themselves for re-election are evaluated by fellow directors before a recommendation on the re-election is made by the Board to shareholders. There is no term or age limit imposed in respect of a director's appointment; however, tenure is informed by a regular, formal evaluation of the suitability, contribution and independence of each of the directors. The terms and conditions applicable to the appointment of directors are contained in a letter of appointment which, together with the board charter, forms the basis of the director's appointment. The Nominations Committee plays an important role in the identification and removal of under-performing or unsuitable directors.

Brief *curricula vitae* of each of the directors appear on pages 12 and 13 of this report.

Responsibilities and processes

The Board is ultimately responsible to shareholders for the performance of the Group. The Board broadly gives strategic direction to the Group; approves and regularly reviews business plans, budgets and policies; appoints the chief executive officer and ensures that power and authorities delegated to management are clearly and comprehensively documented and regularly reviewed, and that the governance framework of the Group remains appropriate and relevant. The Board retains control over the Group, monitors risk and oversees the implementation of approved strategies through a structured approach to reporting and accountability. The Board, through the Risk and Sustainability Committee, monitors compliance with legislation through the recently adopted compliance dashboard. The dashboard includes all the legislation relevant to the Group and also contains risk management plans and existing controls to ensure compliance. The Committee will receive compliance reports and status updates on a quarterly basis.

Board charter

The Board is governed by a board charter which sets out, *inter alia,* the principles and process in terms of which directors are appointed, the duties and responsibilities of the Board and how issues such as dealing in the Company's securities are to be dealt with. Issues of conflicts of interest are regulated and dealt with regularly in terms of the board charter and section 75 of the Companies Act. Normally the directors' register of interests is circulated at the scheduled meetings of the Board for directors to confirm its contents and the subject matter is a standing item on the board agenda. In line with the Board's commitment to implementing the highest practicable standards of corporate governance within the Company, the board charter incorporates the principles of the King III Report (King III) wherever appropriate.

The meetings of the Board and Board committees are scheduled annually in advance. In addition to regular consideration of the Group's operational and financial performance at each of its meetings, the Board's annual work-plan aims to ensure that the Board deals with each of the matters reserved for its consideration during the course of its annual meetings. The number of meetings held during the year under review (including meetings of Board-appointed committees) and the attendance of each director appear on pages 12 and 13 of this report. The Board strives to ensure that non-attendance by directors at scheduled board meetings is an exception rather than the norm, and directors who are unable to attend meetings are required to communicate their reasons for non-attendance in advance to the Company Secretary for formal notification to the Board.

Board papers are provided to directors in a timely manner, in advance of meetings, and directors are afforded ample opportunity to study the material presented and to request additional information from management where necessary. All directors may propose further matters for inclusion on the agenda of board meetings. The Board is given unrestricted access to all Group information, records, documents and facilities through the office of the Company Secretary. The Company Secretary is the secretary to all committees of the Board and ensures that the committees operate within the limits of their respective mandates and in terms of an agreed annual work plan. There is a formal reporting procedure to enable the Board to stay abreast of the activities of each committee. In terms of the board charter, the directors may obtain independent professional advice, at the Group's expense, should they deem it necessary for the proper execution of their directorial role.

Directors are kept appropriately informed of key developments affecting the Group between board meetings.

Non-executive directors have full access to management and may meet separately with management, without the attendance of executive directors, where necessary. Arrangements for such meetings are facilitated through the office of the Company Secretary. At least twice annually, the non-executive directors meet without the executive directors or other members of management being present to discuss issues relevant to the Board and the Group.

The Company Secretary attends all board and committees' meetings and provides the Board and the directors, collectively and individually, with guidance on the execution of their governance role and compliance with the required statutory procedures.

Changes to directors' responsibilities and status

There were no changes to the Board of directors during the period under review, but there were changes to the directors' responsibilities.

On 28 January 2011, Mr Leon Schönknecht resigned as Chairman of the Human Resources, Remuneration and Nominations Committee. He continues to serve the Board as an independent non-executive director and member of the Risk and Sustainability Committee. Mr CD Raphiri, an independent non-executive director, was appointed as the Chairman of the Human Resources, Remuneration and Nominations Committee and Mr AM Thompson, an independent non-executive director, has been appointed as a member of the same committee. Mr Thompson remains a member of the Audit Committee and Transformation Committee.

Mr Andy Hall, the Chief Financial Officer and an executive director, was appointed Deputy Chief Executive and Financial Director with effect 1 August 2011. In addition to fulfilling his function as the Deputy Chief Executive Officer, Mr Hall oversees Group Finance, Business Development, Corporate Affairs and Government Relations and the Company Secretariat.

Board education and training

All directors are required to attend a formal annual governance training session, which is formally scheduled in the Board's annual calendar, to ensure their knowledge of governance remains relevant. In addition, all directors are provided with an induction file containing important legislation, the Group's governance framework (including the board committee governance structure, the board charter, terms of reference of all board committees and key company policies). On-going director training sessions are held where changes in the legislative, regulatory or business environment of the Group warrant specific focus. Finally, all directors are encouraged to attend external director development and training programmes, at the cost of the Group. In the year under review all directors attended a half day training session on the relevant sections of the Companies Act 71 of 2008 and its Regulations (2011), both of which came into effect on 1 May 2011. Dr Stewart attended a one day workshop on Integrated Reporting.

The members of the Audit Committee, and Risk and Sustainability Committee received training on Integrated Reporting.

Board evaluation

A formal process to evaluate the performance of the Board, its committees, the chairman, and three retiring board members was instituted. The Board was evaluated on the following areas: composition, authority and functionality, effectiveness of meetings, relationship between the independent non-executive directors and management, risk management and control. The evaluation forms completed by directors were submitted to an independent assessor for evaluation and compilation of the report. The results of the evaluation were discussed at the meeting of the Board in November 2011. The Board committees will be evaluated in the following year.

Board meetings

Six board meetings were held during the year. In addition, a number of special board meetings took place. The nature of these special board meetings was such that they were often required to be called at short notice to the directors, and directors' attendance at these meetings must therefore be seen in this context. See page 12 for the table which sets out attendance by directors at all board meetings.

Company Secretary

Mr Ntando Simelane was appointed Company Secretary effective 1 April 2011. All directors have unlimited access to the Company Secretary for advice to enable them to properly discharge their responsibilities and duties in the best interests of Adcock Ingram, with particular emphasis on supporting the independent non-executive directors and the chairman. The Company Secretary works closely with the chairman and executive directors, to ensure the proper and effective functioning of the Board and the integrity of the board governance processes.

GRI: 4.4, 4.6 – 4.7, 4.10

Leadership statement

Adcock Ingram has a strong, ungeared balance sheet with significant capacity to gear up where necessary to bolster our portfolios and implement our growth strategy.

Khotso Mokhele
Chairman

Key responsibilities

- Management, development and effective performance of the Board of Directors
- Communication with shareholders
- Support Chief Executive Officer in development of strategy

Jonathan Louw
Chief Executive Officer

Key responsibilities

- Strive to achieve the Company's financial and operating goals and objectives
- Ensure day-to-day business affairs of the Company are properly managed within approved framework of delegated authority
- Ensure long-term strategy of the Company is developed
- Foster a corporate culture that promotes sustainable ethical practices

Focus areas 2012

- Globalisation (emerging markets)
- Product quality, pipeline and activation
- Execution and fulfilment of customer driven strategy

Andy Hall
Deputy Chief Executive and Financial Director

Key responsibilities

- Finance
- Investor relations
- New business development
- Legal and secretariat
- Corporate Affairs and Government Relations

Focus areas 2012

- Financial reporting
- Mergers and acquisitions activity
- Compliance and governance
- Investor relations

Where we have succeeded in our objectives

- No. 1 in the OTC pharmacy market
- Remain a leader in the hospital and pharmaceutical private sector
- Integration of acquisitions into our existing business
- Research and Development: 44 projects completed
- Transformation: Level 4 BBBEE status achieved
- Established environmental policy and management system

Where we have not yet achieved our goals

- Number of new product launches
- Stock availability and factory under-recoveries due to factory upgrades and strikes
- Securing only a small portion of the ARV tender
- Suspension of DPP-containing medicine pending the outcome of the appeal process

Refer to page 6
for the financial summary

Dear Stakeholder

South Africa, whilst not unscathed by worldwide economic volatility and this year's debt crisis in Europe and the USA, has been more resilient. Nonetheless, concerted efforts are required to build our economic momentum and address critical issues that range from the education system, service delivery, healthcare services, productivity and inflation through to the alleviation of poverty.

Government's steps to deal with unemployment, budgets for public works projects, job creation initiatives and the Industrial Action Plan augur well for economic growth.

South Africa's inclusion in the BRICS Forum is expected to increase the participation of Brazil, Russia, India and China in South Africa, thus elevating our economy through their investment. In addition, we are likely to benefit from their advanced technology insights, manufacturing skills and product-sourcing opportunities.

Closer to home, there are many challenges facing the highly regulated pharmaceutical industry which require robust debate with Government. Adcock Ingram is an active member of the industry association, PIASA (Pharmaceutical Industry Association of South Africa), and actively participates in the Pharmaceutical Task Group (PTG).

Burning issues in the health arena include the freeze on the Single Exit Price in 2011 and the proposal to again hold prices in 2012. These decisions were made on the basis that economic principles which determine costs did not justify an increase. The negative effects will be exacerbated by recent local currency depreciation.

International benchmarking and capping of the logistics fee are likely to have negative implications for the pharmaceutical industry. The logistics fee model proposed by the Minister of Health, based on a percentage of the selling price of the goods, does not reflect the actual costs of distribution of high-volume/low-value medicines (which in our case includes bulky life-saving intravenous fluids) and the need to distribute our products into far flung rural areas. Adcock Ingram has proposed an alternative model which is consistent with the Department of Health's objectives within the Single Exit Price philosophy.

There are also opportunities. The Preferential Procurement Policy Framework Act is welcomed and it is encouraging that listed companies can now benefit from their BEE status. Since Adcock Ingram is a Level 4 contributor it is expected this will support the Group's tender business. However, greater alignment of the Industrial Action Policy with that of Government procurement is critical.

The intended National Health Insurance (NHI) could offer significant opportunities. However, further information is required to determine the benefits and risks to the industry. Whilst the principle of an NHI is laudable, funding and quality of care is an issue even in the most sophisticated countries. These problems will be exacerbated in South Africa, taking into account our small tax base weighed against the large population to be served by the system.

Financial overview

Our results were achieved in very challenging conditions, not least the Medicine Control Council's (MCC) suspension of Dextropropoxyphene-containing medicines (DPP) and the very limited allocation (4%) to Adcock Ingram of the Government tender for HIV products. We also experienced significant upgrade-related production disruptions in our Critical Care facility. These factors impacted on turnover and operating income.

The Group achieved headline earnings from continuing operations for the year ended 30 September 2011 of R793,9 million (465,1 cents per share). This represents a 28,8% increase over the comparable figure for 2010 of R616,3 million and translates into an increase of 31,1% in headline earnings per share. It should be noted that the increases calculated for headline earnings and HEPS incorporate the effect of the prior year R269 million (154,8 cents per share) IFRS 2 charge in relation to the Broad Based Black Economic Empowerment (BBBEE) transaction.

Adcock Ingram continued its strong cash generation with R526 million derived from operating activities, which allowed the Group to maintain its ability to fund a share buy-back to the value of R248 million, the capital expenditure programme and acquire businesses from operating cash flows. The Group's capital expenditure was R433 million during the year, incurred primarily at Clayville and Aeroton.

The Group turnover benefited from volume growth across most business units, increasing by 8% to R4 454 million (2010: R4 130 million) with the gross profit margin decreasing 460 basis points to 48,7% (2010: 53,3%), negatively impacted by under recoveries in our factories and the higher volume of multinational partnerships sales.

Inventory levels of R864 million at year-end are R145 million higher than the prior year with days in inventory at 134, an increase of about 13 days when compared to September 2010, mainly as the inventory holdings of certain key items were increased to take advantage of the stronger Rand.

Trade accounts receivable, net of provisions, are R993 million, R11 million lower than the prior year with the days outstanding in debtors at year-end at 65, a deterioration on the prior year figure of 58 days. Trade accounts payable, including accrued expenses, cash-settled options and provisions, increased by R19 million with payment terms being utilised to the fullest extent possible. The current ratio remains healthy at 2.1 times (2010: 2.8 times).

The Group is carrying interest-bearing debt of R843 million (2010: R581 million), has adequate cash reserves of R1,104 billion at year-end (2010: R1,431 billion) and is ungeared with a net cash position of R261 million (2010: R850 million). The Group has R500 million of aggregate available unutilised short-term facilities with two South African financial institutions to service ongoing operational requirements, and has capacity for gearing in order to invest in its pipeline and product portfolios, and to continue to implement its growth strategy. The Group has retained its investment grade status with the major South African financial institutions.

Leadership statement (continued)

Key financial ratios include:

	2011	2010
Gross profit (%)	**48,7**	53,3
Operating profit (%)	**24,0**	28,3
Inventory days	**134**	121
Accounts receivable days	**65**	58
Accounts payable days	**76**	53
Working capital per R1 turnover (cents)	**28,6**	30,4
RONA (%)	**43,8%**	62,9%
Net interest cover (times)	**n/a**	n/a
Current ratio (times)	**2,1**	2,8

2011 milestones

The acquisition of NutriLida and the purchase of a 51% controlling stake in Bioswiss (Pty) Limited have taken the Group a step further in the strategy to expand into categories adjacent to the current business. NutriLida increases our visibility in the self-medication market whilst Bioswiss, a specialised diabetes pharmaceutical company, strengthens our position in the diabetes market and our product pipeline. This acquisition also enables us to provide a cost-effective alternative to people living with diabetes.

In 2011 Adcock Ingram acquired the remaining 49% stake in the Phase I research facility, Addclin Research (Pty) Limited.

The Group disposed of its 74% holding in The Scientific Group on 31 January 2011, realising a net cash inflow of R85 million.

Expansion strategies in Africa are yielding promising results in Kenya and Ghana. The Adcock Ingram OTC brands launched recently in Ghana will build on this growth momentum.

The conclusion of MNC partnerships is supporting increased sales and the successful introduction of Dawanol (analgesic) in neighbouring territories to Kenya offers good growth potential.

2011 challenges

The pharmaceutical industry in general continues to experience margin declines due to the shift towards generics and the fact that increases in the Single Exit Price, lag the cost push. To meet this challenge, we have an aggressive continuous improvement programme and have been successful in seeking collaboration arrangements with multinational partners that will leverage off the existing infrastructure.

Recent socio-political upheavals in Africa, varying regulatory requirements and keen competition, indicate that doing business in Africa is not for the faint-hearted and requires a long-term commitment. Adcock Ingram's investment strategy in Africa is based on a focus on risk management and a strong code of ethics.

Governance and ethics

Good governance and ethics are directly related to the calibre of leadership. The Board recognises that ethical behaviour, accountability and organisational transparency are integral to building stakeholder value and is committed to providing meaningful, transparent, timely and accurate financial and non-financial information to primary stakeholders.

Our corporate values are aimed at building and maintaining a culture that promotes teamwork, creative thinking, professionalism, integrity and a focus on ethical behaviour supported by open and honest communication. The Adcock Ingram Code of Ethics helps to ensure that business is conducted at all levels in the Group in a manner that is transparent and beyond reproach.

Communication with stakeholders

Communication with stakeholders aims to assist them in their assessments and ability to make informed decisions about Adcock Ingram. Material matters of significant interest and concern are addressed and the key risks to which the Group consider to be exposed to are highlighted, as well as the controls, which are in place, to minimise the impact of these risks.

An integrated report

Significant progress has been made in the journey to present an integrated report to provide stakeholders with a total perspective of the business. International best practice and compliance with the requirements of the revised King Code and Report on Governance for South Africa (King III) and other JSE requirements were followed.

Sustainability

Adcock Ingram is committed to integrated sustainability and as such balances stakeholder interests through its commitment to the pillars of sustainability of ethics and governance, economic growth, environmental protection, social responsibility, investment in people, and Broad Based Black Economic Empowerment.

Economic

The most fundamental contribution the Group makes to markets in which we operate, is the delivery of a robust business supported by sustainable revenues. This allows the payment of dividends to shareholders, salaries to employees, payments to suppliers, investments in community projects and tax payments to governments.

Environmental

The Board has identified the need to establish an Environmental Policy to ensure commitment to the sustainable management and conservation of the environment throughout all of its operations and to ensure a safe and healthy workplace for its employees whilst operating ethically and responsibly.

An environmental management plan has been implemented which requires that regular reports and measurements of progress against targets are presented to the Board. This year, the South African manufacturing facilities and the Midrand Distribution Centre achieved an average of 93% against the 90% target in the environmental audit undertaken in September 2011.

Social

Following the conclusion of the R1,3 billion Broad Based Black Economic Empowerment transaction concluded in April 2010, an independent verification reflected that the BEE model has progressed to a Level 4 BBBEE rating from a Level 6 rating a year earlier.

Over 1 400 black employees have benefited from Mpho ea Bophelo (Gift of Life), Adcock Ingram's employee share option scheme, during the current year.

Concerted attention has been given to Enterprise Development with the introduction of an owner-driver scheme to support the Group's distribution and logistics service. This programme, to be launched in early 2012, will transform current employees into small business owners and entrepreneurs.

Progress is being made in terms of skills development, employment equity and learnerships.

The Group continues to support communities through its socio-economic development programme and has invested more than R25 million since 2007.

Smile Foundation

The Board

There were no changes to the Board of directors during the period under review, but there were changes to the directors' responsibilities. See page 17 for further information.

Changes to our structure

During the year, employees were engaged in a process to systematically create the perfect blueprint or DNA for Adcock Ingram through an exercise entitled "Adcock Unite". The initial phase of this exercise indicated the need for a revised structure to create meaningful roles that contribute directly and indirectly to the success of our Group.

The new structure, which is not intended to reduce headcount and/or remuneration of people, is divided into two main focus areas:

- Localised customer-facing marketing and sales teams, to develop specific geographies. They will be serviced by the:
- Global centralised service functions that encompass medical, operations (procurement, manufacturing, logistics), IT, Integration and Improvement, Finance, Business Development, Corporate Affairs, Human Capital, Legal and Secretarial, and Corporate Governance.

The new structure will aid in the fulfilment of a customer driven strategy by improving our effectiveness and efficiencies, governance and culture.

Risk management

The Board is satisfied that Adcock Ingram's Executive Management conducts its business prudently and within stipulated risk parameters.

The key risks to Adcock Ingram are reported in the Risk Management section on pages 39 to 41.

Innovation

Forty four projects were completed in the R&D facility – an all-time record that illustrates the level of activity in this WHO-approved facility.

The facility has seventy products in the internal development pipeline. Forty-eight dossiers were submitted for registration to the MCC and thirty four new product dossiers (twelve products) received MCC approval, of which eighteen were ARVs, seven prescription medicines, six hospital medicines, two generics and one OTC product.

Appreciation

We are most appreciative, firstly, to our great team of people whose diverse expertise and experience across a broad spectrum coupled with their enthusiasm and willingness to go the extra mile takes us closer to the achievement of our vision.

A warm thank you to our customers – the backbone of our business – for their on-going loyalty.

Our shareholders are an integral part of Adcock Ingram. We certainly plan to ensure that our results justify your confidence in us.

A special word of thanks to our non-executive directors. We are indeed fortunate to have non-executive directors of the highest calibre. Their experience and expertise play an extremely important role in the on-going development of a sustainable and successful business based on strong ethical principles.

Looking forward

Our focus remains firmly on providing profitable growth in the spirit of a sustainable, integrated business approach. We aim to strengthen our portfolio by acquisition and innovation and extend our footprint in Africa. This, coupled with stringent internal cost control and effective allocation of capital will take us forward in our quest to be recognised as a leading world-class branded healthcare company.

The successful execution of our strategies will ensure that we continue to deliver pleasing earnings growth to our shareholders as well as adding value to our customers, our staff and the communities in which Adcock Ingram operates.

Khotso Mokhele
Chairman

Jonathan Louw
Chief Executive Officer

Andy Hall
Deputy Chief Executive and Financial Director

GRI: 1.1, 4.8

Operational overview – Southern Africa

Highlights

Where we have succeeded in our objectives:

- The Group has become the largest FMCG player in Vitamins, Minerals and Supplements (VMS)
- OTC and generics volume share continues to grow
- Successful integration of several multinational companies
- New distribution centre opened in Durban

Where we have not yet achieved our goals

- Financial performance due to factory upgrades and strikes
- Temporary suspension of sales of DPP-containing products
- Minimal allocation of the antiretroviral tender
- Stock availability due to local factory upgrades and strikes.
- Imports of finished hospital products impacted margins

Current risk areas

- Proposed logistics fee regulation
- International benchmarking
- Increased competition
- Drive to reduce cost of medicine
- Current economic climate

Financial performance

Turnover:	R4,297 million
Contribution after marketing expenses:	R1,369 million

Bill Tweedie
Commercial Executive – Southern Africa

In Southern Africa, Adcock Ingram manages a comprehensive portfolio of branded ethical and generic prescription medicines across various therapeutic categories, a selected range of over the counter (OTC) products, and lifesaving products for critical care and the specialist hospital environment, including intravenous fluids, renal dialysis systems, products for the storage of blood and blood components, infusion systems and accessories, and a range of wound care and ostomy products.

Adcock Ingram has seen sound volume market share growth in both the Fast Moving Consumer Goods (FMCG) and Pharmacy channels, especially with OTC products.

The business aims to reduce reliance on products that fall under the Single Exit Price legislation. The successful implementation of the vitamins and minerals strategy has assisted with this objective in the year under review.

Efforts are being directed towards building the anti-retroviral franchise, cementing the strategic alliance relationships with multinationals and the full integration of acquisitions made during 2011.

We aim to be the supplier of choice and market leader in South Africa of affordable branded and generic medicines, as well as life saving hospital products.

OTC

Adcock Ingram is the market leader in pharmacy with a market share of 19,5% by value (2010: 19,7%) and 36,8% by volume (2010: 35,4%). The volume market shares are skewed towards lower priced brands, with liquid products representing 12% of the pharmacy market. In FMCG, Adcock Ingram is the number 2 player (2010: 2) with a value share of 15,7% (2010: 15,6%) and a volume share of 23,3% (2010: 21,4%).

Financial pressures in the current economic climate have created a trend of consumers purchasing lower cost products. Despite this, OTC has performed particularly well. In the medium term; however, the growing middle class should create a greater demand for affordable, well known brands.

Growth in this segment was supported in the period by the successful acquisition and integration of NutriLida, a leading health supplements and nutraceutical company in South Africa, innovation and better penetration in bottom end channels.

The acquisition fits with the strategy of growing in adjacent categories and has positioned Adcock Ingram as market leader in the vitamins, minerals and supplements market, while increasing market share in the broader FMCG market. The acquisition has also provided many synergies and opportunities to leverage our infrastructure. The portfolio of brands includes market leading products such as ArthroGuard (for joint health), GynaGuard (for intimate feminine care), ProbiFlora (digestive health) and ViralGuard (immune booster).

Organic growth in FMCG continues to struggle with a value decline of 6% (2010: growth of 7.3%) (where only VMS shows real volume growth of 11%). It appears that consumers are turning to preventative medicine or when they do get ill, are going straight to the pharmacy. The lower and middle LSMs are categories of the consumer market that are seeing significant growth now and we anticipate this to continue into the future. Servicing this channel appropriately, a company needs the right brand, in the right format and pack size.

Corenza, a market leader, achieved a record R100 million in sales as a result of strong branding and innovation. We offered the consumer a great tasting variant of Citro Soda with the introduction of a cranberry flavour, as we were able to leverage this functional complementary product off a strong, well recognised consumer brand. This reinforces the strategy to be seen as a pharmaceutical company that offers wellbeing complementary products as well.

Prescription

The collaboration strategy with the multinational companies (MNCs) accelerated during January 2011, when a significant number of new sales representatives and managers with specific therapeutic competence, were brought into the business. This strategy has many advantages for Adcock Ingram, including incremental revenue and profit; critical mass and leadership in key therapeutic classes; attraction of additional partners through proof of competence; skills development through exposure; access to pipeline; new technologies and clones; and expansion into Africa. As part of the short-term strategy, more collaboration in targeted fields will be pursued.

Adcock Ingram is the number 8 player (2010: 7) in branded prescription products, with a market share of 4,8% (2010: 5,3%) in value and number 3 (2010: 4) in the generics private market with a market share of 9,2% (2010: 9,4%) in value.

Synap Forte, Doxyfene and Lentogesic are the products impacted by the suspension of DPP-containing medicines. Locally available data from independent data bases and toxicology studies from poison centres around South Africa do not indicate an increase in the safety signals for patients taking these products. We have commissioned an independent study at an FDA accredited research facility in India. For results on this study, please refer to our website.

The increased incidence of diagnosis of hypertension, diabetes and cancer globally and nationally provides the business with an opportunity to provide lifesaving medicines to these patients, which is supported by the acquisition of the Bioswiss business.

Generics, excluding ARVs, are outgrowing the market in value and volume in the therapeutic classes in which we operate, with ARVs substantially lower than the previous year due to the lower allocation of the tender. This negatively impacted the recoveries at the manufacturing plant at Wadeville.

Critical Care

The Critical Care business was integrated with the pharmaceutical business late in the year and will provide synergies, cost benefits and a standardised Adcock Ingram service to customers in the private and public sectors.

The Critical Care business has had a challenging year as the factory upgrade has resulted in significant disruption in production of core products, particularly on our fluid lines, and has resulted in us not being able to fully meet customer demand for our products in the private sector.

Volume growth was achieved in the public sector as the sales uptake was higher than expected. Combined with the production challenges, volume share loss was experienced in the private sector due to poor stock availability. Price reductions were also taken on key items on IV fluids, in order to remain competitive. With the increased customer demand and in order to maintain service levels, stock was imported at little or no margin.

The higher than anticipated volumes combined with sub optimal stock availability resulted in higher distribution costs, as more frequent deliveries were made to customers.

The renal business showed a solid performance during the year. Peritoneal dialysis remains a focus area and we work closely with Baxter on training initiatives to doctors on the benefits of this treatment in the form of an Academy. Hemodialysis continues to show growth in the private sector, as a result of the five year agreement with National Renal Care, but the future growth is expected to come from acute dialysis of patients in intensive care. Africa remains a focus for the renal team and we continue to treat approximately 400 patients in the rest of the continent.

In Transfusion Therapies, the partnership with the South African National Blood Service (SANBS) remains strong. The donor pool has grown 5% over the prior year, in line with expectations, and Critical Care continues to assist with donor drive awareness campaigns, to encourage people to become regular blood donors.

Growth in the hospital sector remains solid, with consistent demand by patients for hospital beds in both the public and private sectors. In the hospital market, there is increasing competition and pressure on price as the private sector moves towards a tender system for pharmaceuticals. This requires a quality, low cost product range and a responsive and efficient supply chain to meet customer requirements.

There are growth opportunities in both the renal and blood markets:

- In the renal market, especially in terms of home dialysis where we offer a home delivery service, our partnership with National Renal Care will help to increase our share of this market.

- Blood donors are on the increase due in part to a co-marketing initiative with the South African Blood Transfusion Services to create awareness about the importance of being a blood donor. Moves to standardise methods of blood collection globally will streamline our service to customers.

We aim to maintain market leadership in core hospital products by retaining a significant share of the public tender and regain lost private hospital share. In addition, the launch of new generic injectables in the antibiotic and analgesic categories will increase our market share. We aim to launch a Bioscience division in 2012.

Manufacturing

As the throughput in the Wadeville plant was lower than expected due to the lower allocation of the ARV tender, substantial under recoveries were experienced in this factory. The industry wide strike in July and August also hampered our manufacturing capacities throughout the country. Utilisation is expected to be increased after repatriating some products from our Bangalore facility. We have also concluded four agreements to commence contract manufacturing, as soon as MCC approval for the change in manufacturer has been granted, with production on the first likely in quarter 2 of the 2012 fiscal.

Several new manufacturing projects commenced during 2010 which will continue into 2012. Inherent in each of these projects is a commitment to implement and utilise environmentally friendly initiatives in order to continue on the path to becoming a more environmentally aware and compliant organisation. Some of the initiatives that have been considered include: the use of low energy lighting; use of borehole water to supplement or replace municipal water usage; reuse of packaging materials and recycling waste. Factory upgrades resulted in increased waste at those sites. Newly renovated areas required validation processes.

Aeroton

The Aeroton factory upgrade, now 82% complete, is scheduled for completion in January 2012. This is the only facility in Africa that manufactures medical grade plastic. The upgraded facility will increase capacity and decrease our environmental footprint. The factory is ISO compliant, approved by the MCC and has been audited by the regulatory bodies of several African countries, for which reports are awaited. It will be PIC/S compliant by January 2012.

Clayville

The current facility achieved 96% in the Occupational Health and Safety risk assessment.

A high-volume liquids facility is under construction with a planned capacity of 18 million litres. The facility is expected to be in production by August 2012.

Wadeville

This upgrade has been completed and certified by the MCC. Audit results are awaited from regulatory bodies of several African countries.

We aim to improve our environmental performance to reduce water and electricity usage by managing manufacturing optimally, and to minimise overtime and after-hour staff costs in 2012.

Procurement

The procurement team aims to source goods and services at pricing and quality standards that meet our requirements whilst ensuring that regulations, continuous improvement, BEE and Strategic Industrial Project (SIP) targets are met. Procurement spend for 2011 exceeded R2,5 billion and the team met the continuous improvement target of R65 million.

The global economic situation and fluctuating exchange rates have had a mixed impact on purchasing targets. The strong Rand assisted in maintaining consistent material prices for imported raw materials but elevated oil prices increased transport costs, related raw materials and plastics.

A concerted effort to identify SMMEs that will meet relevant criteria and benefit the BEE score resulted in the BEE procurement score exceeding target over the past two years. As the score approaches the maximum of 20 points, the use of SMMEs and black owned businesses becomes significant. The focus in 2012 will be to identify and allocate business to SMMEs whilst maintaining business with BEE compliant suppliers.

Logistics

Adcock Ingram is the only major South African manufacturer with its own logistical in-house capability with a total capacity in South Africa of more than 26 000 pallets. Business strategy is based on customer service, compliance, integration and building relationships with multinational companies, thereby increasing throughput.

An upgrade to the Midrand facility is under way which will provide improved efficiencies and produce energy savings as a result of the closure of an off-site warehouse. The energy level proposed by consulting engineers of 1 800 KVA (compared to the existing supply of 1 000 KVA) is expected to reduce to below 900 KVA.

Key performance indicators

	Target 2011	**Achieved 2011**	**Target 2012**
Order fill in full – first hit *(number of units received as a % of units ordered)*	**90%**	**90,9%**	90%
Error rate *(number of invoices needed correction/number of invoices issued)*	**<3%**	**2,97%**	<3%
Utilisation of capacity *(number of pallets in use/ number of pallets available)*	**80%**	**93%[1]**	80%

[1] The upgrade to the facility will address this.

Research and development

The development of new drug technologies is being explored through collaboration with a leading tertiary institution in South Africa.

An investment in six additional UPLC (Ultra High Performance Liquid Chromatography) machines provides additional capacity and the latest technology for product testing.

A Medical Affairs Department has been established, staffed by five full-time doctors employed to service the needs of consumers and medical professionals.

Our ownership of Addclin Research (Pty) Limited, one of only three Phase I clinical research facilities in South Africa, enables us to engage in one of the more challenging phases of the clinical testing process.

The key challenges of this division include the long lead times in obtaining new product registrations, changes in scientific and regulatory requirements and complexity of regulatory requirements in different countries, for example labelling requirements. It is also extremely difficult to recruit highly qualified young scientists who will find their niche in the research environment.

Research and development pipeline at 30 September 2011

Number of products under in-house development	70
Number of dossiers submitted for registration	48
Number of new products approved by the MCC	12

Five academic research papers were generated from our R & D facility of which two were presented at the recent Pharmaceutical Society Academic Conference. In addition a United States Patent Application Publication was received for one project.

People

Transformation

Transformation is a key strategic thrust. The Mpho ea Bophelo BBBEE transaction created the conduit for black employees to participate through an employee trust, which holds a direct interest of 3,25% of Adcock Ingram's issued share capital. During 2011, presentations to black employees communicated the modus operandi of the scheme and its benefits.

To date, 1 400 employees are participants in the scheme. More than one million of the 6,5 million shares held by the trust were allocated during the year, with additional tranches expected annually. The share allocation was done on an equitable basis regardless of tenure and position in the organisation.

Enterprise Development

Development of the owner-driver scheme process in 2012 will include the design of a workflow programme for the new entrepreneurs. This initiative will further enhance our BBBEE score but more importantly reconfirm Adcock Ingram's commitment to BBBEE. For details about our scorecard, please refer to the website.

Industrial relations

Strike action resulted in the loss of almost 20 000 working days during 2011. Disputes surrounding the wage negotiations resulted in industrial action in the factories and distribution centres. At the Wadeville factory, the dispute extended to alleged non-payment of incentive bonuses to bargaining unit employees. The strike at Wadeville continued for 39 days. This dispute was resolved in favour of the Company through third party mediation on the basis that incentive bonuses must be based on the bargaining unit being part of the performance management system.

Social

Health education and community upliftment initiatives

The Adcock Ingram education programme for healthcare professionals received favourable feedback from participants. These programmes aim to hone the skills of our healthcare professionals for the benefit of consumers.

During 2011, programmes included the annual Healthcare Summit where keynote speakers from around the world presented various medical topics to over 400 doctors.

The Company launched a Pharmacist Summit for 300 pharmacists. Speakers presented pertinent topics that included implications of the new Consumer Protection Act, some useful insights on the state of health care in the private sector and OTC pain management.

The OTC Academy has been providing interactive training for pharmacy assistants annually for more than five years. To date, 17 500 assistants have been trained and over 2 000 bursaries awarded to assistants.

This year also saw the launch of the first Complementary Medicines Summit for pharmacists and their assistants.

The Critical Care division contributes to nurse training programmes arranged in hospitals.

An investment of R800 000 in a community upliftment programme has yielded positive results. It was implemented in conjunction with community pharmacists who identified social upliftment programmes in their locality. Examples include the Star of Peace project where an inspired petrol attendant has created a soccer team in the Magaliesberg area for underprivileged children. The project aims to empower these children to deal with social challenges and participate more effectively in their community. Logwood Village, another beneficiary of the programme, provides a caring home for adults with intellectual disabilities.

Information technology

The modern IT platform facilitates *inter alia* growth in the South African market and expansion into international markets, cost-effectiveness, integration and a reduction of risk in terms of business continuity.

Several projects were completed during the year including a wide area network replacement and upgrades, infrastructure upgrades at the Durban and Clayville facilities and process manufacturing systems at Clayville.

Capital expenditure for 2011 amounted to R33 million with 2012 capital costs expected to be R32 million. Key focus areas in 2012 include the integration of the NutriLida acquisition as well as Critical Care operations and implementation of process manufacturing systems at the Wadeville and Aeroton factories.

Attention will be given to a Customer Relationship Management system and processes, an upgrade and automation of the Midrand warehouse processes and systems, and an improvement to forecasting and planning systems.

The upgrade and optimisation of the IT infrastructure will require less energy consumption and thereby reduce the carbon footprint.

Continuous training and support is in place to assist our people to acquire new skills and competencies, required to ensure optimal use of the new technologies.

IT uptime during the year was 99,5% (2010: 99,5%) against a set target of 99,0%.

For more information on our brands, please visit:
www.adcock.com

Operational overview - International (includes rest of Africa and India)

Highlights

Where we have succeeded in our objectives

- Improved financial performance in Kenya and Ghana
- Increased shareholding in Ayrton Drug Manufacturing Limited
- Opened an office in Sierra Leone
- Implemented more stringent financial controls

Where we have not yet achieved our goals

- Stringent regulatory requirements impacted on exports from South Africa in key growth markets
- Social and environmental performances are lacking

Market shares

96% of Ayrton Drug's sales are generated in the private sector.

Market leadership positions are held in Ghana by the following Ayrton brands:

- Teedar Syrup for pain and fever
- Samalin Range for coughs and colds
- Virol Syrup, a blood tonic

Kenya's leading brands include

- Dawanol
- Betapyn with annual sales in excess of KES 100 million for the first time

Financial performance

Turnover:	R257 million
Contribution after marketing expenses:	R63 million

Pravin Iyer
Commercial Executive – India

Kofi Amegashie
Commercial Executive – Rest of Africa

Rest of Africa

Adcock Ingram has operations in the Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA) and The Economic Community of West African States (ECOWAS) which enables us to take advantage of the trading terms within these economic trade blocks, allowing for a reduced tariff in certain instances.

Our focus is to further expand Adcock Ingram's footprint in East and West Africa. Kenya has been a springboard for East Africa, with three new export markets opened in this region and two more markets in process.

Ayrton Drug Manufacturing Limited (Ayrton) in Ghana benefits from local regulations which prevent importation of certain pharmaceutical products such as paracetamol. Our Ghanaian operation operates within the Group strategy by accessing the global supply chain via a project initiated to provide manufacturing competence to meet Adcock Ingram standards.

In line with the MNC strategy, the MSD business was extended to Kenya and Ghana during 2011. Biocodex in France has appointed Adcock Ingram as a distributor of its products in Kenya, and Ghana via Ayrton. Adcock Ingram's FMCG category in Kenya showed a 26% volume and 31% value growth over the prior year.

India

Our Indian operations consist of the joint venture with Medreich Limited, as well as Adcock Ingram Healthcare Private Limited (AIHL), a 100% owned subsidiary of Adcock Ingram South Africa incorporated on 8 August 2011. This company aims to establish a local business in India for marketing some of Adcock Ingram's key brands. AIHL will also explore possibilities to acquire new product dossiers for both the OTC and Prescription businesses and, in the medium term, expand Adcock Ingram's business in Asia and the Far East from the Indian springboard. It will also provide back office support to key centralised service functions in South Africa.

India is a fast-growing, highly fragmented market with no one company holding more than a 7% share. This offers opportunity for new entrants, especially in the OTC category where brand building is key to success.

Manufacturing

A new manufacturing plant is under construction in Accra, Ghana, at a total cost of R10,6 million and will produce both solid and liquid oral

Offices in Kenya

dosage forms. The annual capacity is expected to be 1,8 billion tablets and 1,2 million litres of liquids. Some of the new facility's products will benefit from the prohibited importation list in Ghana.

The Ghanaian regulatory authorities have requested specific changes to the manufacturing processes of local manufacturers (including Ayrton) over the next four years. This will require Food & Drugs Board good manufacturing practice certification. Ayrton has started a process to ensure that the factory will be fully compliant with the new regulations within the specified time frame.

New packaging requirements in selective markets in sub-Saharan Africa dictate that products must bear the date of manufacture and registration details printed on the carton as well as on the product's container.

Utilisation in the Bangalore factory ranged between 75% and 90% this year. Contract manufacturing work from Australia and South Africa is contributing to the effective utilisation of this factory. Increased automation and efficiency in the packing area have necessitated a capacity increase in the upstream process. Risk assessment scores on the plant have improved from 65% to 93% in three years.

Research and development

Product pipeline for the rest of Africa: 2011-2015

Current registrations	183
Registrations in 2011	52
Projected registrations by 2015	500

Collaboration with MSD adds to the product pipeline and a distribution agreement with Leo Pharma adds a dermatology range in East Africa.

Environmental management

In Ghana, Ayrton aims to enhance reporting to the Environmental Protection Agency (EPA) to achieve industry benchmarks. Efforts are focused on noise levels, maintaining ambient levels of particulate emissions within permissible limits, monitoring waste water quality to meet EPA guidelines and correct disposal of solid waste.

Staff are sensitised to the importance of efficient utilisation of resources and reminded of the need to ensure minimal disturbance to our neighbours. They are trained periodically in chemical handling and disposal in accordance with EPA guidelines.

Key challenges are the analysis of pollution indicators and delays in the collection of solid waste by waste management companies. We aim to enhance our reporting through a continuous improvement process to achieve industry benchmarks.

Focus 2012 and beyond

We aim to build our presence and reputation in Africa as a company that provides quality products at affordable prices and develop the business in India.

Market share growth in current sub-Saharan markets, the drive of regional exports into West Africa and entry to new markets such as French West Africa, North Africa and India by way of acquisitions or exports are key strategic thrusts.

On this basis the Africa business plans to achieve revenues in excess of R500 million by 2014.

GRI: PR3, PR6, EN3 – 7, EN9, EC6, EC8 – 9

Sustainability

Overview

Over the past year there has been an increased consciousness of the impact of our business on the communities in which we operate, the environment and the impact on lasting financial success of our business. We believe we have embarked on this journey which will undoubtedly add enormous value going forward.

It has become apparent that Adcock Ingram is very active in a number of spheres. This however has not been recorded or reported appropriately in the past.

Policies have been developed to aid all sustainability endeavours. A list of these policies can be found on our website.

Environment

Where we have succeeded in our objectives

- Midrand site reduced energy demand to below 900kva, half the power requirement expected by engineers
- Re-design of 5-litre can: projected annual savings R1,1 million
- Income of R600 000 from recycling of plastic, cardboard and other recyclables
- Invested R30 000 in an electronic payslip system

Where we have not yet achieved our goals

- Environmental policy and management system to be developed
- Quantitative targets and objectives for all key areas to be developed

Living as a member of a global community, it would be irresponsible to ignore some of the environmental challenges that face the world today. Climate change and the impact human activity has had on natural resources have become a very real concern for Adcock Ingram. The outcomes of the UN Climate Change Conference (COP17) discussions in Durban at the end of 2011 will be analysed. Negotiators are expected to make positive strides towards reaching a global agreement on reducing carbon emissions and the handling of the impact of climate change.

GRI: 4.8, PR1, EN1, EN10, EN16 – 23, EN29, EC2 – 3, EC9

Environmental impact

The Group, involved in Chemicals and Pharmaceuticals, has been classified as having an overall high environmental impact, by EIRIS (Experts in Responsible Investment Solutions) as "the manufacture of pharmaceuticals has significant impacts which include climate change, air and water pollution, water consumption and hazardous waste. In addition to these direct manufacturing impacts, the sector's products may be persistent organic pollutants or endocrine disruptors, or otherwise cause downstream environmental damage. The sector is classified as high impact."

The Group is committed and willing to work with the national governments within all the regions where Adcock Ingram has operations to make a positive contribution to their efforts to combat the impact of climate change. It is undisputed that this impact will have a direct effect on the health of people and therefore on our business. We believe we are in a unique position to provide value in this regard.

As a conscientious organisation increased focus has been given to elements such as energy, water usage and waste management. Many other considerations are incorporated as part of the daily business activities.

Some of our efforts include:

Energy

- Energy reduction efforts are on-going with constant evaluation and assessment
- Commissioning of an energy audit to establish our baseline usage
- Using energy efficient lighting in new developments or in retrofitting
- Consideration of solar energy for emergency lighting
- Implementation of energy saving initiatives at our Durban distribution centre

Water

- The use of grey water for irrigation
- Recycling brown water for use in lavatories
- Borehole water is used for irrigation
- Constantly looking at ways to improve recycling water at our plants

Waste management

- Have generated income of almost R600 000 from waste recycling
- Have developed a dedicated waste management site at our Midrand offices
- Reviewing the nature of our packaging materials

There has been consolidation within our distribution activities which will reduce carbon emissions from storage and deliveries.

Adcock Ingram has once again participated in the Carbon Disclosure Project and the Water Disclosure Project. These have been invaluable to our own understanding of the impact of our business activities and propelled us to consider risks and opportunities with regard to climate change.

In the last year we recognised the need for an environmental policy. This will be developed for approval by the Board of directors.

An annual audit is conducted on the Environmental Control Systems at our South African manufacturing, New Road and R&D sites. We achieved an average of over 90% compliance at these sites. The aim is to maintain above 90% compliance and roll out the audits to other distribution sites.

Carbon footprint

In a world where our impact on our environment, direct or indirect, is of fundamental importance, we have become increasingly aware of our activities and their implications for all stakeholders. Over the last few years measuring our carbon footprint has allowed us to gain a better understanding of our operational emissions. The findings of the carbon footprint conducted for the year ended September 2010 are used as our base year. The footprint was done by Global Carbon Exchange, an independent vendor.

	Financial year ended 30 September 2011	Financial year ended 30 September 2010
	Tonnes	Tonnes
Scope 1		
Company-owned/controlled vehicles	**5 227**	17 303
Stationary fuels	**10 049**	10 918
Fugitive emissions (Kyoto)	**57**	133
Other direct non-Kyoto gases	**1 743**	1 571
Scope 2		
Electricity	**32 456**	27 744
Total scope 1 & 2 and other	**49 532**	57 669
Scope 3		
Business travel	**7 340**	7 946
Employee commute	**4 687**	3 518
Outsourced distribution (import)	**8 919**	18 254
Outsourced distribution (export)	**1 190**	549
Packaging materials	**26 183**	8 623
Paper use	**28**	46
Waste	**8 134**	5 254
Water (embedded CO_2e)	**277**	516
Total Scope 3	**56 758**	44 706
Total	**106 290**	102 375
Tonnes per employee	**19,01**	28,37

For more information, please visit: ***www.adcock.com***

People

Where we have succeeded in our objectives

- An expatriate toolkit has been developed
- Artisans' accreditation at the Clayville and Wadeville factories
- Shares issued to employees in terms of Mpho ea Bophelo employee share scheme
- Performance management toolkit and policy revised
- Implemented Executive Wellness programme
- R6,1 million was spent on training and development
- 78% of employees attended programmes that included GMP, GLP, Competition Law and AARTO training

Where we have not yet achieved our goals

- Cost of remuneration as a percentage of turnover
- Appointment of people with disabilities
- Appointment of females, particularly black females at senior management level
- Succession management to support senior and executive management
- Skills scarcity despite the focus on developing a pool of graduates and learnerships
- Formalised mentoring and coaching programmes to ensure the transfer of skills
- The rising cost of attracting and retaining EE candidates

Total Head count	**3310**
Permanent	2302
Temporary	554
Contracts	158
Graduates	296
Staff composition	**3310**
White – Male	159
White - Female	253
Black – Male	930
Black – Female	1031
International *(India+Ghana+Kenya)*	937

Human capital

Adcock Ingram's future is dependent upon motivated and skilled employees. This requires a focus on several key performance areas:

- Transformation and diversity management which includes the creation of an enabling culture that will embrace diversity

- Development of a unique values-based leadership culture
- Leadership effectiveness through the development of global talent pools, succession planning, coaching and mentorship, and expatriate management
- Learning, development and growth opportunities
- A total reward strategy aimed at promoting business sustainability and driving the values of the organisation
- Human capital governance based on adherence to policies, procedures and processes, and stakeholder engagement

Building a culture

'Adcock Unite', an engagement process that aims to develop the perfect blueprint or DNA for Adcock Ingram, was launched. These engagements have provided a true insight into the inner success dynamics required to take the Company to a new level of effectiveness.

The process also articulates acceptable and unacceptable behaviours in line with our PRIDE value system. The outcome of the process is depicted in a mathematical art gallery featuring 10 top line enablers and 10 bottom line disenablers. Launch of the formula was done in October 2011.

First steps in the process have involved a restructuring which will better serve the needs of the organisation.

Training and development

R6,1 million was spent, with 60% of expenditure on previously disadvantaged people.

Areas of training included a Situational Leadership development programme which 178 managers attended. 29% also participated in the previous year's programme. 3,8% of the South African workforce participated in learnerships and internships. Experiential learning to graduates through our skills development programme will be continued.

An investment of R573 000 was made into apprenticeships for three employees and two external learners. We aim to increase the number of apprentices to 10 in 2012 to ensure succession in the technical field.

A learnership programme was introduced for disabled people. A total of nine previously unemployed and disadvantaged, disabled learners had the opportunity to gain skills. Ninety percent of the learners completed and graduated with a National Certificate in Business Administration NQF 3.

Adult Basic Education (ABET) plays a significant role in building the foundation for other skills development programmes with ninety eight people enrolled on this programme – a 15% decrease over 2010. This is attributable to progress made with ABET in previous years.

Mandatory training is a critical part of skills development and manufacturing processes and seventy eight percent of employees attended programmes that including Good Manufacturing Practice (GMP), Good Laboratory Practice (GLP), Competition Law and AARTO training.

R380 000 was invested in a study assistance scheme for employees to further their formal qualifications as thirty seven people enrolled at various institutions of higher learning.

The HIV programme offers educational and counselling services by trained healthcare professionals in various languages, access to HIV-clinicians and pathology investigations management of CD4 cell count, multi-vitamins to boost the immune system and compliance to antiretroviral therapy. Sixty two employees are on this programme and five dependants are receiving treatment.

Succession planning

Line management plays a pivotal role in creating the talent pipeline. Personal development plans are in place to fast-track individual development coupled with individual performance and competencies to determine appropriate successors.

Performance

Performance management processes ensure that individual and divisional objectives are aligned to the Group's performance objectives and strategic imperatives. The quarterly Individual Performance Agreement (IPA) discussions facilitate feedback, monitoring and continuous improvement.

An integrated talent management system has been identified to ensure seamless talent management and accurate business intelligence reporting. This system incorporates a 360 degree evaluation feedback instrument that will enable performance to be evaluated both internally and with some external stakeholders where appropriate.

Total reward strategy

Motivation through incentives is a major trend, with incentive models requiring alignment with business objectives at all levels in a manner that improves cohesiveness and synergy. This is a key focus area for 2012 which will be facilitated by a proper understanding of both business and employee value drivers, the latter being verified through internal surveys. For more detail on remuneration, please refer to page 34.

Employee wellness

The Mpilo-Nhle wellness programme has been in place for nearly two years. Awareness and communication sessions were conducted at all sites in South Africa with an uptake by 31,3% of the workforce.

The Mpilo-Nhle confidential counselling service is offered to employees through a toll-free number. This service assists employees to deal with challenges such as relationship management and legal matters.

The Wellness Day focused on medical assessments for diseases including cholesterol, diabetes, hypertension, TB, blood group testing and eye screening.

Health and safety

Adcock Ingram is committed to implementing best operating practices at all its facilities and operations to ensure compliance with safety, health and environmental (SHE) legislation. Besides fostering close working relationships with government agencies, business partners and other concerned organisations, Adcock Ingram also has measures in place to ensure that its SHE programmes are effectively designed and monitored. SHE and risk management policies are prominently displayed at all Group facilities.

Smile Foundation

Statutory and internal compliance is monitored with annual audits conducted by Alexander Forbes Risk Services (Pty) Limited on Health and Safety as well as on our environmental control system. A consultant assists us with recommendations on ways to improve our operations in this regard. For more details regarding site specific audits, please visit our website.

Occupational Health and Safety, Fire and Security; an average of 96% compliance was achieved for the South African operations against an overall target of 95%. We are encouraged by the outcome, especially considering the challenges posed by upgrades taking place at a number of the sites.

Communities

Since our re-listing on the JSE we have displayed our continued commitment to contributing toward the upliftment of communities within South Africa. Due to the nature of our business our involvement has been largely in the healthcare space and our commitments to certain organisations have extended over a number of years. There is no doubt of the positive impact these and so many others have within the communities in which they operate.

A total of R2,01 million was contributed for the period to 30 September 2011 (2010: R8,3 million). This is significantly reduced from the previous year largely due to the fact that in the previous reporting period we celebrated our 120 years of existence and as a means of celebration gave a total of R2,4 million to 120 social initiatives implemented or initiated by our staff. In addition to the Group identified projects, the various divisions often make contributions to worthy causes by hosting Christmas parties for kids, for example at the Coronation Hospital in Johannesburg.

Focus areas for 2012

"To positioning Adcock Ingram as a benchmark healthcare company, that has fully internalised and implemented a cutting edge Sustainability Strategy by considering the economic, social, environmental and financial issues in the context in which we operate both now and in the future."

Robust management of people, enabled by the performance management system and efforts to focus human capital on core business objectives is a cornerstone of the Human Capital division's strategy in 2012 and in the longer term.

This will be achieved with a focus on:

- Transformation and diversity management
- Building a unique Adcock Culture
- Leadership effectiveness
- Alignment of total reward strategy
- Enhanced human capital governance

Future investment will be used to create a conducive and motivational working environment and a high performance culture with initiatives that will include:

- Integrated talent management;
- Optimising the wellness offering which will be extended to facilities in Africa;
- Comprehensive leadership development programme to build capability and succession; and
- A focus on improving organisational culture and employee morale.

Adcock Ingram will continue investing in social investment programmes. The intent is not to exclude but to optimise our associations and contribution to the communities and the environment in which we operate. These initiatives should also be rolled out to other countries in which we operate.

Passionate people work at Adcock Ingram and ways to leverage this passion to enhance our commitment to society should be investigated. A more structured and managed approach is needed and increasing this element of "staff participation" as part of our refined approach, will be encouraged.

It has become increasingly apparent that there is a clear disconnect between our commitment to various social and environmental causes and our level of disclosure. Adcock Ingram strives to increase the communication of all efforts at various levels within the Group and across all regions of operation.

Over the next year, staff will be empowered on a variety of sustainability issues through internal awareness campaigns. The awareness campaigns will aim at behavioural change, in conjunction with changes within the working environment to facilitate the change where possible.

In addition, ways to collect and collate more detailed information of our various consumables in a manner which will add value to our assessment will be investigated. Improvement of processes and procedures will facilitate additional disclosure. A combination of these efforts will have a cost and resource saving impact.

Stakeholder engagement

Communication with our stakeholders is integral to the way we do business. The Board recognises its responsibility to present a balanced and understandable assessment of the Group to our stakeholders and the importance of effective communication strategies tailored to meet their needs.

	Key stakeholders	*Methods of engagement*	*Reasons for engagement*
	**Shareholders and investor community**	Stock Exchange News Service (SENS) Presentations during the interim and annual results publications On-going discussions with investment analysts, institutional investors and journalists in South Africa, North America and Europe Publication of highlights of annual and interim financial results in South African daily newspapers An Investor perception audit has been performed by an independent communication agency to establish the needs of the investor community Corporate website	To keep shareholders and the investor community updated on our financial results, Group performance, strategy, risks, and opportunities in a transparent way
	**Funders**	Personal contact at executive level	To present a transparent view of our business Obtaining financing and investment solutions
	**Customers/ consumers**	Adcock Ingram interacts daily with many of its customers through personal visits by its sales teams, managers and executives Annual Healthcare and Pharmacist Summits OTC Academy of Learning AdConnect publication Customer surveys Advertising Consumer focus groups Consumer education campaigns Corporate website	To solicit feedback on our products and services, promote our products, provide education on our products, ensure effective product stewardship and obtain feedback on customer needs To provide continuing professional education
	Multinational companies	Personal contact via annual roadshows Ad hoc meetings	To ensure that the Company retains a high profile with existing and prospective business partners

GRI: 4.13 – 4.17, PR5, SO5, EC9







Key stakeholders	*Methods of engagement*	*Reasons for engagement*
Local communities and NGOs	Generics division's community upliftment projects Corporate social investment programme	To provide upliftment and improve access to healthcare To develop a positive relationship with NGOs in the communities
Regulatory authorities and government	Personal contact with regulatory bodies, particularly the MCC, and our membership of various industry associations We have an overall government relations engagement strategy, involving personal contact with key government departments through our executives Supplemented by a parallel process of engagement through our membership of various industry associations	To ensure that legislation does not impinge on our ability to provide South Africans with quality, affordable products To facilitate registration of our products in all countries in which we operate To maintain a viable local pharmaceutical industry
Employees	Intranet, newsletters, presentations and briefings, performance reviews, internal staff surveys Performance management system Training and development initiatives	Effective communication is fundamental to the success of the Company
Trade Unions/ bargaining councils	Personal discussions	To develop a positive relationship To facilitate wage and benefit negotiations
Suppliers and service providers	Personal contact at executive and management level	To understand and address supplier and service providers' concerns and ensure that they adopt and adhere to our required standards
Media	Distribution of press releases Personal interviews with key executives	To build positive relationships with the media To maintain a high and positive profile in the media
Industry groups	Adcock Ingram's CEO is the Deputy President of PIASA Participation on various committees of PIASA Member of the PTG Member of SMASA Member of SAMED	To present an industry viewpoint to stakeholders that include Government, the media, health professionals and the consumers of our products

Adcock Ingram is committed to engaging its stakeholders to build effective relationships that will also ensure that the Group retains a high profile within the countries in which it operates.

Remuneration report

Remuneration philosophy and policy

Adcock Ingram recognises that it operates in a global environment and that its performance depends on the quality of its people. The Group wishes to provide a level of remuneration which attracts, retains and motivates employees of the highest calibre.

The Group defines total reward as a combination of all types of rewards, including financial and non-financial, and direct and indirect. The Group's position is to pay for performance, while ensuring that there is a distribution of remuneration around the market median. To support this, all non-bargaining staff members have an individual performance agreement in place which is a key to individual remuneration.

General remuneration levels for the Group and respective companies are determined by market surveys for the particular industry sector in which they operate so as to maintain cost effective and competitive parity. These levels of basic remuneration are reviewed and revised annually.

Summary of key reward philosophies

- Performance conditions have been determined to align with the business strategy and to maximise shareholder value.
- Ensure remuneration arrangements are equitable.
- Our total reward approach is integrated into people management processes such as transformation, performance management, recognition, employee wellness and talent management.
- Total rewards are set at levels that are relevant and competitive within the market.
- Consistency across the Group.
- Fairness and transparency.
- Encourage a focus on long-term sustained performance.

Components of total remuneration

General remuneration

The levels of basic remuneration are reviewed and revised annually. The criteria that have been adopted for determining pay increases are as follows:

- CPI (Inflation)
- Market comparison/salary survey
- Other market influences effecting our employees
- Individual Performance Assessment (IPA)
- Affordability based on budget
- Company performance

Across the Group, employment positions are evaluated using recognised evaluation systems in order to ensure the remuneration of a job is aligned to the relative value as compared to other jobs. Salary scales are determined using a unified pay structure which identifies a minimum and maximum range for each position and are reviewed annually. Movement along the salary scale within a job grade is driven by individual performance.

Remuneration consists of the following guaranteed components and is applicable at all levels in the organisation.

Component	*Methodology*	*Objective*
Basic salary	Salary increases for the forthcoming financial year will range from 0% to 8%. Bargaining unit staff members were allocated an 8% increase, with effect from 1 July 2011. Management was given the discretion to apply the appropriate increases to each staff member dependent on individual performance, within the stipulated range. The average increase across the board for 2012 is 6%.	Salaries aligned to roles/performance. Internal pay equity is ensured for comparative roles. Salaries are benchmarked against the market. Annual salary increases are ratified by the Remuneration Committee.
Provident fund	The provident fund arrangements are typically provided on the same basis for employees at all levels. It is a defined contribution arrangement and is administered via Alexander Forbes. Contributions are currently based on 13,5% of the annual total remuneration package (TRP).	Ensure monetary security and dignity to employees and their beneficiaries (retirement, death and disability).

Short-term incentive plan

Annual incentive bonuses are paid if key performance targets, including but not limited to financial targets, working capital management and transformation targets, are met.

All employees, excluding the bargaining units and sales staff, participate in the Group's executive incentive bonus scheme. The bonus is conditional and is paid annually subject to the achievement of Group and divisional targets combined with key performance indicators agreed to by the chief executive and the Remuneration Committee.

For the year ended 30 September 2011, no short-term incentive will be paid in December 2011, as the Group failed to meet the financial targets set.

Employees in sales functions are incentivised through sales target arrangements and received incentives if certain sales targets are achieved during the year.

Share option schemes

Long-term incentive plan

Adcock Ingram has a share option scheme in place for executives, key management and other critical employees of the Group, introduced in 2008.

This scheme is "cash-settled" with one-third of the options vesting on each of the third, fourth and fifth anniversaries of the relevant grant date. The options expire six years from the grant date if not exercised.

In terms of the rules of the scheme, the grant price of an option is determined by using the average of the closing price of the previous 30 trading days. The cash settlement amount of an option is equal to the difference between the closing average price of Adcock Ingram's shares on the date upon which an option is exercised and the offer price. The participants receive the amount due as a cash payment, net of taxation.

The Remuneration Committee recommends the granting of options in January of each year, for approval by the Board of Adcock Ingram.

Mpho ea Bophelo

Adcock Ingram implemented its Black Economic Empowerment staff scheme during 2010. Share allocations were made to staff in March 2011, in accordance with the scheme rules and the respective trust deed. For the next four years, additional tranches of equal number will be issued to employees.

This scheme is "equity settled" with the tranche of options issued on 31 March 2011, vesting on 31 March 2012, but can only be exercised from 31 March 2018 onwards.

Service contracts

The Company policy is to employ executive directors, senior managers and employees in critical positions under a service contract which is subject to a two months' notice period. The contract provides for salary to be paid for any unexpired period of notice. All other employees are on a 30 day notice period.

Retention agreements

As part of the Group's strategy to retain highly mobile and talented employees, the Group will selectively enter into agreements in terms of which retention payments are made. Retention payments have to be repaid should the individual concerned leave within a stipulated period. None of the executive directors are currently subject to a retention agreement.

Executive and key management remuneration

The executive and key management's remuneration is structured to include guaranteed remuneration, and short-term and long-term incentives to drive performance. The level of guaranteed remuneration aims to competitively attract high calibre leadership. The short-term incentive component rewards employees for achieving key performance targets as agreed upon at the start of each financial year. The long-term share incentive scheme is a retention mechanism for key employees only.

Executive directors' remuneration

The Group aims to adhere to the broad guidelines of executive remuneration set out in King III. The overall principles applied consist of the following:

- Establish appropriate and competitive balance between fixed and variable remuneration structure to achieve performance excellence;
- Establish a performance oriented culture with a pay for performance approach that aligns with sustainable shareholder value;
- Appropriately leverage market and industry benchmarks to ensure competitive remuneration aligned to market median; and
- Drive sustainable business results through short-term and long-term performance driven incentives.

General remuneration

	Salary	Contributions to defined contribution plan	Gross remuneration
	R'000	**R'000**	**R'000**
2011			
JJ Louw	**3 114**	**611**	**3 725**
AG Hall	**2 606**	**401**	**3 007**
	5 720	**1 012**	**6 732**
2010			
JJ Louw	2 919	531	3 450
AG Hall	2 262	353	2 615
	5 181	884	6 065

JJ Louw also received a long service award to the amount of R58 216 in September 2011.

The executive directors are currently regarded as the only prescribed officers in the Group.

Short-term incentives

For the 2011 financial year, executive directors could earn up to 115% of their total annual guaranteed remuneration. For the 2012 financial year, the maximum short-term incentive an executive director can receive is 115% of their total annual guaranteed remuneration.

In respect of the year under review no short-term incentive will be paid to the executive directors in December 2011 as financial targets set at the start of the year have not been met.

The executive directors received the following short-term incentives in December 2010, which related to the financial year ended 30 September 2010:

JJ Louw R2 856 443
AG Hall R2 165 584

Similarly, they received the following short-term incentives in December 2009, which related to the financial year ended 30 September 2009:

JJ Louw R2 746 580
AG Hall R2 416 946

Long-term incentives

Details of share options in Adcock Ingram granted to executive directors are as follows:

	Offer date	Offer price R	Balance at the beginning of the year	Exercised during the year	Issued during the year	Balance at the end of the year
JJ Louw						
Equity-settled options	01/09/2001	10,47	33	(33)	–	–
	29/01/2004	13,62	7 700	–	–	7 700
	25/01/2005	19,96	11 400	–	–	11 400
			19 133	**(33)**	**–**	**19 100**
Cash-settled phantom options	26/01/2006	31,38	64 323	–	–	64 323
	22/01/2007	35,43	70 994	–	–	70 994
	22/01/2008	34,69	77 188	–	–	77 188
	01/04/2008	28,27	94 817	–	–	94 817
	01/10/2008	34,78	152 599	–	–	152 599
	02/01/2009	33,38	158 999	–	–	158 999
	04/01/2010	51,21	134 969	–	–	134 969
	03/01/2011	62,29	–	–	119 627	119 627
			753 889	**–**	**119 627**	**873 516**
Total			**773 022**	**(33)**	**119 627**	**892 616**
AG Hall						
Cash-settled phantom options	22/01/2008	34,69	48 600	(16 200)	–	32 400
	01/10/2008	34,78	100 714	–	–	100 714
	02/01/2009	33,38	104 938	–	–	104 938
	04/01/2010	51,21	76 744	–	–	76 744
	03/01/2011	62,29	–	–	72 429	72 429
			330 996	**(16 200)**	**72 429**	**387 225**

Refer to Annexure B for details of vesting conditions.

Options exercised

Details regarding options exercised by executive directors are as follows:

	Offer date	**Offer price**	**Exercise price**	**Number of options**	**Gain realised on exercising of options**
		R	**R**		**R**
2011					
JJ Louw	**01/09/2001**	**10,47**	**58,02**	**33**	**1 569**
AG Hall	**22/01/2008**	**34,69**	**58,02**	**16 200**	**377 946**

No options were exercised by the executive directors during the prior year.

Charge in respect of long-term incentive scheme awards

The following charges were expensed in the income statement during the year under review, in terms of IFRS 2:

	2011	2010
	R'000	R'000
JJ Louw	**1 174**	8 612
AG Hall	**1 523**	3 353
	2 697	11 965

Other fees

No fees for services as directors or consulting or other fees were paid to the executive directors in the current or prior year. Directors do not participate in any commissions, gain or profit-sharing arrangements.

GRI: 4.5, EC3

Shareholdings of executive directors

Details of the directors' shareholdings (direct and indirect) are reflected below.

	2011 Number of shares	2010 Number of shares
JJ Louw*	**39 300**	39 300
AG Hall	**100**	100
	39 400	39 400

** Shares held by JJ Louw are subject to loans.*

Non-executive directors' remuneration

The level of fees paid to non-executive directors is reviewed by the Remuneration Committee on an annual basis. For details regarding fees paid during the current and prior year, refer to page 13.

The recommendations are submitted to the Board for consideration and the fees are approved at the annual general meeting in January of each year, effective from 1 February. Various market surveys are utilised to determine the remuneration levels and reference is made to the fees paid by comparable listed companies as well as years of experience.

Current annual fees paid, as well as proposed fees to be tabled at the Annual General Meeting in January 2012, are as follows:

	From 1 February 2011	Proposed from 1 February 2012
	R	R
Board: Chairman	**918 750**	973 875
Board: Member	**210 210**	222 823
Audit Committee: Chairman	**199 500**	211 470
Audit Committee: Member	**99 750**	105 735
Risk Committee: Chairman	**199 500**	211 470
Risk Committee: Member	**99 750**	105 735
Remuneration Committee: Chairman	**81 900**	86 814
Remuneration Committee: Member	**51 975**	55 094
Transformation Committee: Chairman	**76 860**	81 472
Transformation Committee: Member	**41 580**	44 075

Non-executive directors do not participate in the Group's incentive bonus plan or share option scheme. There were no direct or indirect beneficial holdings in the current or prior year.

Top three earners

The following decision has been taken by the Board:

"The Company will comply with the requirement of section 30(4) of the Act to disclose remuneration of directors (non-executive and executive) in its annual financial statements and in the manner set out in section 30(4)(b) to (e) of the Act and with King III to the extent that it required disclosure of the remuneration for the three most highly paid employees, who are not directors in the Company."

General remuneration

	Salary	Contributions to defined contribution plan	Gross Remuneration
	R'000	**R'000**	**R'000**
Total 2011	**4 889**	**935**	**5 824**

Key management

Key management comprises the Executive Committee of the Group including the executive directors. As the executive directors' details have been disclosed separately, they are excluded from the figures below.

The details below show the annual remuneration of key management for the period the incumbents held the position during the year and might not be comparable as some vacant positions existed in key management during the year, as a result of the restructuring.

General remuneration

	Salary	Contributions to defined contribution plan	Gross Remuneration
	R'000	**R'000**	**R'000**
Total 2011	**8 820**	**1 643**	**10 463**
Total 2010	10 313	2 035	12 348

Short-term incentives

For the 2011 financial year, key management could earn up to 80% of their total a nnual guaranteed remuneration as a short-term incentive. For the 2012 financial year, the maximum short-term incentive key management can receive is 105% of their total annual guaranteed remuneration if exceptional performance can be demonstrated.

In respect of the year under review, no short-term incentive will be paid to key management in December 2011 as financial targets set at the start of the year have not been met.

Key management received short-term incentives of R4 708 775 in December 2010 and August 2011, all of which related to the financial year ended 30 September 2010:

Similarly, they have received short-term incentives of R7 857 006 in December 2009, which related to the financial year ended 30 September 2009.

For more information on fees paid to non-executive directors please refer to ***page 13***

Long-term incentives

Details of share options in Adcock Ingram granted to key management are set out below. Key management does not have any equity options outstanding.

	Offer date	Offer price R	Balance at the beginning of the year	Exercised during the year	Issued during the year	Business disposal	Change in executive Committee	Balance at the end of the year
Cash-settled options	26/01/2006	31,38	102 917	(68 611)	–	–	(34 306)	–
	22/01/2007	35,43	110 064	(42 404)	–	(6 830)	(50 189)	10 641
	22/01/2008	34,69	122 452	(19 377)	–	(15 882)	(64 323)	22 870
	01/10/2008	34,78	248 948	–	–	(35 107)	(117 924)	95 917
	02/01/2009	33,38	259 390	–	–	(36 580)	(122 870)	99 940
	04/01/2010	51,21	196 753	–	–	(28 118)	(87 287)	81 348
	03/01/2011	62,29	–	–	173 200	–	(75 351)	97 849
			1 040 524	**(130 392)**	**173 200**	**(122 517)**	**(552 250)**	**408 565**

Options exercised

Details regarding options exercised by key management are as follows:

	Offer date	Offer price	Exercise price	Number of options	Gain realised on exercising of options
		R	**R**		**R**
2011					
Cash-settled options	**26/01/2006**	**31,38**	**61,14**	**68 611**	**2 041 614**
	22/01/2007	**35,43**	**60,81**	**42 404**	**1 075 986**
	22/01/2008	**34,69**	**59,30**	**19 377**	**476 949**
				130 392	**5 147 484**
Equity-settled options	**29/01/2004**	**13,62**	**58,99**	**1 000**	**45 367**
	25/01/2005	**19,96**	**58,99**	**2 000**	**78 066**
				3 000	**123 432**

Charge in respect of long-term incentive scheme awards

The following charges were expensed in the income statement during the year under review, in terms of IFRS 2:

	2011	2010
	R'000	R'000
Key management	**1 925**	9 776

Refer to **Annexure B** for full details on share-based payment plans

Risk management

Commercial

Risk	Impact	Probability of occurrence	Management or control
Portfolio management	**High**	**High**	
Investment in productive and innovative pipelines through in-house development, partnering and acquisition strategies to ensure sustainability Reliance on licensors and agencies for a significant portion of revenue Difficulties in sourcing new products due to increasing competition for generic dossiers Ageing formulations Long lead times for MCC approval of new product registrations Stringent regulatory environment			Adcock Ingram continues to interact with multinationals to gain partnership, co-promotion and distribution agreements NutriLida acquisition and majority shareholding purchased in Bioswiss Extending our footprint into new markets, e.g. Kenya and Ghana Diversification in over the counter products, e.g. wellbeing and personal care Reformulation programme in place for older formulations Identifying and assessing international acquisition opportunities Innovation is a critical outcome for our research and development facilities

Financial

Risk	Impact	Probability of occurrence	Management or control
Liquidity and trading risk	**High**	**High**	
Markets continue to be under liquidity pressure which could become a risk to the business in the event of a need for gearing South African consumers remain relatively heavily indebted			Investment grade status with major South African institutions and unutilised short-term bank facilities of R500 million in place Cash held with reputable institutions, limited to R500 million at any one institution
Supply and cost pressure	**High**	**High**	
Temporary suspension of DPP-containing products Critical Care revenue and share of the private sector market impacted by stock shortages due to factory upgrade. This was compounded by factory under-recoveries Industry-wide wage strike impacted on revenue over two months Nil Single Exit Price increase proposed for 2012			Revenue from DPP-containing products has decreased to non-material levels Product imported from Baxter International Factory upgrade scheduled for completion in January 2012 Continuous improvement programmes in place Integration of Critical Care service functions, including distribution Central procurement function negotiating all significant cost inputs

Risk management (continued)

Financial (continued)

Risk	*Impact*	*Probability of occurrence*	*Management or control*
Foreign exchange	**High**	**High**	
Currency volatility and the recent Rand weakness impact on purchase of active ingredients mostly sourced internationally			Forward cover in place on all imports Management performs weekly reviews of the Group's foreign exchange exposure Inventory holdings of fast-moving items are evaluated and strategic holdings purchased when the Rand is trading favourably

Compliance

Risk	*Impact*	*Probability of occurrence*	*Management or control*
Legislative environment	**High**	**High**	
Price controls, including potential international benchmarking, the capping of logistics fees, change in state procurement methodology and national health insurance are ongoing risks			Adcock Ingram is an active participant in industry organisations and proactively engages with Government Compliance dashboard programme implemented in conjunction with internal auditors The Group actively communicates legislative requirements across the business, conducting training for directors and staff on legislative issues
Medicine regulatory	**High**	**High**	
The pharmaceutical industry remains a highly regulated environment and Adcock Ingram must adhere to all relevant quality standards			All facilities have been or are in the process of being upgraded to PIC/S standards. The Indian facility has been approved by South African, Australian and UK authorities Rigorous quality standards are applied External audits conducted on regulatory compliance
Product contamination, recall and liability	**High**	**Medium**	
Consequences of adverse drug effects, monetary loss			Product liability insurance is up to date Crisis management plans have been developed Increased focus on quality assurance Manufacturing complexity being reduced at South African sites

Sustainability

Risk	*Impact*	*Probability of occurrence*	*Management or control*
Competing for talent	**Medium**	**Medium**	
Skills shortages and ability to recruit top talent in certain areas of the business, exacerbated by the drive to employ suitably qualified employment equity candidates			Retention strategies have been implemented, including mentorship programmes and comprehensive wellness programmes, performance reviews and implementation of the BluPrints formula for success Group restructuring creates capacity for appointment of key executives Graduate development programme implemented to fast-track and enhance depth of managerial talent
Environmental issues	**Medium**	**Low**	
The need to reduce water and energy use and carbon emissions Waste management Pending environmental legislation			Energy audit conducted Impact on biodiversity being explored Environmental policy and management system to be introduced Awareness of pending legislation and the possible impact on Adcock Ingram being considered
Safety and security	**Low**	**Low**	
Criminal activity involves monetary risk and the safety of employees and products			Ongoing liaison with SAPS, Ethics hotline, ongoing review and monitoring of safety and security measures
Pace of transformation	**Low**	**Low**	
Participation in the meaningful transformation of our society is critical for the sustainability of our business Customer pressure to do business with transformed entities is increasing in the private sector Enterprise Development element of scorecard lagging			Staff share allocations made in March 2011 Level 4 BEE status obtained Transformation Committee of the Board monitors all elements of the scorecard on a quarterly basis Measurement of BEE by central procurement in place Business Employment Equity targets in place Owner-driver Enterprise Development scheme being implemented in early 2012

GRI: 1.1, 4.9, 4.11 – 12, SO9 – 10, SO2, EC2, EC9

GRI reference table

GRI Element	*Description*	*Reference in Adcock Ingram Reports and website*
Strategy and Analysis		
1.1	Statement from executive	Leadership statement
1.2	Key impacts, risks and opportunities	Leadership statement, Risk management
Organisational Profile		
2.1- 2.10	General organisational details	About this report, Our profile, Recognition by industry, 2011 highlights, Our business footprint, Key operating areas, Financial summary, Operations structure, Board Executive committee, Annual financial statements
Report parameters		
3.1 – 3.11	Report scope	Scope of report, Reporting principles
GRI content index		
3.12	Profile of the report – including implementation of GRI principles	GRI table
Assurance		
3.13	External assurance	Assurance
Governance		
4.1 – 4.3	Adcock structure and governance	Board Executive committee
4.4 – 4.10	Overarching policies and management systems	Our vision, Leadership statement, Corporate governance, Sustainability, Stakeholder engagement, Remuneration report, Risk management
Commitments to external initiatives		
4.11 – 4.13	Memberships and associations	Stakeholder engagement, Risk management
Stakeholder engagement		
4.14 – 4.17	Identification, type and frequency of stakeholder engagement	Stakeholder engagement
Environmental performance indicators		
EN1 – 2	Material use(1)	2011 highlights
EN3 – 10	Energy use, Water use	2011 highlights, Sustainability overview, Operational overview, Sustainability
EN11 – 15	Biodiversity	Our business footprint
EN16 – 25	Emissions, effluents and waste	Sustainability, Website
EN26 – 27	Products and services(2)	
EN28 – 30	Compliance, transport, overall(3)	Sustainability
Social performance indicators		
Human rights		
HR1 – 11		Stakeholder engagement, People, Ethics training (2010 Annual Report)
Labour practices and decent work conditions		
LA1 – 3; LA15	Employment	Website
LA4 – 5	Labour/management relations	Stakeholder relations, Sustainability, Website
LA6 – 9	Occupational health and safety	Sustainability, Website
LA10 – 12	Training and education	Sustainability, Website
LA13	Diversity and equal opportunity	Sustainability, Website
LA14	Equal remuneration for women and men	Sustainability, Website
Society		
SO1; SO9 – 10	Local community	Sustainability overview, Risk management
SO2 – 4	Corruption(4)	Risk management
SO5 – 6	Public policy	Website (List of policies), Sustainability overview, Stakeholder engagement, Sustainability
SO7	Anti-competitive behaviour (4), (5)	Corporate governance, Code of Ethics
SO8	Compliance	Corporate governance
Product responsibility		
PR1 – 2	Customer health and safety	Sustainability, Website (Health and wellness)
PR3 – 5	Product and service labelling	Operational overview, Website (Health and wellness)
PR6 – 9	Marketing communications, Customer privacy, Compliance	Operations overview, Our business footprint, Website (Health and wellness), Website (Brands)
Economic performance indicators		
EC1 – 4	Economic performance	2011 highlights, Financial summary, Remuneration report, Risk management, Annual financials
EC5 – 7	Market presence	Our business footprint, Procurement, Website (Human Capital Statistics)
EC8 – 9	Indirect economic impacts	Operational overview, Stakeholder engagement, Sustainability, Risk management

(1) Not all elements are made public
(2) Data currently not available
(3) No fines have been received or paid
(4) Additional information can be found in the 2010 Annual Report
(5) Adcock Ingram has not engaged in anti-competitive behaviour

Annual financial statements 2011

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adcock ingram

Directors' responsibility for and approval of the annual financial statements

In terms of the Companies Act, 71 of 2008 (Companies Act), the directors are required to prepare annual financial statements that fairly present the state of affairs and business of the Company and of the Group at the end of the financial year and of the profit for the year then ended.

The directors of Adcock Ingram Holdings Limited are responsible for the integrity of the annual financial statements of the Company and consolidated subsidiaries, joint ventures and special purpose entities and the objectivity of other information presented in the integrated report.

The fulfilment of this responsibility is discharged through the establishment and maintenance of sound management and accounting systems, the maintenance of an organisational structure which provides for the delegation of authority and clear established responsibility, together with the constant communication and review of operational performance measured against approved plans and budgets.

Management and employees operate in terms of a code of ethics approved by the board of directors. The code requires compliance with all applicable laws and maintenance of the highest levels of integrity in the conduct of all aspects of the business.

The annual financial statements, prepared in terms of International Financial Reporting Standards and the Companies Act, are examined by our auditors in conformity with International Standards of Auditing.

An Audit Committee of the Board of directors, composed entirely of independent non-executive directors, meets regularly with our auditors and management to discuss internal accounting controls, auditing and financial reporting matters. The auditors have unrestricted access to the Audit Committee.

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

The annual financial statements for the year ended 30 September 2011, which appear on pages 65 to 116, which are in agreement with the books of account at that date, and the related Group annual financial statements, were approved by the board of directors on 21 November 2011 and signed on its behalf by:

KDK Mokhele
Chairman

JJ Louw
Chief Executive Officer

AG Hall
Deputy Chief Executive Officer and Financial Director

21 November 2011

Certificate by Company Secretary

I, the undersigned, NE Simelane, in my capacity as Company Secretary, certify that the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

NE Simelane
Company Secretary

21 November 2011

Audit Committee report

This report is provided by the Audit Committee (the Committee) in respect of the 2011 financial year of Adcock Ingram Holdings Limited in compliance with section 94(7)(f) of the Companies Act.

Information relating to the membership and composition of the Committee, its terms of reference and procedures are detailed in the corporate governance report on pages 16 and 17 of the integrated report.

Execution of Audit Committee function

The Committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference and the Companies Act insofar as it relates to Adcock Ingram's Group accounting, external and internal auditing, internal control and financial reporting practices.

External audit and external auditor

In the execution of its statutory duties during the past financial year, the Committee:

- Nominated for appointment as auditor, Ernst & Young Inc. (Ernst & Young) who, in our opinion, is independent of the Company, and Mr Warren Kinnear as the designated partner;
- Believes that the appointment of Ernst & Young complies with the relevant provisions of the Companies Act and King III;
- Determined Ernst & Young's terms of engagement;
- Determined and approved the fees paid to Ernst & Young as disclosed in the notes to the annual financial statements;
- Determined the nature and extent of all non-audit services provided by the external auditor as per the Committee's scope and responsibilities as set out in detail in the charter;
- Approved all material non-audit services provided by Ernst & Young;
- Considered the independence of Ernst & Young and is satisfied that they were independent throughout the year. To fulfil this responsibility, the Committee reviewed:
  - Changes in key external audit staff in the Ernst & Young audit plan;
  - The arrangements for day-to-day management of the audit relationship;
  - A report from Ernst & Young describing their policy to identify, report and manage any conflicts of interest; and
  - The overall extent and nature of non-audit services provided by Ernst & Young.
- Assessed the effectiveness of the external auditors, by reviewing:
  - Ernst & Young's progress against and fulfilment of the agreed audit plan, including any variations from the plan; and
  - The robustness of Ernst & Young in their handling of the key accounting issues and audit judgements.
- Provided oversight of the external audit process, by reviewing:
  - The areas of responsibility, associated duties and scope of the audit;
  - Ernst & Young's overall work plan for the year;
  - Significant accounting and auditing issues that arose during the audit and their resolution;
  - Key accounting and audit judgements;
  - The quantum and nature of errors identified during the audit; and
  - Recommendations made by Ernst & Young, management's responses to issues raised and the adequacy thereof.

Based on the results of the activities outlined above, the Committee has recommended to the Board that Ernst & Young should be reappointed for 2012. Shareholders will accordingly be requested to consider and vote on the proposed reappointment at the forthcoming Annual General Meeting.

Financial statements

In respect of the financial statements, the Committee:

- Considered and concurred with the adoption of the going concern premise in the preparation of the financial statements;
- Reviewed the appropriateness of the financial statements, other reports to shareholders and any other financial announcements made public;
- Considered whether the annual financial statements fairly present the financial position of the Company and of the Group as at 30 September 2011 and the results of operations and cash flows for the financial year then ended;
- Considered accounting treatments, the appropriateness of accounting policies and the effectiveness of the Group's disclosure controls and procedures; and
- Reviewed the external auditor's audit report.

Internal financial controls and internal audit

The Committee has:

- Evaluated the independence, effectiveness and performance of KPMG Services (KPMG), the outsourced internal audit function, and compliance with its mandate;
- Reviewed the effectiveness of the Group's system of internal financial control including receiving assurance from management and external audit, and a written assessment on the effectiveness of internal control and risk management from the internal auditors;
- Reviewed significant issues raised by the internal audit process and the adequacy of the corrective action in response to significant internal audit findings; and
- Reviewed policies and procedures for preventing and detecting fraud.

Audit Committee report

(continued)

Based on the processes outlined above and the assessments obtained from management and KPMG, the Committee believes that the internal financial controls are effective and that there were no material breakdowns in internal controls.

Financial function

The Committee has assessed the competence of Mr Andy Hall, the Deputy Chief Executive and Financial Director, and believes that he possesses the appropriate expertise and experience to meet his responsibilities in the position as required by the JSE Listings Requirements. Our assessment included making independent observations based on our interaction with him, enquiries of the Chief Executive Officer, the independent non-executive directors, Ernst & Young and KPMG.

The Committee is satisfied that the financial function of the Group incorporates the necessary expertise, resources and experience to adequately carry out its obligations.

Compliance

The Committee in consultation with the Risk & Sustainability Committee and the Company Secretary has considered the effectiveness of the system for monitoring compliance with laws and regulations and for finding and investigating instances of non-compliance and is satisfied with the effectiveness thereof.

Following our review of the annual financial statements for the year ended 30 September 2011, we are of the opinion that, in all material respects, they comply with the relevant provisions of the Companies Act and International Financial Reporting Standards, and present the results of operations, cash flows and the financial position of the Company and the Group. The Committee therefore recommended the consolidated and separate annual financial statements of Adcock Ingram Holdings Limited for approval to the Board of directors. Shareholders will accordingly be requested to consider and adopt the annual financial statements at the forthcoming Annual General Meeting.

On behalf of the Committee

EK Diack
Chairman

17 November 2011

Independent auditors' report to the members of Adcock Ingram Holdings

Report on the financial statements

We have audited the accompanying Group annual financial statements and annual financial statements of Adcock Ingram Holdings Limited, which comprise the consolidated and separate statement of financial position as at 30 September 2011, and the consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 65 to 116.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Adcock Ingram Holdings Limited as at 30 September 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

Ernst & Young Inc.

Ernst & Young Inc.
Director – WK Kinnear
Registered Auditor
Chartered Accountant (SA)

Wanderers Office Park
52 Corlett Drive
Illovo
2196

21 November 2011

Directors' report

The directors have pleasure in submitting their report to shareholders, together with the audited annual financial statements for the year ended 30 September 2011.

Principal activities and business review

The Adcock Ingram Group is a leading South African healthcare group, operating two principal divisions, a pharmaceutical division selling a range of prescription and OTC products, and a hospital products and services division. During the year, the Critical Care business (Hospital division) was integrated into the Pharmaceutical business. Following a restructuring in the business, new focus areas exist as detailed on page 21 of the integrated report.

The Companies Act requires that the Company produces a fair review of the business of the Group including a description of the major risks, its development and performance during the year and the position of the Group at the end of the financial year. These are set out in the business commentaries on pages 22 to 27 of the integrated report. Other key performance indicators and information relating to sustainability are set out on pages 28 to 31 of the integrated report.

Acquisitions

2011

During the year under review, the Group acquired the following as detailed in the notes to the financial statements on pages 56 and 57:

- The business of NutriLida (Pty) Limited, Zeiss Road Manufacturing (Pty) Limited and Midsummer Assets and Leasing (Pty) Limited (NutriLida) (note 2.1);
- 51% of Bioswiss (Pty) Limited (note 2.2); and
- The remaining 49% of Addclin Research (Pty) Limited.

2010

During the 2010 financial year, the Group acquired the following businesses as detailed in the notes to the financial statements on pages 58 to 60:

- The assets of Unique Formulations (note 2.3);
- The assets of Indigenous Systems (Pty) Limited (note 2.4); and
- 66,18% of Ayrton Drug Manufacturing Limited (note 2.5).

Disposal during the year

During the year under review, the Group disposed of its 74% shareholding in The Scientific Group (Pty) Limited detailed in note 1 in the financial statements.

Subsequent events

Details about subsequent events are set out in note 31.

Share capital

Details of the authorised and issued share capital are set out in note 18 of the annual financial statements and in the statement of changes in equity.

During the year under review:

- The number of shares in issue increased by 251 633 (2010: 334 240) ordinary shares as a result of options exercised in terms of the Adcock Ingram (2008) Share Option Scheme; and
- Ordinary shares were bought and held as treasury shares by:
  - Adcock Ingram Limited: 4 285 163 (2010: nil) shares;
  - Mpho ea Bophelo Trust: 206 497 (2010: 87 003) shares; and
  - Blue Falcon Trading 69 (Pty) Limited: 526 903 (2010: 221 897) shares.

Distributions

The Adcock Ingram Board intends to declare a distribution on at least an annual basis, which it currently envisages will be covered not more than three times by headline earnings. The interim distribution of 81 cents per share (2010: 78 cents) was declared based upon the results of the six-month period ended 31 March 2011, and the final distribution of 106 cents per share (2010: 102 cents) payable in relation to the year ended 30 September 2011 is envisaged to be paid on 16 January 2012.

Going concern

Page 44 sets out the directors' responsibilities for preparing the Company and consolidated financial statements. The directors are satisfied that Adcock Ingram Holdings Limited and the Group are going concerns.

Subsidiaries, joint ventures and investments

Financial information concerning the subsidiaries, joint ventures and investments of Adcock Ingram Holdings Limited is set out in Annexure F of the annual financial statements. Details of joint ventures are given in note 27.

Directors' report
(continued)

Attributable interest
The attributable interest of the Company in the profits and losses of its subsidiaries and joint ventures is as follows:

	2011	2010
	R'000	R'000
Subsidiaries		
Profit after taxation	**808 670**	891 602
Joint ventures		
Profit after taxation	**22 265**	22 685

Directors
The names of the directors who presently hold office are set out on pages 12 and 13 of this report. There were no changes to the board of directors during the year under review, but there were changes to the directors' responsibilities as detailed on page 17.

No director holds 1% or more of the ordinary shares of the Company. The directors beneficially hold, directly and indirectly, 39 400 ordinary shares in the Company. There has been no change in the holdings since the end of the financial period and the date of approval of the annual report.

Details of the directors' shareholdings (direct and indirect) are reflected below.

	Number of shares	Number of shares
Director	**2011**	2010
JJ Louw*	**39 300**	39 300
AG Hall	**100**	100
Total	**39 400**	39 400

** These shares are subject to loans.*

Resolutions
The following special resolutions were passed during the year:
27 January 2011: **Resolution number 1:** General repurchase of the Company's ordinary shares subject to certain conditions.

Retirement funds
Details in respect of the retirement funds of the Group are set out in Annexure C.

Directors' and key management remuneration
Full details regarding executive directors' and key management remuneration are set out on pages 35 to 38 of the integrated report, as part of the remuneration report and details regarding non-executive directors' remuneration are set out on page 13 of the integrated report.

Consolidated statements of comprehensive income

for the years ended 30 September

	Note	2011 R'000	2010 R'000
Revenue	3	**4 534 235**	4 200 022
Turnover	3	**4 453 567**	4 130 087
Cost of sales		**(2 284 606)**	(1 928 956)
Gross profit		**2 168 961**	2 201 131
Selling and distribution expenses		**(530 005)**	(442 805)
Marketing expenses		**(206 981)**	(162 442)
Research and development expenses		**(70 723)**	(65 287)
Fixed and administrative expenses		**(292 614)**	(362 290)
Operating profit		**1 068 638**	1 168 307
Finance income	4.1	**63 778**	59 288
Finance costs	4.2	**(30 225)**	(37 931)
Dividend income	3	**16 890**	10 647
Profit before taxation and abnormal item	5	**1 119 081**	1 200 311
Abnormal item	6	**–**	(269 000)
Profit before taxation		**1 119 081**	931 311
Taxation	7	**(326 129)**	(308 542)
Profit for the year from continuing operations		**792 952**	622 769
(Loss)/profit after taxation for the year from a discontinued operation	1	**(28 152)**	20 459
Profit for the year		**764 800**	643 228
Other comprehensive income		**17 591**	(528)
Exchange differences on translation of foreign operations		**4 709**	(4 156)
Movement in cash flow hedge accounting reserve, net of tax	20	**12 882**	3 628
Losses arising on cash flow hedge reserve, net of tax		**(11 908)**	(720)
Realisation of cash flow hedge reserve, net of tax		**24 790**	4 348
Total comprehensive income for the year, net of tax		**782 391**	642 700
Profit attributable to:			
Owners of the parent		**754 205**	631 459
Non-controlling interests		**10 595**	11 769
		764 800	643 228
Total comprehensive income attributable to:			
Owners of the parent		**770 658**	630 931
Non-controlling interests		**11 733**	11 769
		782 391	642 700
Continuing operations:			
Basic earnings per ordinary share (cents)	8	**458,5**	354,9
Diluted basic earnings per ordinary share (cents)	8	**457,5**	354,1
Headline earnings per ordinary share (cents)	8	**465,1**	354,8
Diluted headline earnings per ordinary share (cents)	8	**464,2**	354,0
Discontinued operation:			
Basic earnings per ordinary share (cents)	8	**(16,6)**	8,6
Diluted basic earnings per ordinary share (cents)	8	**(16,6)**	8,6
Headline earnings per ordinary share (cents)	8	**0,3**	8,6
Diluted headline earnings per ordinary share (cents)	8	**0,3**	8,6

Consolidated statement of changes in equity

for the years ended 30 September

	Note	Attributable to holders of the parent						
	Note	Issued share capital R'000	Share premium R'000	Retained income R'000	Non-distributable reserves R'000	Total attributable to ordinary shareholders R'000	Non-controlling interests R'000	Total R'000
As at 1 October 2009		17 363	1 203 854	1 001 942	77 494	2 300 653	24 943	2 325 596
Share issue	18, 19	33	4 364			4 397		4 397
Movement in treasury shares	18, 19	(31)	(17 928)			(17 959)		(17 959)
Share-based payment expense	20				272 095	272 095		272 095
Acquisition of A ordinary shares by Blue Falcon Trading 69 (Pty) Limited – non-controlling interest							93 750	93 750
Acquisition through business combination: Ayrton Drug Manufacturing Limited	2.5						33 636	33 636
Subsequent acquisition of minority interests in Ayrton Drug Manufacturing Limited	2.5			(922)		(922)	(69)	(991)
Total comprehensive income				631 459	(528)	630 931	11 769	642 700
Profit for the year				631 459		631 459	11 769	643 228
Other comprehensive income					(528)	(528)	–	(528)
Dividends	9			(274 540)		(274 540)	(5 344)	(279 884)
Balance at 30 September 2010		**17 365**	**1 190 290**	**1 357 939**	**349 061**	**2 914 655**	**158 685**	**3 073 340**
Share issue	18, 19	**25**	**3 368**			**3 393**		**3 393**
Movement in treasury shares	18, 19	**(502)**	**(291 427)**			**(291 929)**		**(291 929)**
Share-based payment expense	20							
– continuing operations					**6 685**	**6 685**		**6 685**
– discontinued operation					**(831)**	**(831)**		**(831)**
Disposal of business							**(12 644)**	**(12 644)**
Acquisition through business combination	2.2						**14 072**	**14 072**
Acquisition of non-controlling interests								
– Addclin Research (Pty) Limited				**1 345**		**1 345**	**(1 345)**	**–**
– Ayrton Drug Manufacturing Limited	2.5			**(4 120)**		**(4 120)**	**(5 225)**	**(9 345)**
Total comprehensive income				**754 205**	**16 453**	**770 658**	**11 733**	**782 391**
Profit for the year				**754 205**		**754 205**	**10 595**	**764 800**
Other comprehensive income					**16 453**	**16 453**	**1 138**	**17 591**
Dividends	9			**(177 157)**		**(177 157)**	**(27 652)**	**(204 809)**
Distribution out of share premium	19		**(136 943)**			**(136 943)**		**(136 943)**
Balance at 30 September 2011		**16 888**	**765 288**	**1 932 212**	**371 368**	**3 085 756**	**137 624**	**3 223 380**

Consolidated statements of financial position

at 30 September

	Note	2011 R'000	2010 R'000
Assets			
Property, plant and equipment	10	**1 161 558**	857 471
Deferred tax	11	**3 775**	23 967
Other financial assets	12	**140 210**	139 012
Investment in associate	13	**–**	12 200
Intangible assets	14	**728 474**	424 149
Non-current assets		**2 034 017**	1 456 799
Inventories	15	**864 465**	719 236
Trade and other receivables	16	**1 202 858**	1 150 393
Cash and cash equivalents	17	**1 103 977**	1 430 917
Taxation receivable	26.4	**30 143**	–
Current assets		**3 201 443**	3 300 546
Total assets		**5 235 460**	4 757 345
Equity and liabilities			
Capital and reserves			
Issued share capital	18	**16 888**	17 365
Share premium	19	**765 288**	1 190 290
Non-distributable reserves	20	**371 368**	349 061
Retained income		**1 932 212**	1 357 939
Total shareholders' funds		**3 085 756**	2 914 655
Non-controlling interests		**137 624**	158 685
Total equity		**3 223 380**	3 073 340
Long-term borrowings	21	**346 811**	453 830
Post-retirement medical liability	22	**13 987**	15 808
Deferred tax	11	**93 884**	23 961
Non-current liabilities		**454 682**	493 599
Trade and other payables	23	**954 076**	889 162
Short-term borrowings	21	**496 032**	126 787
Cash-settled options	24	**64 036**	68 760
Provisions	25	**42 859**	84 464
Bank overdraft	17	**395**	–
Taxation payable	26.4	**–**	21 233
Current liabilities		**1 557 398**	1 190 406
Total equity and liabilities		**5 235 460**	4 757 345

Consolidated statements of cash flows

for the years ended 30 September

	Note	2011 R'000	2010 R'000
Cash flows from operating activities			
Operating profit before working capital changes	26.1	**1 152 101**	1 319 448
Working capital changes	26.2	**(130 197)**	115 364
Cash generated from operations		**1 021 904**	1 434 812
Finance income	4.1	**63 778**	59 288
Finance costs	4.2	**(30 225)**	(37 931)
Dividend income	3	**16 890**	10 647
Dividends paid	26.3	**(204 809)**	(279 884)
Taxation paid	26.4	**(341 156)**	(324 832)
Net cash inflow from operating activities		**526 382**	862 100
Cash flows from investing activities			
Increase in other financial assets	26.6	**(6)**	(975)
Acquisition of businesses, net of cash	26.5	**(328 775)**	(139 501)
Proceeds on disposal of business	1.1	**84 989**	–
*Purchase of property, plant and equipment – Expansion		**(172 451)**	(107 723)
– Replacement		**(260 528)**	(225 339)
Proceeds on disposal of property, plant and equipment		**4 220**	2 819
Net cash outflow from investing activities		**(672 551)**	(470 719)
Cash flows from financing activities			
Acquisition of non-controlling interest	2.5	**(9 345)**	(991)
Proceeds from issue of share capital		**3 393**	4 397
Purchase of treasury shares		**(291 929)**	(17 959)
Subscription for A shares		**–**	93 750
Distribution out of share premium	19	**(136 943)**	–
Increase in borrowings		**371 536**	443 763
Repayment of borrowings		**(117 329)**	(174 730)
Net cash (outflow)/inflow from financing activities		**(180 617)**	348 230
Net (decrease)/increase in cash and cash equivalents		**(326 786)**	739 611
Net foreign exchange difference on cash and cash equivalents		**(549)**	(1 411)
Cash and cash equivalents at beginning of year		**1 430 917**	692 717
Cash and cash equivalents at end of year	17	**1 103 582**	1 430 917

** Include interest capitalised in accordance with IAS 23 of R34,7 million (2010: R9,3 million).*

Accounting policy elections

The principal accounting policies applied in the presentation of the annual financial statements are set out below.

Corporate information

The consolidated financial statements of Adcock Ingram Holdings Limited (the Company) and Adcock Ingram Holdings Limited and its subsidiaries, joint ventures and special purpose vehicles (the Group) for the year ended 30 September 2011 were authorised for issue in accordance with a resolution of the directors on 21 November 2011. Adcock Ingram Holdings Limited is incorporated and domiciled in South Africa, where its shares are publicly traded on the Securities Exchange of the JSE Limited.

Basis of preparation

The consolidated and separate annual financial statements (annual financial statements) are presented in South African Rands and all values are rounded to the nearest thousand (R'000) except where otherwise stated.

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), its interpretations adopted by the International Accounting Standards Board (IASB), the AC500 standards as issued by the Accounting Practices Board or its successor, and the Companies Act. The annual financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- Available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and liabilities for cash-settled share-based payments that are measured at fair value; and
- Post-employment benefit obligations are measured in terms of the projected unit credit method.

The Group[(1)] has made the following accounting policy election in terms of IFRS, with reference to the detailed accounting policies shown in brackets:

- Cumulative gains and losses recognised in other comprehensive income (OCI) in terms of a cash flow hedge relationship are transferred from OCI and included in the initial measurement of the non-financial asset or liability.

[(1)] *All references to Group hereafter include the separate annual financial statements, where applicable.*

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except where the Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

IFRS 2 Share-based payments amendment

This amendment is effective for the Group from 1 October 2010 and clarifies the accounting for Group cash-settled share-based payment transactions, where a subsidiary receives goods or services from employees or suppliers, but the parent or another entity in the Group pays for those goods or services. The amendment clarifies that these transactions are included within the scope of IFRS 2 and has had no impact on the financial position or performance of the Group.

IFRIC 19 Extinguishing financial liabilities with equity instruments

The Group adopted IFRIC 19 from 1 October 2010 which clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In the case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation had no effect on the financial statements of the Group.

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

The Group adopted this amendment to IAS 32 from 1 October 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment has had no impact on the financial position or performance of the Group.

Improvements to IFRS

The IASB issued an omnibus of amendments to its standards, primarily with a view to remove inconsistencies and clarify wording. There are separate transitional provisions for each standard. The adoption of the amendments did not have any impact on the financial position or performance of the Group.

Please refer to Annexure G for a detailed listing of the Group's accounting policies.

	2011 R'000	2010 R'000
1. *Disposal of business*		
The Scientific Group (Pty) Limited (TSG)		
On 31 January 2011, the Group disposed of its 74% holding in TSG.		
The results of TSG are presented below and the 30 September 2011 figures include trading for the four-month period ended 31 January 2011:		
Turnover	**90 103**	310 567
Cost of sales	**(52 265)**	(176 871)
Gross profit	**37 838**	133 696
Selling and distribution expenses	**(20 397)**	(57 126)
Marketing expenses	**(794)**	(1 266)
Fixed and administrative expenses	**(12 119)**	(43 309)
Operating profit	**4 528**	31 995
Finance costs	**(1 046)**	(2 542)
Profit before taxation	**3 482**	29 453
Taxation	**(2 780)**	(8 994)
Profit from discontinued operation	**702**	20 459
Loss on disposal of the discontinued operation	**(27 737)**	–
Attributable taxation	**(1 117)**	–
(Loss)/profit after tax from a discontinued operation	**(28 152)**	20 459
(Loss)/profit attributable to:		
Owners of the parent	**(28 397)**	14 907
Non-controlling interests	**245**	5 552
	(28 152)	20 459
Profit before taxation has been arrived at after charging the following:		
Depreciation	**3 131**	7 890
Amortisation	**747**	2 242
Share-based payment expense		
– Cash settled	**578**	2 331
– Black Managers Trust – equity settled	**27**	149
Cash inflow on disposal:		
Consideration received	**77 827**	
Net overdraft disposed of with the discontinued operation	**7 162**	
Net cash inflow	**84 989**	
Included in the Group's consolidated statement of cash flows are cash flows from the TSG discontinued operation. These cash flows are included in operating and investing activities as follows:		
Cash outflow from operating activities	**35 611**	
Cash outflow from investing activities	**9 530**	
Net cash outflow	**45 141**	

	2011
	R'000

2. Business combinations

2.1 NutriLida

On 31 July 2011, Adcock Ingram Healthcare (Pty) Limited acquired 100% of the business of NutriLida (Pty) Limited, Zeiss Road Manufacturing (Pty) Limited and Midsummer Assets and Leasing (Pty) Limited (NutriLida), a vitamins, minerals and supplements business based in Johannesburg, as a going concern. The Group has acquired NutriLida because it significantly enlarges the range of products in the vitamins, minerals and supplements category.

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

	2011 R'000
Assets	
Property, plant and equipment	**1 332**
Marketing-related intangible assets	**139 307**
Cash and cash equivalents	**26 595**
Investments	**1 192**
Inventories	**36 552**
Accounts receivable	**47 191**
Receiver of Revenue	**2 888**
	255 057
Liabilities	
Accounts payable	**(29 673)**
Deferred tax	**(38 991)**
	(68 664)
Total identifiable net assets at fair value	**186 393**
Goodwill arising on acquisition	**163 607**
Purchase consideration	**350 000**
Net cash acquired with business	**(26 595)**
Net cash consideration	**323 405**

The fair value of the trade receivables equals the gross amount of trade receivables and amounts to R47,2 million. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. An amount of R50 million was paid into an escrow account as a guarantee for any returns or uncollected trade receivables.

The significant factors that contributed to the recognition of goodwill of R163,6 million include, but are not limited to, the acquisition of trade listings of an established product portfolio within the FMCG channel.

From the date of acquisition, NutriLida contributed R43,1 million towards revenue and R15,3 million towards profit before income tax.

Should the NutriLida acquisition have been included from 1 October 2010, the contribution is estimated to have been R233,4 million to revenue and R75,6 million towards profit before income tax.

	2011 R'000
Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	**(2 441)**
Net cash acquired with the business (included in cash flows from investing activities)	**26 595**
Cash inflow on acquisition	**24 154**

Transaction costs of R2,4 million have been expensed and are included in fixed and administrative expenses.

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

The fair value of the trade receivables equals the gross amount of trade receivables and amounts to R11,8 million. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The significant factors that contributed to the recognition of goodwill include, but are not limited to, the acquisition of a diabetes product portfolio.

From the date of acquisition, Bioswiss contributed R6,8 million towards revenue and reported a loss before income tax of R2,5 million.

Should the Bioswiss acquisition have been included from 1 October 2010, the contribution is estimated to have been R10,8 million to revenue and a loss of R2,5 million.

	2011 R'000
Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	**(675)**
Net cash acquired with the business (included in cash flows from investing activities)	**2 124**
Cash inflow on acquisition	**1 449**

Transaction costs of R0,7 million have been expensed and are included in fixed and administrative expenses.

Of the total purchase price, a payment of R8,5 million has been deferred. The deferred portion of the purchase price has been fully provided for. R2,5 million of the deferred portion is subject to the achievement of certain revenue targets.

2. *Business combinations (continued)*

2.3 Unique Formulations

On 17 November 2009, the Group acquired 100% of the assets of Unique Formulations, a vitamin and mineral supplement company based in Cape Town, as a going concern. The Group acquired Unique as it gave the Company entry into the vitamins, minerals and supplements category.

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

	2010 R'000
Assets	
Property, plant and equipment	196
Marketing-related intangible assets	24 204
Inventories	2 024
Accounts receivable	2 669
Total identifiable net assets at fair value	29 093
Goodwill arising on acquisition	8 448
Purchase consideration	37 541

The fair value of the trade receivables equals the gross amount of trade receivables and amounts to R2,7 million. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. Any uncollected amounts will be offset against the deferred portion of the purchase price.

The significant factors that contributed to the recognition of goodwill include, but are not limited to, the acquisition of trade listings of an established product portfolio within the FMCG channel.

From the date of acquisition, the Unique business contributed R23,1 million towards revenue in the 2010 financial year. Should the Unique business have been included from 1 October 2009, the contribution is estimated to have been R24,8 million towards revenue.

As the business was fully integrated into the OTC segment, it is not possible to determine the exact contribution towards profit before income tax.

Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	(253)
Net cash flow on acquisition	(253)

Transaction costs of R0,3 million have been expensed and are included in fixed and administrative expenses in the 2010 financial year.

Of the total purchase price, a payment of R17,51 million was deferred. The deferred portion of the purchase price, which was fully provided for, was subject to the achievement of certain revenue targets.

During the 2011 financial year, an amount of R3,78 million was paid, after withholding R3,43 million for trade debtors receipts and R6,55 million was adjusted through profit and loss as certain performance criteria were not met. Of the initial deferred amount of R17,51 million, an amount of R3,75 million is still outstanding at 30 September 2011.

	2010 R'000

2. *Business combinations (continued)*

2.4 Indigenous Systems (Pty) Limited

On 1 April 2010, The Scientific Group (Pty) Limited acquired the net assets of Indigenous Systems (Pty) Limited (Indigenous), an unlisted company in South Africa, as a going concern. The Group acquired Indigenous as it enlarges the product portfolio.

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

	2010 R'000
Assets	
Property, plant and equipment	1 925
Inventories	7 642
Accounts receivable	7 018
Liabilities	16 585
Accounts payable	(415)
Fair value of net assets and purchase consideration transferred	16 170

The fair value of the trade receivables equals the gross amount of trade receivables and amounts to R7,0 million. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected. Any uncollected amounts will be offset against the deferred portion of the purchase price.

From the date of acquisition, the Indigenous business contributed R20,5 million towards revenue and R3,2 million towards profit before income tax in the 2010 financial year.

Should the Indigenous business have been included from 1 October 2009, the contribution is estimated to have been R39 million towards revenue and R5,9 million towards profit before income tax.

Of the total purchase price, a payment of R3,2 million was deferred. The deferred portion of the purchase price, which was fully provided for, was subject to the achievement of certain revenue targets. This business was subsequently sold as part of the disposal of The Scientific Group (refer note 1).

2. *Business combinations (continued)*

2.5 Ayrton Drug Manufacturing Limited

On 1 April 2010, Adcock Ingram International (Pty) Limited (Adcock Ingram International), a wholly owned subsidiary of Adcock Ingram Holdings Limited, acquired a 65,59% stake in a leading listed Ghanaian pharmaceutical company, Ayrton Drug Manufacturing Limited (Ayrton) for R121 million, to establish a presence in Western Africa.

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

	2010 R'000
Assets	
Property, plant and equipment	20 355
Marketing-related intangible assets	28 295
Customer-related intangible assets	9 141
Other intangibles	1 211
Cash and cash equivalents	14 417
Inventories	20 299
Accounts receivable	23 778
	117 496
Liabilities	
Accounts payable	(10 028)
Receiver of Revenue	(1 465)
Deferred tax	(9 359)
	(20 852)
Total identifiable net assets at fair value	96 644
Non-controlling interests measured at fair value	(33 636)
Fair value of net assets	63 008
Goodwill arising on acquisition	57 869
Purchase consideration	120 877

The fair value of the trade receivables equals the gross amount of trade receivables and amounts to R23,8 million. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

Goodwill represents the difference between the purchase consideration and the fair value of the net assets acquired as there are no further separately identifiable intangible assets. The significant factors that contributed to the recognition of goodwill include, but are not limited to, the establishment of a presence within the Western African markets, with local management and distribution capabilities to drive the Group's product sales into the various channels and customers that exist within those markets.

From the date of acquisition, the Ayrton business contributed R44,3 million towards revenue and R9,7 million towards profit before income tax in the 2010 financial year.

Should the Ayrton business have been included from 1 October 2009, the contribution is estimated to have been R85,7 million towards revenue and R19,4 million towards profit before income tax in the 2010 financial year.

	2010 R'000
Analysis of cash flows on acquisition	
Transaction costs of the acquisition (included in cash flows from operating activities)	(1 867)
Net cash acquired with the business (included in cash flows from investing activities)	14 417
Net cash flow on acquisition	12 550

Transaction costs of R1,9 million have been expensed and are included in fixed and administrative expenses in the 2010 financial year.

Acquisition of additional interest in Ayrton

Adcock Ingram International has placed an order on the Ghanaian stock exchange to purchase additional shares at GH¢0,16.

Following the initial transaction, Adcock Ingram International acquired an additional 0,59% of the shares of Ayrton for R1 million, increasing its ownership to 66,18% at 30 September 2010. A cash consideration of R0,991 million was paid. The difference of R0,922 million between the consideration paid and the carrying value of the interest acquired has been recognised in retained earnings within equity.

During the 2011 financial year, an additional 5,17% interest of the voting shares of Ayrton was acquired, increasing its ownership to 71,35%. A cash consideration of R9,345 million was paid. The difference of R4,120 million between the consideration paid and the carrying value of the interest acquired has been recognised in retained earnings within equity.

		2011 R'000	2010 R'000
3.	***Revenue***		
	Continuing operations		
	Turnover	**4 453 567**	4 130 087
	Finance income	**63 778**	59 288
	Dividend income	**16 890**	10 647
	Black Managers Trust distribution	**11 858**	10 647
	Preference shares	**5 032**	–
		4 534 235	4 200 022
4.	***Finance income and finance costs***		
4.1	*Finance income*		
	Bank	**63 778**	59 288
4.2	*Finance costs*		
	Borrowings	**28 748**	37 531
	Finance leases	**116**	–
	Other	**1 361**	400
		30 225	37 931
5.	***Profit before taxation and abnormal items***		
5.1	*Profit before taxation and abnormal items has been arrived at after charging the following:*		
	Expenses/(income)		
	External auditors' remuneration		
	– Audit fees current year	**6 684**	5 308
	– Audit fees (over)/under provision prior year	**(375)**	333
	– Taxation services	**350**	354
	– Other services	**987**	444
	Internal auditors' remuneration	**2 179**	2 067
	Depreciation		
	– Freehold land and buildings	**9 043**	4 882
	– Leasehold improvements	**8 371**	7 249
	– Plant and equipment	**54 202**	49 136
	– Computers	**21 912**	23 595
	– Furniture and fittings	**1 135**	1 825
	Amortisation of intangibles	**6 704**	4 773
	Inventories written off	**20 907**	26 821
	Royalties paid	**14 175**	42 518
	Share-based payment expense (refer to Annexure B)		
	– Cash-settled scheme	**10 930**	40 368
	– Equity-settled scheme	**1**	(5)
	– Black Managers Trust – equity-settled	**(124)**	2 951
	– Mpho ea Bophelo transaction – equity-settled	**6 781**	–
	Operating lease charges		
	– Equipment	**381**	6 001
	– Property	**30 271**	24 475
	Foreign exchange profit	**(8 296)**	(4 624)
	Profit on disposal of property, plant and equipment	**(857)**	(221)
5.2	*Total staff costs*	**680 386**	669 267
	Included in cost of sales	**275 472**	276 958
	Salaries	**240 742**	246 801
	Employers' contribution to:	**34 730**	30 157
	Medical	**11 989**	10 403
	Retirement	**22 741**	19 754
	Included in operating expenses	**404 914**	392 309
	Salaries	**346 358**	338 142
	Employers' contribution to:	**58 556**	54 167
	Medical	**15 186**	16 386
	Retirement	**43 370**	37 781

	2011 R'000	2010 R'000
5. *Profit before taxation and abnormal items (continued)*		
5.3 Directors' emoluments		
Executive directors	**6 792**	11 228
Non-executive directors	**3 078**	3 250
Total	**9 870**	14 478
For more details, please refer to pages 13, 35 and 36		
5.4 Key management		
Salaries	**8 820**	9 248
Bonuses	**–**	7 219
Retirement, medical and other benefits	**1 643**	1 784
Total	**10 463**	18 251
Key management comprises the Group Executive Committee, other than the executive directors. For more details, please refer to pages 37 and 38		
6. *Abnormal item*		
Share-based payment expense	**–**	269 000
Abnormal items are items of income and expenditure which are not directly attributable to normal operations or where their size or nature are such that additional disclosure is considered appropriate. The abnormal item in the prior year relates to the once-off share-based payment expense in respect of the Black Economic Empowerment transaction approved by shareholders on 9 April 2010. Refer to Annexure B. Other share-based expenses have been included in profit before taxation and abnormal item (refer note 5.1).		
7. *Taxation*		
South African taxation		
Current income tax		
– current year	**275 773**	276 310
– prior year over provision	**(11 693)**	(3 529)
Deferred tax		
– current year	**34 882**	4 041
– prior year over provision	**(479)**	(3 244)
– utilisation of tax loss	**(126)**	102
Secondary Tax on Companies	**17 439**	29 464
	315 796	303 144
Foreign taxation		
Current income tax		
– current year	**8 490**	2 788
Deferred tax		
– current year	**1 275**	1 763
Dividend distribution tax	**568**	847
	10 333	5 398
Total tax charge	**326 129**	308 542

In addition to the above, deferred tax amounting to R5,0 million (2010: R1,4 million) has been charged to equity.

Reconciliation of the taxation rate	%	%
Effective rate	**29,1**	33,1
Adjusted for:		
Exempt income/allowances	**1,1**	6,1
Non-deductible expenses	**(1,7)**	(9,7)
Prior year over provision	**1,1**	0,7
Secondary Tax on Companies	**(1,6)**	(3,1)
Other	**0,0**	0,9
South African normal tax rate	**28,0**	28,0

	2011 R'000	2010 R'000
8. *Earnings per share*		
Headline earnings is determined as follows:		
Continuing operations		
Earnings attributable to owners of Adcock Ingram from total operations	**754 205**	631 459
Adjusted for*:		
Earnings attributable from discontinued operation	**28 397**	(14 907)
Earnings attributable to owners of Adcock Ingram from continuing operations	**782 602**	616 552
Adjusted for:		
Impairment of investment	**12 200**	–
Profit on disposal of property, plant and equipment	**(857)**	(221)
Headline earnings from continuing operations	**793 945**	616 331
Discontinued operation		
Earnings attributable to owners of Adcock Ingram from discontinued operation	**(28 397)**	14 907
Adjusted for:		
Impairment of investment	**28 854**	–
Headline earnings from discontinued operation	**457**	14 907

	Number of shares	
Reconciliation of diluted weighted average number of shares:		
Weighted average number of ordinary shares in issue:		
– Issued shares at the beginning of the year	**173 959 818**	173 625 578
– Effect of ordinary shares issued during the year	**64 279**	164 254
– Effect of ordinary treasury shares acquired during the year	**(3 327 097)**	(77 367)
Weighted average number of ordinary shares outstanding	**170 697 000**	173 712 465
Potential dilutive effect of outstanding share options	**351 743**	388 835
Diluted weighted average number of shares outstanding	**171 048 743**	174 101 300

** The adjustments have no tax implication.*

Basic earnings per share is derived by dividing earnings attributable from continuing operations to owners of Adcock Ingram for the year by the weighted average number of shares in issue.

Diluted earnings per share is derived by dividing earnings attributable from continuing operations to owners of Adcock Ingram for the year by the diluted weighted average number of shares in issue. Diluted earnings per share reflect the potential dilution that could occur if all of the Group's outstanding share options were exercised and the effects of all dilutive potential shares resulting from the Mpho ea Bophelo share transaction are accounted for.

Headline earnings per share is derived by dividing earnings attributable from continuing operations to owners of Adcock Ingram for the year, after appropriate adjustments are made, by the weighted average number of shares in issue.

Notes to the Group annual financial statements

for the years ended 30 September (continued)

	2011 cents	2010 cents
8. *Earnings per share (continued)*		
Continuing operations		
Earnings		
Basic earnings per share	**458,5**	354,9
Diluted basic earnings per share	**457,5**	354,1
Headline earnings		
Headline earnings per share	**465,1**	354,8
Diluted headline earnings per share	**464,2**	354,0
Discontinued operation		
Earnings		
Basic earnings per share	**(16,6)**	8,6
Diluted basic earnings per share	**(16,6)**	8,6
Headline earnings		
Headline earnings per share	**0,3**	8,6
Diluted headline earnings per share	**0,3**	8,6
Distribution per share		
Interim	**81**	78
Final*	**106**	102

** Declared subsequent to 30 September and has been presented for information purposes only. No liability regarding the final distribution has thus been recognised at 30 September.*

	R'000	R'000
9. *Distributions paid and proposed*		
9.1 Dividends		
Declared and paid during the year		
Dividends on ordinary shares		
Final dividend for 2010: 102 cents (2009: 80 cents)	**203 936**	139 112
Interim dividend for 2010: 78 cents	**–**	155 664
Total paid to equity holders of parent company	**203 936**	294 776
Less: Dividends relating to treasury shares	**(26 779)**	(20 236)
Total dividends declared and paid to the public	**177 157**	274 540
Dividends paid to non-controlling shareholders	**27 652**	5 344
Total dividend declared and paid to the public	**204 809**	279 884
9.2 Distribution out of share premium		
Declared and paid during the year		
Distribution on ordinary shares		
Interim distribution for 2011: 81 cents	**162 017**	–
Total paid to equity holders of parent company	**162 017**	–
Less: Distribution relating to treasury shares	**(25 074)**	–
Total distribution declared and paid to the public	**136 943**	–
9.3 Proposed for approval at the Annual General Meeting		
Distribution on ordinary shares		
Final dividend for 2010: 102 cents per share	**–**	177 123
Final distribution for 2011: 106 cents per share	**179 017**	–
	179 019	177 123

In terms of current legislation, the proposed distribution out of share premium will not result in a Secondary Tax on Companies liability.

	Freehold land and buildings	Leasehold improve-ments	Plant and equipment	Computer equipment	Furniture and fittings	Work in progress	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
10. Property, plant and equipment							
2011							
Carrying value at beginning of year							
Cost	240 510	78 952	547 870	91 387	18 678	232 850	1 210 247
Accumulated depreciation	(30 794)	(15 018)	(232 920)	(61 993)	(12 051)	–	(352 776)
Net book value at beginning of year	209 716	63 934	314 950	29 394	6 627	232 850	857 471
Current year movements – cost							
Disposal of business	–	–	(55 871)	(11 009)	(613)	–	(67 493)
Transfer	77 524	(5 981)	(30 020)	5 007	(1 734)	(44 796)	–
Additions through business combinations (note 2)	–	–	43	467	837	–	1 347
Additions[1]	87 818	6 251	111 461	33 049	3 431	190 969	432 979
Exchange adjustments	2 792	102	2 933	113	(661)	–	5 279
Disposals	–	(947)	(8 886)	(1 357)	(531)	–	(11 721)
Cost movement for current year	168 134	(575)	19 660	26 270	729	146 173	360 391
Current year movements – accumulated depreciation							
Disposal of business	–	–	26 388	7 145	152	–	33 685
Transfer	931	97	(2 621)	–	1 593	–	–
Depreciation	(9 043)	(8 371)	(57 333)	(21 912)	(1 135)	–	(97 794)
Exchange adjustments	(190)	(3)	(1 020)	(43)	703	–	(553)
Disposals	–	600	6 094	1 357	307	–	8 358
Depreciation movement for current year	(8 302)	(7 677)	(28 492)	(13 453)	1 620	–	(56 304)
Carrying value at end of year							
Cost	408 644	78 377	567 530	117 657	19 407	379 023	1 570 638
Accumulated depreciation	(39 096)	(22 695)	(261 412)	(75 446)	(10 431)	–	(409 080)
Net book value at end of year	369 548	55 682	306 118	42 211	8 976	379 023	1 161 558

[1] Additions include interest capitalised in accordance with IAS 23, of R34,7 million. Refer to note 21.

Property, plant and equipment to the value of R71,8 million (2010: R69,3 million) in the Indian operations has been pledged as security for the long-term liability of the Indian operations. Refer to note 21.

	Freehold land and buildings R'000	Leasehold improve-ments R'000	Plant and equipment R'000	Computer equipment R'000	Furniture and fittings R'000	Work in progress R'000	Total R'000
10. Property, plant and equipment (continued)							
2010							
Carrying value at beginning of year							
Cost	169 054	68 845	444 418	71 015	15 219	117 809	886 360
Accumulated depreciation	(26 074)	(7 772)	(203 926)	(38 008)	(10 834)	–	(286 614)
Net book value at beginning of year	142 980	61 073	240 492	33 007	4 385	117 809	599 746
Current year movements – cost							
Transfer	3 465	7 088	29 583	380	–	(40 516)	–
Additions through business combinations (note 2)	11 074	2 216	9 010	176	–	–	22 476
Additions[(1)]	57 488	936	94 204	20 125	4 752	155 557	333 062
Exchange adjustments	(571)	(116)	(790)	(28)	(3)	–	(1 508)
Disposals	–	(17)	(28 555)	(281)	(1 290)	–	(30 143)
Cost movement for current year	71 456	10 107	103 452	20 372	3 459	115 041	323 887
Current year movements – accumulated depreciation							
Depreciation	(4 882)	(7 249)	(56 291)	(24 285)	(1 870)	–	(94 577)
Exchange adjustments	162	3	679	21	5	–	870
Disposals	–	–	26 618	279	648	–	27 545
Depreciation movement for current year	(4 720)	(7 246)	(28 994)	(23 985)	(1 217)	–	(66 162)
Carrying value at end of year							
Cost	240 510	78 952	547 870	91 387	18 678	232 850	1 210 247
Accumulated depreciation	(30 794)	(15 018)	(232 920)	(61 993)	(12 051)	–	(352 776)
Net book value at end of year	209 716	63 934	314 950	29 394	6 627	232 850	857 471

[(1)] Additions include interest capitalised in accordance with IAS 23, of R9,3 million. Refer to note 21.

The information required by Schedule 4 of the Companies Act in respect of land and buildings and details of valuations are contained in the register of fixed property which is available for inspection by members or their duly authorised agents at the Group's registered office.

The land and buildings were independently valued at 30 September 2009 by The Property Partnership. The basis used for the valuation was depreciated replacement cost. There was no indication of impairment. Land and buildings are carried at cost less accumulated depreciation and accumulated impairment. It is the policy of the Group to perform valuations of land and buildings every four years.

	2011 R'000	2010 R'000
11. Deferred tax		
Balance at beginning of year	**6**	13 347
Additions through business combinations (note 2)	**(44 333)**	(9 359)
Disposal of business	**(5 132)**	–
Profit or loss movement	**(35 552)**	(2 662)
Deferred tax adjustment on foreign exchange differences taken to other comprehensive income	**(88)**	91
Revaluations of foreign currency contracts (cash flow hedges) to fair value	**(5 010)**	(1 411)
Balance at end of year	**(90 109)**	6
Analysis of deferred tax		
This balance comprises the following temporary differences:		
Trademarks	**(52 270)**	(8 617)
Property, plant and equipment	**(38 929)**	(27 117)
Prepayments	**(18 484)**	(1 946)
Provision for impairment of accounts receivable	**341**	726
Provisions	**20 609**	35 151
Revaluations of foreign currency contracts (cash flow hedges) to fair value	**(3 323)**	1 647
Other	**1 947**	162
	(90 109)	6
Disclosed as follows:		
Deferred tax asset	**3 775**	23 967
Deferred tax liability	**(93 884)**	(23 961)
12. Other financial assets		
12.1 Long-term receivables (at amortised cost)		
Black Managers Share Trust (BMT)*	**137 430**	137 430
12.2 Investments		
Fairbairn Capital Investments	**1 198**	–
Group Risk Holdings (Pty) Limited	**1 582**	1 582
Directors' valuation of unlisted investments	**2 780**	1 582
	140 210	139 012

** The maturity of the receivable from the BMT depends on how beneficiaries exercise their options from 1 January 2015 until 30 September 2024 when the scheme is due to end. Refer to note B in Annexure B for further details of the capital contribution.*

	2011 R'000	2010 R'000
13. Investment in associate		
Cost of investment	**12 200**	12 200
Impairment of investment	**(12 200)**	–
Share of post acquisition profit net of dividend received	**	**
	–	12 200

The investment in Batswadi Biotech (Pty) Limited was impaired as there is significant uncertainty on the extent and probability of future cash flows.

*** Less than R1 000.*

	Goodwill	Trademarks and market-related intangibles	Customer-related intangibles and licence agreements	Total
	R'000	R'000	R'000	R'000
14. Intangible assets				
2011				
Carrying value at beginning of year				
Cost	**93 486**	**200 215**	**171 041**	**464 742**
Accumulated amortisation	**–**	**(3 603)**	**(36 990)**	**(40 593)**
Net book value at beginning of year	**93 486**	**196 612**	**134 051**	**424 149**
Current year movements – cost				
Business combinations (note 2)	**173 960**	**149 562**	**8 965**	**332 487**
Disposal of business	**(750)**	**–**	**(18 590)**	**(19 340)**
Exchange adjustment	**(761)**	**(373)**	**(120)**	**(1 254)**
Cost movement for the year	**172 449**	**149 189**	**(9 745)**	**311 893**
Current year movements – accumulated amortisation				
Charge for the year	**–**	**(4 160)**	**(3 291)**	**(7 451)**
Exchange adjustment	**–**	**(88)**	**(29)**	**(117)**
	–	**(4 248)**	**(3 320)**	**(7 568)**
Carrying value at end of year				
Cost	**265 935**	**349 404**	**161 296**	**776 635**
Accumulated amortisation	**–**	**(7 851)**	**(40 310)**	**(48 161)**
Net balance at the end of the year	**265 935**	**341 553**	**120 986**	**728 474**
2010				
Carrying value at beginning of year				
Cost	29 106	148 023	160 689	337 818
Accumulated amortisation	–	(1 247)	(32 331)	(33 578)
Net book value at beginning of year	29 106	146 776	128 358	304 240
Current year movements – cost				
Business combinations (note 2)	66 317	52 499	10 352	129 168
Exchange adjustment	3	(307)	–	(304)
Adjustment to goodwill*	(1 940)	–	–	(1 940)
Cost movement for the year	64 380	52 192	10 352	126 924
Current year movements – accumulated amortisation				
Charge for the year	–	(2 356)	(4 659)	(7 015)
Carrying value at end of year				
Cost	93 486	200 215	171 041	464 742
Accumulated amortisation	–	(3 603)	(36 990)	(40 593)
Net balance at the end of the year	93 486	196 612	134 051	424 149

** An accrual was raised during the 2009 financial year for the deferred portion of the acquisition price for the TLC business combination which was unpaid at year-end. Subsequently, a portion of the deferred amount was not paid and reversed against goodwill in the 2010 financial year.*

The useful lives of certain of the above intangibles have been assessed as being indefinite as the economic benefits from these intangibles will not cease, while others have finite useful lives. When the useful life of the intangible is regarded as finite, the asset is amortised and when indefinite the asset is not amortised but subjected to a bi-annual impairment test.

Amortisation is included in fixed and administrative expenses in the statement of comprehensive income.

14. *Intangible assets (continued)*

Impairment testing of goodwill and other intangible assets

Goodwill acquired through business combinations and trademarks has been allocated to the following two individual reportable segments for impairment testing:

- Pharmaceuticals (Prescription and Over the Counter)
- Hospital

These segments represent the lowest level within the entity at which intangible assets are monitored for internal management purposes.

Carrying amount of goodwill and other intangibles allocated to each of the segments:

	Pharmaceuticals		Hospital		Total	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000	**2011 R'000**	2010 R'000
Carrying amount of goodwill	**253 355**	80 156	**12 580**	13 330	**265 935**	93 486
Carrying amount of other intangibles with indefinite useful lives	**249 605**	249 605	**–**	75	**249 605**	249 680
Carrying amount of other intangibles with finite useful lives	**212 294**	59 590	**640**	21 393	**212 934**	80 983
Total	**715 254**	389 351	**13 220**	34 798	**728 474**	424 149

The average remaining useful life for intangibles with finite useful lives ranges between 6 months and 15 years.

The recoverable amount of the intangible assets has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a ten-year period as management believes that products have a value in use of more than ten years and that these projections, based on past experience, are reliable.

The discount rate applied to cash flow projections is 12.3% (2010: 12.0%)

The cash flows beyond the ten-year period are extrapolated using a 0.5% growth rate (2010: 0.5%).

Key assumptions used in value in use calculations:

The calculation of value in use for both segments is sensitive to the following assumptions:

- gross margin;
- discount rates;
- raw materials price inflation;
- market share during the budget period; and
- growth rate used to extrapolate cash flows beyond the budget period.

Gross margin

Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are changed over the budget period for anticipated efficiency improvements, and estimated changes to cost of production, raw material costs and selling prices.

Discount rates

Discount rates reflect management's estimate of the risks. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, regard has been given to the yield on a ten-year government bond at the beginning of the budgeted period.

Raw materials price inflation

Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual raw material price movements have been used as an indicator of the future price movements.

Market share assumptions

These assumptions are important because, as well as using industry data for growth rates, management assesses how the Group's position, relative to its competitors, might change over the budget period. Management expects the Group's share of the market to be relatively stable over the budget period.

Growth rate estimates

The growth rate used beyond the next ten-year period is management's best estimate taking market conditions into account.

Sensitivity to changes in assumptions

With regard to the assessment of value in use, management believes that no reasonably foreseeable change in any of the above key assumptions would cause the carrying value of the intangibles to materially exceed their recoverable amounts.

	2011 R'000	2010 R'000
15. Inventories		
Raw materials	**215 941**	105 776
Work-in-progress	**32 794**	50 841
Finished goods	**615 730**	562 619
Inventory value, net of stock provision	**864 465**	719 236
Inventories are written off if aged, damaged or stolen.		
The amount of inventories written down recognised as an expense in profit and loss	**20 907**	26 821
16. Trade and other receivables		
Trade receivables	**999 598**	1 012 635
Less: Provision for credit notes	**(4 094)**	(5 866)
Less: Provision for impairment	**(2 582)**	(2 871)
	992 922	1 003 898
Prepayments	**88 769**	51 020
Derivative asset at fair value	**19 883**	–
Other receivables	**101 284**	95 475
VAT recoverable	**14 675**	8 849
Bank interest receivable	**4 662**	1 683
Sundry receivables	**81 947**	84 943
The maximum exposure to credit risk in relation to trade and other receivables	**1 202 858**	1 150 393

Details in respect of the Group's credit risk management policies are set out in Annexure E. The directors consider that the carrying amount of the trade and other receivables approximate their fair value.

As at 30 September 2011, no trade receivables were impaired and fully recognised as an expense (2010: R0,77 million). Trade debtors are impaired when the event of recoverability is highly unlikely.

Movements in the provision for impairment and credit notes were as follows:

	Individually impaired R'000	Collectively impaired R'000	Credit notes R'000	Total R'000
Balance at 1 October 2009	(549)	(2 314)	(16 117)	(18 980)
Charge for the year	(2 681)	–	(2 565)	(5 246)
Utilised during the year	230	6	6 819	7 055
Unused amounts reversed	129	2 308	5 997	8 434
At 30 September 2010	(2 871)	–	(5 866)	(8 737)
Disposal of business	**740**	**–**	**–**	**740**
Charge for the year	**(2 619)**	**–**	**(3 467)**	**(6 086)**
Utilised during the year	**2 168**	**–**	**4 612**	**6 780**
Unused amounts reversed	**–**	**–**	**627**	**627**
At 30 September 2011	**(2 582)**	**–**	**(4 094)**	**(6 676)**

	2011 R'000	2010 R'000
16. Trade and other receivables (continued)		
The maturity analysis of trade and other receivables is as follows:		
Trade receivables		
Neither past due nor impaired		
<30 days	**647 524**	690 916
31 – 60 days	**318 035**	260 587
61 – 90 days	**21 750**	38 461
Past due but not impaired		
91 - 180 days	**8 706**	9 283
>180 days	**3 583**	13 388
Total	**999 598**	1 012 635
Sundry receivables		
<30 days	**40 772**	52 596
31–60 days	**13 756**	9 475
61–90 days	**11 776**	9 277
90 + days	**15 643**	13 595
Total	**81 947**	84 943

VAT recoverable and bank interest receivable will be received within one month.
Prepayments will be recycled to profit or loss over the next 12 months.

	2011 R'000	2010 R'000
17. Cash and cash equivalents		
Cash at banks	**703 977**	1 430 917
Preference share investments	**400 000**	–
	1 103 977	1 430 917
Bank overdraft	**(395)**	–
	1 103 582	1 430 917

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Preference share investments earn dividend income at rates varying between 4,77% and 5,04%.

The fair value of cash and cash equivalents is R1 104 million (2010: R1 431 million).

There are no restrictions over any of the cash balances and all balances are available for use.

	2011 R'000	2010 R'000
18. Share capital		
18.1 Authorised[1]		
Ordinary share capital		
250 000 000 ordinary shares of 10 cents each	**25 000**	25 000
19 458 196 A shares of 10 cents each	**1 946**	1 946
6 486 065 B shares of 10 cents each	**649**	649
18.2 Issued[2]		
Ordinary share capital		
Opening balance of 173 650 918 shares (2010: 173 625 578) of 10 cents each	**17 365**	17 363
Issue of 251 633 ordinary shares (2010: 334 240) of 10 cents each	**25**	33
Issue of 19 458 196 A shares of 10 cents each	**–**	1 946
Issue of 6 486 065 B shares of 10 cents each	**–**	649
Movement in A and B treasury shares	**–**	(2 595)
Movement in ordinary treasury shares	**(502)**	(31)
	16 888	17 365

	Number of shares	
	2011	2010
18. Share capital (continued)		
18.3 Treasury shares[4]		
Shares held by the BEE participants		
– number of A shares	**19 458 196**	19 458 196
– number of B shares	**6 486 065**	6 486 065
– number of ordinary shares	**1 042 300**	308 903
Shares held by Group company		
– number of ordinary shares	**4 285 163**	–
	31 271 724	26 253 164
18.4 Reconciliation of issued shares		
Number of shares in issue	**200 155 712**	199 904 079
Number of A and B shares held by the BEE participants	**(25 944 261)**	(25 944 261)
Number of ordinary shares held by the BEE participants	**(1 042 300)**	(308 903)
Number of ordinary shares held by Group company	**(4 285 163)**	–
Net shares in issue	**168 883 988**	173 650 915

(1) Authorised share capital

The authorised share capital was increased during 2010 in terms of article 8.1 of the Memorandum of Incorporation of the Company, with the creation of:

(i) 19 458 196 automatically convertible A ordinary shares with a par value of R0,10 each; and
(ii) 6 486 065 automatically convertible B ordinary shares with a par value of R0,10 each

having the rights and privileges and being subject to terms and conditions as set out in Annexure B.

(2) Issued share capital

The following ordinary shares were issued:

(i) In various tranches, 251 633 (2010: 334 240) ordinary shares were issued to meet the obligations of the Adcock Ingram Holdings Limited Employee Share Trust (2008), refer to Annexure B;
(ii) 5 018 563 ordinary shares were bought back by the Group (2010: 308 900);
(iii) On 5 May 2010, A ordinary shares were issued to Blue Falcon Trading 69 (Pty) Limited, a company through which the Strategic Partners participating in the BEE transaction hold their equity interest in Adcock Ingram; and
(iv) On 5 May 2010, B ordinary shares were issued in terms of the BEE transaction, to the Mpho ea Bophelo Trust (Bophelo Trust) for the benefit of qualifying employees.

Terms and conditions of the A and B ordinary shares as per sections 43 and 44 of the Memorandum of Incorporation:

A and B ordinary shares rank *pari passu* with the ordinary shares, save that:

(i) these A and B ordinary shareholders shall not participate in any special dividends declared or paid by the Company, unless the respective notional outstanding loan balances become zero at any time prior to the respective release dates, in which event these A and B ordinary shares shall be entitled to participate in all special dividends declared or paid by the Company;
(ii) A and B ordinary shares shall remain certificated and shall not be listed on any stock exchange;
(iii) for so long as the ordinary shares are listed on the JSE, the rights attaching to these A and B ordinary shares may not be amended in any material respect without the prior written approval of the JSE; and
(iv) these terms and conditions my only be amended as prescribed by article 43 and 44 of the Memorandum of Incorporation of the Company.

(3) Unissued shares

The unissued shares are under the control of the directors subject to a limit of 10% of issued ordinary share capital, in terms of a general authority granted by the shareholders at the last Annual General Meeting (AGM) to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming AGM of the Company.

The Group has a share incentive trust in terms of which shares are issued and share options are granted. Refer to Annexure B. As required by IFRS and the JSE Limited, the share incentive trust has been consolidated into the Group's annual financial statements.

(4) Treasury shares

As required by IFRS, both Blue Falcon Trading 69 (Pty) Limited and the Bophelo Trust have been consolidated into the Group's annual financial statements and all A, B and ordinary shares held by them have been accounted for as treasury shares. Shares bought back and held by a Group company are also regarded as treasury shares.

	2011 R'000	2010 R'000
19. Share premium		
Balance at the beginning of the year	**1 190 290**	1 203 854
Issue of 251 633 ordinary shares (2010: 334 240)	**3 368**	4 364
Issue of 19 458 196 A shares	**–**	91 804
Movement in A and B treasury shares	**–**	(91 804)
Movement in ordinary treasury shares	**(291 427)**	(17 928)
Distribution out of share premium (81 cents per share) – refer note 9.2	**(136 943)**	–
	765 288	1 190 290

	Share-based payment reserve R'000	Cash flow hedge accounting reserve R'000	Capital redemption reserve R'000	Foreign currency translation reserve R'000	Legal reserves and other R'000	Total R'000
20. Non-distributable reserves						
Balance at 1 October 2009	54 860	(4 348)	3 919	(3 310)	26 373	77 494
Movement during the year, net of tax	272 095	3 628	–	(4 156)	–	271 567
Movement for the year	272 095	5 039	–	(4 156)	–	272 978
Tax effect of net movement on cash flow hedge	–	(1 411)	–	–	–	(1 411)
Balance at 30 September 2010	326 955	(720)	3 919	(7 466)	26 373	349 061
Movement during the year, net of tax	**5 854**	**12 882**	**–**	**3 571**	**–**	**22 307**
Movement for the year						
– discontinued operation	**(831)**	**–**	**–**	**–**	**–**	**(831)**
– continuing operations	**6 685**	**17 892**	**–**	**3 571**	**–**	**28 148**
Tax effect of net movement on cash flow hedge	**–**	**(5 010)**	**–**	**–**	**–**	**(5 010)**
Balance at 30 September 2011	**332 809**	**12 162**	**3 919**	**(3 895)**	**26 373**	**371 368**

Share-based payment reserve

The share-based payment reserve represents the accumulated charge for share options in terms of IFRS 2. The share option plans are equity-settled and include an ordinary equity scheme and the BEE scheme. Refer Annexure B.

Cash flow hedge accounting reserve

The cash flow hedge accounting reserve comprises the portion of the cumulative net change in the fair value of derivatives designated as effective cash flow hedging relationships where the hedged item has not yet affected cost of sales in the statement of comprehensive income.

Capital redemption reserve

The capital redemption reserve fund was created as a result of revaluation of shares in subsidiaries.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Legal reserves and other

This represents an unutilised merger reserve when Premier Pharmaceuticals and Adcock Ingram merged.

	2011 R'000	2010 R'000
21. Long-term borrowings		
Unsecured		
Finance leases	**7 515**	–
Loan bearing interest at a fixed rate of 9% (1)	**12 126**	13 626
Secured		
Loan bearing interest at a fixed interest rate of 15.5% (2)	**–**	98 792
Loan bearing interest at 1,25% below the bank's lending rate (3)	**15 929**	24 947
Loan bearing interest at 2,75% below the bank's lending rate (4)	**13 115**	13 115
Loan bearing interest at JIBAR(*) + 265 basis points (5)	**504 158**	194 621
Loan bearing interest at JIBAR(*) + 230 basis points (6)	**290 000**	235 516
	842 843	580 617
Less: Current portion included in short-term borrowings	**(496 032)**	(126 787)
	346 811	453 830

** JIBAR–Johannesburg Interbank Agreed Rate. On 30 September 2011: 5,575% (2010: 6,025%).*

(1) This unsecured loan bears interest at a fixed rate of 9% per annum. The loan is repayable in 36 instalments with the first instalment paid on 1 August 2010 and the final instalment payable on 1 July 2013.

(2) A secured loan bearing interest at a fixed interest rate of 15,5% per annum repaid in October 2010.

(3) This secured loan in the India Joint Venture bearing interest at 1,25% below the State Bank of Hyderabad's lending rate, currently at a rate of 14% (2010: 13%), repayable in quarterly instalments over five years with the first instalment paid in December 2008. The loan is secured by fixed assets and to the extent that fixed assets cannot cover the liability, current assets. Refer to note 10.

(4) This secured loan in the India Joint Venture bearing interest at 2,75% below the State Bank of Hyderabad's lending rate, currently at a rate of 12,25%, does not have any fixed repayment terms. The loan is secured by fixed assets and to the extent that fixed assets cannot cover the liability, current assets. Refer to note 10.

(5) A secured loan bearing interest at JIBAR +265 basis points. Interest is payable quarterly in arrears and the capital will be repaid in quarterly instalments from March 2012 with the final instalment due in December 2013. A total facility of R510 million is available and is restricted to funding the construction of a new high-volume pharmaceutical liquids manufacturing plant by Adcock Ingram Healthcare (Pty) Limited. During the year, interest of R21,5 million (2010: R3,9 million) has been capitalised to property, plant and equipment as the definition of a qualifying asset per IAS 23 has been met.

(6) A secured loan bearing interest at JIBAR +230 basis points. Interest is payable quarterly in arrears and the capital repayment is due in November 2011 in one bullet payment. A total facility of R290 million is available and is restricted to funding the capital expenditure in relation to an upgrade and refurbishment of Adcock Ingram Critical Care (Pty) Limited's manufacturing facility. During the year interest of R13,2 million (2010: R5,4 million) has been capitalised to property, plant and equipment as the definition of a qualifying asset per IAS 23 has been met. Refer to note 31.1 for changes subsequent to year-end.

Financial covenants, including a debt service cover ratio, net debt: EBITDA ratio and interest cover ratio are applicable to loans (5) and (6) and have been met during the year.

The shares in Group companies were pledged as security for loans (5) and (6).

21. *Long-term borrowings (continued)*

The undiscounted maturity profile of the Group's borrowings is as follows:

	Finance lease	Unsecured loan at fixed interest rate	Secured loan at fixed interest rate	Secured loans at variable interest rates	Total
	R'000	R'000	R'000	R'000	R'000
2011					
Capital repayments on loans					
– payable within 12 months	**3 107**	**5 901**	**–**	**487 024**	**496 032**
– payable within 12 – 24 months	**2 904**	**5 408**	**–**	**260 044**	**268 356**
– payable within 24 – 36 months	**483**	**817**	**–**	**63 020**	**64 320**
– payable thereafter	**1 021**	**–**	**–**	**13 114**	**14 135**
	7 515	**12 126**	**–**	**823 202**	**842 843**
Interest repayment on loans*					
– payable within 12 months	**687**	**778**	**–**	**43 803**	**45 268**
– payable within 12 – 24 months	**431**	**294**	**–**	**20 138**	**20 863**
– payable within 24 – 36 months	**124**	**28**	**–**	**2 913**	**3 065**
	1 242	**1 100**	**–**	**66 854**	**69 196**
2010					
Repayments of loans					
– payable within 12 months	–	4 692	98 792	23 303	126 787
– payable within 12 – 24 months	–	4 692	–	329 919	334 611
– payable within 24 – 36 months	–	4 242	–	114 977	119 219
	–	13 626	98 792	468 199	580 617
Interest repayment on loans*					
– payable within 12 months	–	1 121	1 301	48 592	51 014
– payable within 12 – 24 months	–	586	–	23 055	23 641
– payable within 24 – 36 months	–	160	–	20 937	21 097
	–	1 867	1 301	92 584	95 752

** Interest repayments have been calculated using the interest rates at the reporting dates.*

	2011	2010
	R'000	R'000
22. *Post-retirement medical liability*		
Balance at beginning of the year	**15 808**	14 298
(Released)/charged to operating profit	**(1 821)**	1 510
Balance at the end of the year	**13 987**	15 808

For more details refer to Annexure D.

Notes to the Group annual financial statements

for the years ended 30 September (continued)

	2011 R'000	2010 R'000
23. Trade and other payables		
Trade accounts payable	**583 939**	411 983
Derivative liability at fair value	**–**	3 305
Other payables	**370 137**	473 874
Accrued expenses	**247 278**	280 987
VAT payable	**7 278**	38 358
Deferred portion of purchase price of business combinations	**6 246**	20 670
Sundry payables	**109 335**	133 859
	954 076	889 162

The directors consider that the carrying amount of the trade and other payables approximates their fair value.

The maturity analysis of trade and other payables is as follows:

	2011 R'000	2010 R'000
Trade payables		
<30 days	**241 080**	344 752
31 – 60 days	**187 687**	50 562
61 – 90 days	**114 568**	10 579
90+ days	**40 604**	6 090
Total	**583 939**	411 983
Other payables		
<30 days	**188 164**	252 581
31 – 60 days	**61 747**	84 304
61 – 90 days	**22 938**	24 871
90+ days	**97 288**	115 423
Total	**370 137**	477 179
24. Cash-settled options		
Opening balance	**68 760**	26 750
Charged to operating profit – continuing operations	**10 930**	40 368
Charged to operating profit – discontinued operation	**578**	2 331
Payments made	**(13 261)**	(689)
Disposal of business	**(2 971)**	–
	64 036	68 760

For more details, please refer note to Annexure B.

	2011 R'000	2010 R'000
25. Provisions		
Leave pay	**40 551**	43 229
Bonus and incentive scheme	**2 308**	41 235
	42 859	84 464
Made up as follows:		
Leave pay provision		
Balance at beginning of year	**43 229**	35 195
Arising during the year	**12 421**	26 508
Utilised during the year	**(13 288)**	(15 576)
Unused amounts reversed	**(1 811)**	(2 898)
Balance at end of year	**40 551**	43 229
Bonus and incentive scheme		
Balance at beginning of year	**41 235**	33 557
Arising during the year	**–**	41 235
Utilised during the year*	**(38 927)**	(27 977)
Unused amounts reversed	**–**	(5 580)
Balance at end of year	**2 308**	41 235

** Payments were made during December before the business disposal.*

25. Provisions (continued)

Leave pay provision

In terms of the Group policy, employees are entitled to accumulate leave benefits not taken within a leave cycle, up to a maximum of three times the employee's annual leave allocation, limited to a maximum of 60 days. The obligation is reviewed annually. The timing of the cash flow, if any, is uncertain.

Bonus and incentive provision

Some employees in service of the Group participate in a performance-based incentive scheme and provision is made for the estimated liability in terms of set performance criteria. No provision was made for incentives, normally paid in December, as performance criteria in the current financial year have not been met.

	2011 **R'000**	2010 R'000
26. Notes to the statement of cash flows		
26.1 Operating profit before working capital changes		
Profit before taxation from continuing operations	**1 119 081**	931 311
(Loss)/profit before taxation from discontinued operation	**(24 255)**	29 453
Profit before taxation	**1 094 826**	960 764
Adjusted for:		
– impairment of investment	**12 200**	–
– amortisation of intangibles	**7 451**	7 015
– depreciation	**97 794**	94 577
– profit on disposal of property, plant and equipment	**(857)**	(221)
– loss on disposal of business	**27 737**	–
– dividend income	**(16 890)**	(10 647)
– net finance income	**(33 553)**	(21 357)
– equity share-based payment expenses	**6 685**	272 095
– (decrease)/increase in provisions	**(43 292)**	17 222
	1 152 101	1 319 448
26.2 Working capital changes		
Increase in inventories	**(163 069)**	(106 540)
Increase in trade and other receivables	**(69 845)**	(81 455)
Increase in trade and other payables	**102 717**	303 359
	(130 197)	115 364
26.3 Dividends paid		
Dividends paid to equity holders of the parent	**(177 157)**	(274 540)
Dividends paid to non-controlling shareholders	**(27 652)**	(5 344)
	(204 809)	(279 884)
26.4 Taxation paid		
Amounts unpaid at beginning of year	**(21 233)**	(29 726)
Amounts charged to the statement of comprehensive income		
– continuing operations	**(326 129)**	(308 542)
– discontinued operation	**(3 897)**	(8 994)
Movement in deferred tax	**35 552**	2 662
Adjustment in respect of businesses acquired	**2 852**	(1 465)
Adjustment in respect of business disposed	**2 516**	
Foreign currency translation reserve	**(674)**	–
Amount (overpaid)/unpaid at end of year	**(30 143)**	21 233
	(341 156)	(324 832)

	2011 R'000	2010 R'000
26. Notes to the statement of cash flows (continued)		
26.5 Acquisition of businesses, net of cash		
Property, plant and equipment	**1 347**	22 476
Intangible assets	**158 526**	62 851
Investments	**1 192**	–
Inventories	**41 561**	29 965
Trade and other receivables	**59 003**	33 465
Cash and cash equivalents	**28 719**	14 417
Deferred tax liabilities	**(44 333)**	(9 359)
Trade and other payables	**(31 834)**	(10 443)
Long-term borrowings	**(1 922)**	–
Current tax liabilities	**2 852**	(1 465)
Fair value of net assets	**215 111**	141 907
Non-controlling interests	**(14 072)**	(33 636)
Fair value of assets acquired – Adcock Ingram's share	**201 039**	108 271
Contingent consideration	**–**	(20 670)
Goodwill acquired	**173 961**	66 317
Purchase consideration	**375 000**	153 918
Cash and cash equivalents in acquired companies	**(28 719)**	(14 417)
Cash injection	**(9 000)**	–
Deferred consideration	**(8 506)**	–
Cash outflow on business combinations	**328 775**	139 501
26.6 Increase in other financial assets		
Increase in Fairbain Capital Investments	**(6)**	–
Cost of acquisition of 5,3% interest in Group Risk Holdings (Pty) Limited	**–**	(1 582)
Decrease in Black Managers Share Trust	**–**	607
	(6)	(975)

27. Interest in joint ventures

There are no contingent liabilities or other commitments relating to the joint ventures.

27.1 Adcock Ingram Limited India

Adcock Ingram Holdings Limited has a 49,9% interest in Adcock Ingram Limited India, a jointly controlled entity which is involved in the manufacturing of pharmaceutical products.

The share of the assets, liabilities, income and expenses of the jointly controlled entity at 30 September and for the years then ended, which are included in the consolidated financial statements, are as follows:

	2011 R'000	2010 R'000
Non-current assets	**73 617**	71 134
Current assets	**46 355**	46 997
Total assets	**119 972**	118 131
Non-current liabilities	**13 785**	19 428
Current liabilities	**54 329**	55 360
Total liabilities	**68 114**	74 788
Revenue	**102 307**	105 692
Turnover	**102 157**	105 434
Cost of sales	**(72 315)**	(74 471)
Gross profit	**29 842**	30 963
Selling and distribution costs	**(347)**	(519)
Administrative expenses	**(11 517)**	(12 203)
Operating profit	**17 978**	18 241
Finance income	**150**	258
Finance costs	**(3 471)**	(4 132)
Profit before taxation	**14 657**	14 367
Taxation	**(4 854)**	(4 916)
Net profit for the year	**9 803**	9 451

27. *Interest in joint ventures (continued)*

27.2 National Renal Care (Pty) Limited

Adcock Ingram Critical Care (Pty) Limited has a 100% interest in Dilwed Investments (Pty) Limited, which in turn has a 50% interest in National Renal Care (Pty) Limited, a jointly controlled entity which supplies renal healthcare services.

The share of the assets, liabilities, income and expenses of the jointly controlled entity at 30 September and for the years then ended, which are included in the consolidated financial statements, are as follows:

	2011 R'000	2010 R'000
Non-current assets	**37 127**	34 233
Current assets	**60 661**	43 761
Total assets	**97 788**	77 994
Non-current liabilities	**12 065**	13 596
Current liabilities	**50 030**	33 667
Total liabilities	**62 095**	47 263
Revenue	**244 045**	203 444
Turnover	**242 558**	202 759
Cost of sales	**(213 071)**	(174 216)
Gross profit	**29 487**	28 543
Administrative expenses	**(13 199)**	(10 932)
Operating profit	**16 288**	17 611
Finance income	**1 487**	685
Finance costs	**(992)**	(410)
Profit before taxation	**16 783**	17 886
Taxation	**(4 321)**	(4 652)
Net profit for the year	**12 462**	13 234

27.3 Thembalami Pharmaceuticals (Pty) Limited

Adcock Ingram Holdings Limited has a 50% interest in Thembalami Pharmaceuticals (Pty) Limited, a jointly controlled entity which is dormant. At September 2011 and 2010 the shareholders' deficit was R2 698 642, of which R1 349 321 relates to the Group.

28. *Contingent liabilities*

The Group provides surety for the obligations of Adcock Ingram Healthcare (Pty) Limited and Adcock Ingram Critical Care (Pty) Limited.

29. *Commitments and contingencies*

29.1 Operating lease commitments

The Group has entered into the following material lease agreements in South Africa for premises used as offices and distribution centres for pharmaceutical products. These leases represent more than 95% of the lease commitments of the Group.

	New Road Lease 1	15th Road Lease 2	Durban Lease 3
Initial lease period (years)	10	3	12
Ending	30 June 2018	31 May 2012	31 October 2022
Renewal option period (years)	10	2	N/A
Ending	30 June 2028	31 May 2014	
Escalation %	Only after year 8	9%	8,5%

	2011 R'000	2010 R'000
29. Commitments and contingencies (continued)		
29.1 Operating lease commitments (continued)		
Future minimum rentals payable under all non-cancellable operating leases as at 30 September are as follows:		
Within one year	**24 695**	24 068
After one year but not more than five years	**80 957**	78 736
More than five years	**90 853**	105 131
	196 505	207 935
29.2 Capital commitments		
Commitments contracted for		
Within one year	**292 983**	503 362
Approved but not contracted for	**120 845**	154 992
Within one year	**120 845**	41 632
Between one and two years	**–**	113 360
	413 828	658 354

These commitments relate to tangible assets.

29.3 Guarantees

The Group has provided guarantees to the amount of R26,4 million at 30 September 2011 (2010: R33,8 million).

30. Related parties

Related party transactions exist between the Company, fellow subsidiaries and the holding company. All purchasing and selling transactions with related parties are concluded at arm's length and are eliminated for Group purposes.

Payments to directors and key management are disclosed in notes 5.3 and 5.4.

31. Subsequent events

31.1 Short-term borrowings

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

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

31.2 ADDvance

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

Company statements of comprehensive income

for the years ended 30 September

	Note	2011 R'000	2010 R'000
Revenue	B	**280 957**	334 677
Operating expenses		**(28 149)**	(805)
Finance income	C.1	**72 993**	36 237
Finance costs	C.2	**(57 269)**	(21 280)
Dividend income	B	**207 964**	298 440
Profit before taxation and abnormal item		**195 539**	312 592
Abnormal item	D	**–**	(269 000)
Profit before taxation		**195 539**	43 592
Taxation	E	**(5 752)**	(4 153)
Profit for the year		**189 787**	39 439
Other comprehensive income		**–**	–
Total comprehensive income for the year, net of tax		**189 787**	39 439

Company statement of changes in equity

for the years ended 30 September

	Note	Issued share capital R'000	Share premium R'000	Retained income R'000	Non-distributable reserves R'000	Total R'000
As at 1 October 2009		17 363	1 203 854	79 537	286	1 301 040
Share issue		2 628	96 168			98 796
Share-based payment expense					269 000	269 000
Total comprehensive income				39 439		39 439
Profit for the year				39 439		39 439
Other comprehensive income				–		–
Dividends	F.1			(294 776)		(294 776)
Balance at 30 September 2010		**19 991**	**1 300 022**	**(175 800)**	**269 286**	**1 413 499**
Share issue	K2/L	**25**	**3 368**			**3 393**
Total comprehensive income				**189 787**		**189 787**
Profit for the year				**189 787**		**189 787**
Other comprehensive income				**–**		**–**
Dividends	F.1			**(203 936)**		**(203 936)**
Distribution out of share premium	F.2		**(162 017)**			**(162 017)**
Balance at 30 September 2011		**20 016**	**1 141 373**	**(189 949)**	**269 286**	**1 240 726**

Company statements of financial position

at 30 September

	Note	2011 R'000	2010 R'000
Assets			
Investments	G	**3 368 468**	3 399 923
Amounts owing by Group companies	I.1	**794 158**	430 137
Non-current assets		**4 162 626**	3 830 060
Cash and cash equivalents	H	**27 856**	1 295 242
Other receivables	J	**1 081**	382
Taxation receivable	P.3	**108**	–
Amounts owing by Group companies	I.1	**–**	58 033
Current assets		**29 045**	1 353 657
Total assets		**4 191 671**	5 183 717
Equity and liabilities			
Capital and reserves			
Issued share capital	K	**20 016**	19 991
Share premium	L	**1 141 373**	1 300 022
Non-distributable reserves	M	**269 286**	269 286
Retained income		**(189 949)**	(175 800)
Total equity		**1 240 726**	1 413 499
Long-term borrowings	N	**315 099**	430 137
Amounts owing to Group companies	I.2	**2 155 917**	2 155 917
Non-current liabilities		**2 471 016**	2 586 054
Bank overdraft	H	**–**	1 177 127
Short-term borrowings	N	**479 059**	–
Other payables	O	**870**	6 680
Taxation payable	P.3	**–**	352
Amounts owing to Group companies	I.2	**–**	5
Current liabilities		**479 929**	1 184 164
Total equity and liabilities		**4 191 671**	5 183 717

Company statements of cash flows

for the years ended 30 September

	Note	2011 R'000	2010 R'000
Cash flows from operating activities			
Operating profit before working capital changes	P.1	**(215)**	(805)
Working capital changes	P.2	**(6 509)**	(26 877)
Cash utilised in operations		**(6 724)**	(27 682)
Finance income	C.1	**72 993**	36 237
Finance costs	C.2	**(57 269)**	(21 280)
Dividend income	B	**207 964**	298 440
Dividends paid	F.1	**(203 936)**	(294 776)
Taxation paid	P.3	**(6 212)**	(1 035)
Net cash inflow/(outflow) from operating activities		**6 816**	(10 096)
Cash flows from investing activities			
Decrease in investments	P.4	**–**	78 813
Net cash inflow from investing activities		**–**	78 813
Cash flows from financing activities			
Proceeds from issue of share capital		**3 393**	98 796
Proceeds on disposal of investment	A	**77 827**	–
Distribution out of share premium	F.2	**(162 017)**	–
Increase in amounts owing by Group companies		**(380 299)**	(432 577)
Increase in borrowings		**364 021**	430 137
Net cash (outflow)/inflow from financing activities		**(97 075)**	96 356
Net (decrease)/increase in cash and cash equivalents		**(90 259)**	165 073
Cash and cash equivalents at beginning of year		**118 115**	(46 958)
Cash and cash equivalents at end of year	H	**27 856**	118 115

	2011 R'000	2010 R'000
A. ***Disposal of investment***		
On 31 January 2011, Adcock Ingram Holdings Limited disposed of its 74% holding in The Scientific Group (Pty) Limited.		
Consideration received	**77 827**	
Less:		
Investment	**(31 455)**	
Intercompany balance settled	**(74 306)**	
Loss on sale included in operating expenses	**(27 934)**	
B. ***Revenue***		
– Finance income	**72 993**	36 237
– Dividend income	**207 964**	298 440
	280 957	334 677
C. ***Finance income and finance costs***		
C.1 Finance income		
– Bank	**14 440**	12 410
– Inter group interest	**58 553**	23 827
	72 993	36 237
C.2 Finance costs		
– Borrowings	**57 269**	21 280
D. ***Abnormal item***		
Share-based payment expense	**–**	269 000
Abnormal items are items of income and expenditure which are not directly attributable to normal operations or where their size or nature are such that additional disclosure is considered appropriate. The abnormal item in the prior year relates to the once-off share-based payment expense in respect of the Black Economic Empowerment transaction approved by shareholders on 9 April 2010.		
E. ***Taxation***		
South African taxation		
Current income tax		
– current year	**4 659**	4 153
Secondary Tax on Companies	**525**	–
Dividend distribution tax	**568**	–
Total tax charge	**5 752**	4 153
Reconciliation of the taxation rate	**%**	%
Effective rate	**2,9**	9,5
Adjusted for:		
Exempt income/allowances	**29,3**	191,5
Non-deductible expenses	**(4,0)**	(173,0)
Secondary Tax on Companies	**(0,2)**	–
South African normal tax rate	**28,0**	28,0

Notes to the Company annual financial statements

for the years ended 30 September (continued)

	2011	2010
	R'000	R'000
F. Distributions paid and proposed		
F.1 Dividends		
Declared and paid during the year		
Dividends on ordinary shares		
Final dividend for 2010: 102 cents (2009: 80 cents)	**203 936**	139 112
Interim dividend for 2010: 78 cents	**–**	155 664
Total declared and paid	**203 936**	294 776
F.2 Distribution out of share premium		
Declared and paid during the year		
Distribution on ordinary shares		
Interim distribution for 2011: 81 cents	**162 017**	–
F.3 Proposed for approval at the Annual General Meeting		
Distribution on ordinary shares		
Final dividend for 2010: 102 cents per share	**–**	203 902
Final distribution for 2011: 106 cents per share	**204 163**	–
	204 163	203 902

In terms of current legislation, the proposed distribution would not result in a Secondary Tax on Companies liability.

	2011 Effective holding	2010 Effective holding	**2011**	2010
	%	%	**R'000**	R'000
G. Investments				
Adcock Ingram Limited	**100**	100	**2 130 587**	2 130 587
Adcock Ingram Healthcare (Pty) Limited	**100**	100	**815 390**	815 390
Adcock Ingram Intellectual Property (Pty) Limited	**100**	100	**104 000**	104 000
Adcock Ingram Critical Care (Pty) Limited	**100**	100	**284 979**	284 979
The Scientific Group (Pty) Limited [(1)]	**–**	74	**–**	31 455
Adcock Ingram Limited India	**49,9**	49,9	**31 930**	31 930
Adcock Ingram International (Pty) Limited	**100**	100	*****	*
Thembalani Pharmaceuticals (Pty) Limited	**50**	50	*****	*
Group Risk Holdings (Pty) Limited	**5,3**	5,3	**1 582**	1 582
			3 368 468	3 399 923

[(1)] Refer to note A.

** Less than R1 000.*

	2011	2010
H. Cash and cash equivalents		
Cash at banks	**27 856**	1 295 242
Bank overdraft	**–**	(1 177 127)
	27 856	118 115

	2011 R'000	2010 R'000
I. *Amounts owing by/(to) Group companies*		
I.1 Amounts owing by Group companies		
Included in current assets	–	58 033
The Scientific Group (Pty) Limited	–	13 313
Adcock Ingram Limited India	–	253
Tender Loving Care – Hygienic, Cosmetic and Baby Products (Pty) Limited	–	17 626
These loans were unsecured, interest free and had no fixed terms of repayment.		
The Scientific Group (Pty) Limited	–	26 841
This loan was unsecured bearing interest at prime less 2%. The loan had no fixed terms of repayment.		
Included in non-current assets	**794 158**	430 137
Adcock Ingram Critical Care (Pty) Limited	**290 000**	235 516
A secured loan, bearing interest at JIBAR* plus 230 basis points. Interest is payable quarterly in arrears and the capital repayment is due in November 2011 in one bullet payment. A total facility of R290 million is available and is restricted to funding the capital expenditure in relation to an upgrade and refurbishment of Adcock Ingram Critical Care (Pty) Limited's manufacturing facility.		
Adcock Ingram Healthcare (Pty) Limited	**504 158**	194 621
A secured loan, bearing interest at JIBAR* plus 265 basis points. Interest is payable quarterly in arrears and the capital will be repaid in quarterly instalments from March 2012 with the final instalment due in the last quarter of the 2013 calendar year. A total facility of R510 million is available and is restricted to funding the construction of a new high-volume pharmaceutical liquids manufacturing plant by Adcock Ingram Healthcare (Pty) Limited.		
** JIBAR–Johannesburg Interbank Agreed Rate.*		
I.2 Amounts owing to Group companies		
Included in current liabilities		
Adcock Ingram Healthcare (Pty) Limited	–	5
Included in non-current liabilities		
Adcock Ingram Limited	**2 155 917**	2 155 917
The loans are unsecured, interest free and have no fixed terms of repayment.		
J. *Other receivables*		
Bank interest receivable	**1 081**	382
K. *Share capital*		
K.1 Authorised [(1)]		
Ordinary share capital		
250 000 000 ordinary shares of 10 cents each	**25 000**	25 000
19 458 196 A shares of 10 cents each	**1 946**	1 946
6 486 065 B shares of 10 cents each	**649**	649
K.2 Issued [(2)]		
Ordinary share capital		
Opening balance of 199 904 081 shares (2010: 173 639 830) of 10 cents each	**19 991**	17 363
Issue of 248 030 ordinary shares (2010: 334 240) of 10 cents each	**25**	33
Issue of 19 458 196 A shares of 10 cents each	–	1 946
Issue of 6 486 065 B shares of 10 cents each	–	649
	20 016	19 991

K. *Share capital (continued)*

(1) Authorised share capital

The authorised share capital was increased during the previous year in terms of article 8.1 of the Memorandum of Incorporation, with the creation of:

(i) 19 458 196 automatically convertible A ordinary shares with a par value of R0,10 each; and

(ii) 6 486 065 automatically convertible B ordinary shares with a par value of R0,10 each.

(2) Issued share capital

The following ordinary shares were issued during the year:

(i) In various tranches, 251 633 (2010: 334 240) ordinary shares were issued to meet the obligations of Adcock Ingram Holdings Limited Employee Share Trust (2008).

(ii) On 5 May 2010, A ordinary shares were issued to Blue Falcon Trading 69 (Pty) Limited, a company through which the Strategic Partners participating in the BEE transaction hold their equity interest in Adcock Ingram;

(iii) On 5 May 2010, B ordinary shares were issued in terms of the BEE transaction, to the Mpho ea Bophelo Trust for the benefit of qualifying employees.

Terms and conditions of the A and B ordinary shares as per sections 43 and 44 of the Memorandum of Incorporation:

A and B ordinary shares rank *pari passu* with the ordinary shares, save that:

(i) these A and B ordinary shareholders shall not participate in any special dividends declared or paid by the Company, unless the respective notional outstanding loan balances become zero at any time prior to the respective release dates, in which event these A and B ordinary shares shall be entitled to participate in all special dividends declared or paid by the Company;

(ii) A and B ordinary shares shall remain certificated and shall not be listed on any stock exchange;

(iii) so long as the ordinary shares are listed on the JSE, the rights attaching to these A and B ordinary shares may not be amended in any material respect without the prior written approval of the JSE; and

(iv) these terms and conditions may only be amended as prescribed by article 43 and 44 of the Memorandum of Incorporation of the Company.

(3) Unissued shares

The unissued shares are under the control of the directors subject to a limit of 10% of issued ordinary share capital, in terms of a general authority granted by the shareholders at the last annual general meeting (AGM) to allot and issue them on such terms and conditions and at such times as they deem fit. This authority expires at the forthcoming AGM of the Company.

	2011	2010
	R'000	R'000
L. Share premium		
Balance at beginning of the year	**1 300 022**	1 203 854
Issue of 248 030 ordinary shares (2010: 334 240)	**3 368**	4 364
Issue of 19 458 196 A shares	**–**	91 804
Capital distribution out of share premium (81 cents per share)	**(162 017)**	–
	1 141 373	1 300 022

	Share-based payment reserve R'000	Other reserves R'000	Total R'000
M. Non-distributable reserves			
Balance at 1 October 2009	–	286	286
Movement during the year	269 000	–	269 000
Balance at 30 September 2010	269 000	286	269 286
Movement during the year	**–**	**–**	**–**
Balance at 30 September 2011	**269 000**	**286**	**269 286**

Notes to the Company annual financial statements

for the years ended 30 September (continued)

	2011 R'000	2010 R'000
N. *Long-term borrowings*		
A secured loan bearing interest at JIBAR plus 230 basis points. Interest is payable quarterly in arrears and the capital repayment is due in November 2011 in one bullet payment. A total facility of R290 million is available.	**290 000**	235 516
A secured loan bearing interest at JIBAR plus 265 basis points. Interest is payable quarterly in arrears and the capital will be repaid in quarterly instalments from March 2012 with the final instalment due in the last quarter of the 2013 calendar year. A total facility of R510 million is available.	**504 158**	194 621
	794 158	430 137
Less: Current portion included in short-term borrowings	**(479 059)**	–
	315 099	430 137
Capital repayment on loans		
– payable within 12 months	**479 059**	–
– payable within 12 – 24 months	**252 079**	322 014
– payable within 24 – 36 months	**63 020**	86 498
– payable thereafter	**–**	21 625
	794 158	430 137
Interest repayment on loans*		
– payable within 12 months	**44 032**	36 490
– payable within 12 – 24 months	**20 368**	14 877
– payable within 24 – 36 months	**3 143**	16 883
	67 543	68 250
** Interest repayments have been calculated using the interest rates at the reporting dates.*		
O. *Other payables*		
Interest accrued	**461**	6 451
Other	**409**	229
	870	6 680
P. *Notes to the statement of cash flows*		
P.1 Operating profit before working capital changes		
Profit before taxation	**195 539**	43 592
Adjusted for:		
– loss on sale of investment (note A)	**27 934**	–
– dividend income	**(207 964)**	(298 440)
– net finance income	**(15 724)**	(14 957)
– equity share-based payment expense	**–**	269 000
	(215)	(805)
P.2 Working capital changes		
(Increase)/decrease in other receivables	**(698)**	1 486
Decrease in other payables	**(5 811)**	(28 363)
	(6 509)	(26 877)
P.3 Taxation paid		
Amounts (unpaid)/overpaid at beginning of year	**(352)**	2 766
Amounts charged to the statement of comprehensive income	**(5 752)**	(4 153)
Amount (overpaid)/unpaid at end of year	**(108)**	352
	(6 212)	(1 035)
P.4 Decrease in investments		
Cost of acquisition of 5,3% interest in Group Risk Holdings (Pty) Limited	**–**	(1 582)
Disposal of TLC within the Group	**–**	80 395
	–	78 813

Notes to the Company annual financial statements

for the years ended 30 September (continued)

	2011 R'000	2010 R'000
Q. Related parties		
Related party transactions exist between the Company and other subsidiaries within the Adcock Ingram Group. All transactions with related parties are concluded at arm's length.		
The following related party transactions occurred during the years ended 30 September		
Interest received		
Adcock Ingram Healthcare (Pty) Limited	**34 564**	8 003
Adcock Ingram Critical Care (Pty) Limited	**23 136**	13 277
The Scientific Group (Pty) Limited	**852**	2 547
Dividends received		
Adcock Ingram Healthcare (Pty) Limited	**11 382**	–
Adcock Ingram Limited	**59 033**	6 995
Adcock Ingram Critical Care (Pty) Limited	**221**	139 112
Adcock Ingram Intellectual Property (Pty) Limited	**100 000**	148 670
The Scientific Group (Pty) Limited	**33 300**	–
Adcock Ingram Limited India	**4 028**	3 663
Dividends paid		
Adcock Ingram Limited	**(3 471)**	–
Blue Falcon Trading 69 (Pty) Limited	**(20 074)**	–
Mpho ea Bophelo Trust	**(6 705)**	–

R. Financial instruments

Financial risk management objectives and policies

The Company's principal financial liabilities comprise borrowings and other payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Company has various financial assets such as other receivables and cash.

The main risks arising from the Company's financial instruments are interest rate, credit and liquidity. The Board of directors reviews and agrees policies for managing each of these risks, which are summarised in Annexure E.

Annexure A – Segment report

The principal segments of the Group have been identified by grouping similar-type products. The Group has three main reportable segments. The financial information of the Group's reportable segments is reported to key management for purposes of making decisions about allocating resources to the segment and assessing its performance.

The Group has the following three reportable operating segments for financial performance purposes:

- Over the Counter, which comprises pharmaceutical products available without prescription as well as personal care products
- Prescription, which comprises products available on prescription only
- Hospital Products

No geographical segments are reported as the Group operates mainly in South Africa and the international operations do not meet the thresholds for reportable segments in terms of *IFRS 8 Operating Segments*.

Segment figures for management purposes equal the disclosures made in the segment report.

No operating segments have been aggregated to form the above reportable operating segments.

Group financing (including finance costs and finance income) and income taxes are managed on a central basis and are not allocated to operating segments.

	2011	2010
	R'000	R'000
Statement of comprehensive income		
Turnover		
Continuing operations:		
Over the Counter	**1 734 666**	1 427 291
Prescription	**1 646 265**	1 666 373
Pharmaceuticals	**3 380 931**	3 093 664
Hospital Products	**1 072 636**	1 036 423
	4 453 567	4 130 087
Discontinued operation:		
Hospital Products	**90 103**	310 567
	4 543 670	4 440 654
Impairment losses		
Hospital Products	**12 200**	–
Operating profit		
Continuing operations:		
Over the Counter	**615 282**	407 082
Prescription	**315 849**	540 440
Pharmaceuticals	**931 131**	947 522
Hospital Products	**137 507**	220 785
	1 068 638	1 168 307
Discontinued operation:		
Hospital Products	**4 528**	31 995
	1 073 166	1 200 302

Annexure A – Segment report

(continued)

As the assets and liabilities of the Over the Counter and Prescription products are integrated and managed in the Pharmaceutical division, the Group regards this as a single primary business segment for statement of financial position purposes and therefore has the following reportable segments for this purpose:

– Pharmaceuticals
– Hospital Products

	2011	2010[1]
	R'000	R'000
Statement of financial position		
Total assets		
Pharmaceuticals	**4 675 621**	3 653 871
Hospital Products	**559 839**	874 767
	5 235 460	4 528 638
Current liabilities (excluding bank overdrafts)		
Pharmaceuticals	**1 199 491**	880 026
Hospital Products	**357 512**	182 849
	1 557 003	1 062 875
Capital expenditure[2]		
Continuing operations:		
Pharmaceuticals	**292 080**	192 796
Hospital Products	**131 520**	127 485
	423 600	320 281
Discontinued operation:		
Hospital Products	**9 379**	12 781
	432 979	333 062

[1] The prior year figures have been adjusted to exclude the discontinued operation.

[2] Capital expenditure consists of additions to property, plant and equipment, but excludes additions to intangible assets.

	2011	2010[1]
Other		
Depreciation and amortisation		
Continuing operations:		
Pharmaceuticals	**64 098**	51 410
Hospital Products	**37 269**	40 050
	101 367	91 460
Discontinued operation:		
Hospital Products	**3 878**	10 132
	105 245	101 592

Please refer to Annexure H for the *pro forma* segment report.

Annexure B – Share-based payment plans

A *General employee share-option plan*

Certain employees were entitled to join the general employee share-option plan, based on merit, when the Group was still part of the Tiger Brands Group. Options were issued annually by the Tiger Brands Limited Board of directors.

Options vest as follows:

- a third after three years;
- a third after four years; and
- a third after five years.

The exercise price was determined in accordance with the rules of the scheme.

From January 2006, the option plan rules were changed from being an equity-settled scheme to a cash-settled scheme. In addition to any options granted by the Tiger Brands Limited Board of directors, options under the cash-settled scheme have also been issued annually by the Adcock Ingram Board of directors.

The expense recognised for employee services received during the year to 30 September 2011 is R10,9 million (2010: R40,4 million).

Equity-settled

The following table illustrates the number and weighted average offer prices (WAOP) of and movements in Adcock Ingram share options during the year. No additional equity shares were granted during this year.

	2011		2010	
	Number	**WAOP**	Number	WAOP
Outstanding at the beginning of the year	**1 777 730**	**13,80**	2 115 370	13,70
Exercised and paid in full[1]	**(245 433)**	**13,68**	(334 240)	13,16
Forfeited	**(1 700)**	**8,96**	(3 400)	22,60
Outstanding at the end of the year[2]	**1 530 597**	**13,82**	1 777 730	13,80
Vested and exercisable at the end of the year	**1 530 597**	**13,82**	1 774 330	13,78

[1] *The weighted average share price at the date of exercise, for the options exercised is R62,46 (2010: R56,30).*

[2] *Included within this balance are options over 322 133 shares (2010: 384 866 shares) that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.*

	2011	2010
The weighted average remaining contractual life for the share options outstanding at year-end	**1,88 years**	2.88 years
The range of offer prices for options outstanding at the end of the year	**R9,70 – R28,33**	R8,96 – R28,33

Share options were fair valued using a Black-Scholes model. The observable volatility in the market was the basis upon which the options were valued.

Loans to the amount of R592 050 relating to Adcock Ingram employees were outstanding at the end of the year (2010: R931 763).

Cash-settled

The following table illustrates the number and weighted average offer prices (WAOP) of and movements in Adcock Ingram share options during the year.

	2011		2010	
	Number	**WAOP**	Number	WAOP
Outstanding at the beginning of the year	**4 130 583**	**37,30**	3 703 049	33,85
Granted during the year	**862 865**	**62,29**	860 713	51,12
Forfeited during the year	**(185 898)**	**42,63**	(345 967)	35,93
Disposal of business	**(173 616)**	**37,90**	–	–
Exercised during the year	**(474 553)**	**32,86**	(87 212)	32,64
Outstanding at the end of the year	**4 159 381**	**42,67**	4 130 583	37,30
Vested and exercisable at the end of the year	**329 863**	**33,33**	378 620	32,68

Annexure B – Share-based payment plans

(continued)

		2011	2010
A	*General employee share-option plan (continued)*		
	Cash-settled (continued)		
	The weighted average remaining contractual life for the share options outstanding at year-end	**3,58 years**	3,83 years
	The range of offer prices for options outstanding at the end of the year	**R28,27 – R62,29**	R28,27 – R51,12
	The carrying amount of the liability relating to the cash-settled options at year-end (R million)	**64,04**	68,76

Share options were valued based on the historical volatility of the share price of companies in the same sector over the expected lifetime of each option, as the Company had a short trading history. The valuation is measured at fair value (excluding any non-market vesting conditions) and is the sum of the intrinsic value plus optionality. The fair value of each option is estimated using an explicit finite-difference option pricing model. All options are valued with a European expiry profile, i.e. with a single exercise date at maturity.

B *Black Managers Share Trust*

In terms of the Tiger Brands Limited BEE transaction implemented on 17 October 2005, 4 381 831 Tiger Brands shares were acquired by the Tiger Brands Black Managers Trust. These shares were acquired by means of capital contributions made by Adcock Ingram and Tiger Brands operating subsidiaries respectively. Allocation of vested rights to these shares was made to 435 black managers of the Tiger Brands Group (including the Adcock Ingram Group). The allocation of vested rights entitles beneficiaries to receive Tiger Brands shares (after making capital contributions to the Black Managers Trust) at any time after the defined lock-in period, i.e. from 1 January 2015. These vested rights are non-transferable.

From 1 January 2015, the beneficiaries may exercise their vested rights, in which event the beneficiary may:

- Instruct the trustees to sell all of their shares and distribute the proceeds to them, net of the funds required to pay the capital contributions, taxation (including employees' tax), costs and expenses;
- Instruct the trustees to sell sufficient shares to fund the capital contributions, pay the taxation (including employees' tax), costs and expenses and distribute to them the remaining shares to which they are entitled; or
- Fund the capital contributions, taxation (including employees' tax), costs and expenses themselves and receive the shares to which they are entitled.

	2011	2010
The (income)/expense recognised for employee services received during the year (R'million)	**(0,1)**	3,1
Number of participation rights allocated to Adcock Ingram employees at year-end	**884 400**	998 100
The weighted average remaining contractual life for the share options outstanding at year-end	**3,25 years**	4,25 years

No weighted average exercise price has been calculated as there were no options exercised.

Participation rights were valued using the Monte-Carlo simulation approach to estimate the average, optimal pay-off of the participation rights using 5 000 permutations. The pay-off of each random path was based on:

- The projected Tiger Brands/Adcock Ingram share price;
- Outstanding debt projections; and
- Optimal early exercise conditions.

C *Black Economic Empowerment (BEE) transaction*

Adcock Ingram entered into a BEE transaction on 9 April 2010, as part of its committed efforts to achieve the objectives set out in the broad-based Black Economic Empowerment Codes of Good Practice with the intention to embrace broad-based equity participation as a key transformation initiative.

BEE participants

The entities which participated in the transaction are:

- The strategic partners, who collectively participate through a single investment vehicle, namely Blue Falcon Trading 69 (Pty) Limited (Blue Falcon); and
- Qualifying employees, who participate through the Mpho ea Bophelo Trust (Bophelo Trust).

Blue Falcon's shareholders are as follows:

- Kagiso Strategic Investments III (Pty) Limited (62,9%)
- Kurisani Youth Development Trust (26,6%)
- Mookodi Pharma Trust (10,5%)

Estimated economic costs

The total value of the transaction was R1,321 billion, based on the 10-day VWAP of R50,91 per ordinary share on the JSE as at the close of trade on Thursday, 19 November 2009, being the date when the Memorandum of Understanding was signed.

The economic cost of implementing the transaction is approximately R370 million. This figure was calculated based on the requirements of IFRS and includes transaction costs as well as the grant to the Bophelo Trust.

Annexure B – Share-based payment plans
(continued)

C Black Economic Empowerment (BEE) transaction (continued)

IFRS 2 sets out the basis for calculating the economic cost shown above and the valuation uses the following key inputs or assumptions:
- The Black-Scholes model for valuing options;
- The actual or likely conversion dates attached to the A and B ordinary shares; and
- Using available open-market data, estimated expected future ordinary share prices as determined using option pricing models and an estimation of the future dividends at given dates.

These calculations derive an expected future cost associated with the transaction that is then discounted to the present.
The once-off expense recognised for the strategic partners during the prior year amounted to R269 million (refer note 6).
The expense recognised for employee services during the year amounts to R6,8 million after allocations were made to staff on 31 March 2011.

The following table illustrates the movement in units issued to employees during the year.

	2011
	Number
Outstanding at the beginning of the year	–
Granted during the year	**1 031 800**
Forfeited during the year	**(43 400)**
Outstanding at the end of the year	**988 400**
Available for future distribution to qualifying employees	**5 497 665**

Transaction funding

The transaction was implemented through a specific issue of A and B ordinary shares (refer note 18), which constitute 13% of Adcock Ingram's total issued shares after their issue and was financed by way of:
- An equity contribution of R93,75 million by Blue Falcon;
- An upfront discount of R66 million to the BEE participants;
- A grant of R0,65 million by Adcock Ingram to the Bophelo Trust; and
- Notional vendor funding of R1,161 billion provided by Adcock Ingram

which has the following salient characteristics:
- No recourse to Adcock Ingram;
- No impact on Adcock Ingram's credit facilities nor any requirement for the approval of Adcock Ingram's existing financiers; and
- No cash flow implications for Adcock Ingram.

The notional value of each A and B ordinary share was deemed to be R48,36, being the 10-day VWAP less a 5% discount.

The mechanics of the notional vendor finance structure

The mechanics of the notional vendor finance structure essentially result in the following:
- The specific issue of the A and B ordinary shares equates to 13% of Adcock Ingram's issued share capital;
- The repurchase at par value of repurchase shares from the BEE participants;
- The A and B ordinary shares shall automatically convert into ordinary shares at the end of 10 years for Blue Falcon and seven years for the Bophelo Trust;
- Upon conversion of the A and B ordinary shares into ordinary shares in accordance with their terms, Adcock Ingram will procure that those ordinary shares that are not repurchased by Adcock Ingram are listed on the JSE.

Key terms and contractual obligations

The key terms of the A and B ordinary shares and the key contractual obligations of the holders of A and B ordinary shares are as follows:
- Adcock Ingram will have the right to repurchase all or some of these shares at the end of the respective transaction terms in accordance with the call option formula.
- These shares will not be listed but will be considered in determining a quorum and will be entitled to vote on any or all resolutions proposed at general/annual general meetings.
- The shares will automatically convert into ordinary shares at the end of the respective transaction terms.
- The shares will be entitled to ordinary dividends and dividends in specie *pari passu* with the ordinary shares.
- During the lock-in period, Blue Falcon will be entitled to retain 15% of the ordinary dividends received by it in respect of the A ordinary shares. The Bophelo Trust will not be entitled to retain any of the ordinary dividends received in respect of the B ordinary shares.
- The balance of the ordinary dividends received by Blue Falcon and all ordinary dividends received by the Bophelo Trust, will on a compulsory basis be used, within a period of 30 business days after receipt, to purchase ordinary shares.
- 100% of the dividends received on the ordinary shares compulsorily acquired by Blue Falcon and the Bophelo Trust must likewise be utilised to purchase ordinary shares.
- All such ordinary shares compulsorily acquired will also be subject to the call option, to the extent required.
- Blue Falcon may deal with any dividends in specie received as it deems fit while the Bophelo Trust will hold any in specie dividends received for the benefit of the beneficiaries.
- A and B ordinary shares and compulsorily acquired ordinary shares will not be entitled to receive special dividends until such time as the notional loan outstanding has reduced to zero.
- However, an equivalent amount of the special dividends which would otherwise have been received by the BEE participants shall be offset against the notional outstanding loan with effect from the date on which such special dividends are paid to ordinary shareholders.

Annexure C – Defined benefit plan

The Company and its subsidiaries contribute to a retirement contribution plan for all employees. These contributions are expensed. In addition, the Company and its subsidiaries contribute to a retirement benefit fund in respect of certain retirees. The defined benefit plan is funded. The assets of the funds are held in independent trustee administered funds, administered in terms of the Pension Funds Act of 1956 (Act 24), as amended. Funds must, in terms of the Pension Fund Act, be valued at least every three years. The last full actuarial valuation was done on 30 September 2011.

For purposes of production of these disclosures, and in order to comply with the requirements of IAS 19, valuations have been performed by independent actuaries, using the projected unit credit method. Where valuations were not possible due to the limited availability of complete data, roll forward projections of prior completed actuarial valuations were used, taking account of actual subsequent experience.

The disclosure of the funded status is for accounting purposes only, and does not necessarily indicate any assets available to the Group. Data was only available for the current year and the preceding three years.

	2011	2010	2009	2008
	R'000	R'000	R'000	R'000
Net benefit expense				
Current service cost	**57 711**	64 347	49 768	48 330
Interest cost on benefit obligation	**597**	694	683	661
Expected return on plan assets	**(1 169)**	(1 455)	(8 504)	(6 446)
Effect of paragraph 58 and 58A	**(911)**	24 170	5 134	2 152
Net benefit expense	**56 228**	87 756	47 081	44 697
Actual return on plan assets	**1 978**	(2 514)	32 491	6 350
Benefit liability				
Defined benefit obligation	**(8 278)**	(7 283)	(7 581)	(7 453)
Fair value of plan assets	**15 317**	17 369	20 145	92 007
	7 039	10 086	12 564	84 554
Unrecognised actuarial gains	**–**	–	–	(3 557)
Asset not recognised at statement of financial position date	**(7 039)**	(10 086)	(7 411)	(48 841)
	–	–	5 153	32 156
Changes in the present value of the defined benefit obligation are as follows:				
Defined benefit obligation at 1 October	**(7 283)**	(7 581)	(7 453)	(17 736)
Interest cost	**(597)**	(694)	(683)	(661)
Benefits paid	**74**	100	143	9 770
Actuarial losses/(gains) on obligation	**(472)**	892	412	1 174
Defined benefit obligation at 30 September	**(8 278)**	(7 283)	(7 581)	(7 453)
Changes in the fair value of the defined benefit plan assets are as follows:				
Fair value of plan assets at 1 October	**17 369**	20 145	92 007	85 790
Expected return	**1 169**	1 455	8 504	6 446
Utilisation of asset from defined contribution fund	**–**	(5 190)	(29 650)	–
Benefits paid	**(74)**	(100)	(143)	(9 770)
Actuarial gain/(loss)	**(3 147)**	1 059	(50 573)	9 541
Fair value of plan assets at 30 September	**15 317**	17 369	20 145	92 007
Asset coverage over liabilities (times)	**1,9**	2,4	2,7	12,3
	%	%	%	%
The assumptions used in the valuations are as follows:				
Discount rate	**8,75**	8,25	9,25	9,25
Expected rate of return on assets	**8,75**	6,75	9,25	9,25
Future salary increases	**6,75**	6,25	6,75	6,75
Future pension increases	**3,57**	3,10	4,05	4,05
Estimated asset composition				
Cash	**43,14**	61,61		
Equity	**33,97**	–		
Bonds	**6,13**	38,39		
Property	**6,37**	–		
International	**10,39**	–		
Total	**100,00**	100,00		

Annexure D – Post-retirement medical liability

The Company and its subsidiaries operate post-employment medical benefit schemes that cover certain retired employees who were originally employed prior to certain cut-off dates. The liabilities are valued annually using the projected unit credit method. The latest full actuarial valuation was performed on 30 September 2011.

The following table summarises the components of net benefit expense recognised in the statement of comprehensive income and the funded status and amounts recognised in the statement of financial position. Data was only available for the current year and the preceding three years.

	2011	2010	2009	2008
	R'000	R'000	R'000	R'000
Net benefit income/(expense)				
Current service cost	**–**	–	27	16
Interest cost on benefit obligation	**1 356**	1 230	1 211	919
Effect of paragraph 58 and 58A	**–**	–	–	811
	1 356	1 230	1 238	1 746
Defined benefit obligation at 1 October	**(15 808)**	(14 298)	(13 698)	(12 830)
Interest cost	**(1 356)**	(1 230)	(1 211)	(919)
Current service cost	**–**	–	(27)	(16)
Benefits paid	**1 287**	1 168	994	878
Unrecognised actuarial (losses)/gains on obligation	**1 890**	(1 448)	(356)	(811)
Defined benefit obligation at 30 September	**(13 987)**	(15 808)	(14 298)	(13 698)
	%	%	%	%
The assumptions used in the valuations are as follows:				
Discount rate	**8,75**	8,25	9,25	9,25
Future salary increases	**5,75**	6,75	7,25	7,25
Healthcare cost inflation	**7,75**	7,25	7,25	6,75
Post-retirement mortality table	**PA(90) ultimate table**	PA(90) ultimate table	PA(90) ultimate table	PA(90) ultimate table
Sensitivity				
A one percentage point increase in the assumed rate of increase in healthcare costs would have the following effects on the post-retirement medical aid liability:				
Increase of the interest cost	**113**	121	120	132
Increase of the liability	**1 288**	1 474	1 320	1 352
A one percentage point decrease in the assumed rate of increase in healthcare costs would have the following effects on the post-retirement medical aid liability:				
Decrease of the interest cost	**(97)**	(105)	(102)	(113)
Decrease of the liability	**(1 110)**	(1 268)	(1 142)	(1 158)

Annexure E – Financial instruments

Fair value hierarchy

Classification of financial instruments and fair value hierarchy

Financial instruments	Classification per IAS 39	Statement of financial position line item	2011 R'000	2010 R'000
Investments [(1)]	Available for sale	Other financial assets	**2 780**	1 582
Black Managers Share Trust	Loans and receivables	Other financial assets	**137 430**	137 430
Trade and other receivables	Loans and receivables	Trade and other receivables	**1 182 975**	1 150 393
Foreign exchange contracts - derivative asset [(2)]	Fair value cash flow hedge	Trade and other receivables	**19 883**	–
Cash and cash equivalents	Loans and receivables	Cash and cash equivalents	**1 103 977**	1 430 917
Long-term borrowings	Loans and borrowings	Long-term borrowings	**346 811**	453 830
Trade and other payables	Loans and borrowings	Trade and other payables	**954 076**	885 857
Foreign exchange contracts – derivative liability [(2)]	Fair value cash flow hedge	Trade and other payables	**–**	3 305
Short-term borrowings	Loans and borrowings	Short-term borrowings	**496 032**	126 787
Bank overdraft	Loans and borrowings	Bank overdraft	**395**	–

(1) Level 3. Fair value based on latest available sell price.
(2) Level 2. Fair value is based on the ruling market rate at year-end.

The Group used the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 – quoted prices for similar instruments
Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3 – techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

Financial risk management objectives and policies

The Group's principal financial liabilities comprise borrowings and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade and other receivables and cash which arise directly from its operations. The Group also enters into derivative transactions via forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations.

It is, and has been throughout 2011, the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate, credit, liquidity and foreign currency. The board of directors reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

The Group is exposed to interest rate risk as the following assets and liabilities carry interest at rates that vary in response to the lending rates in South Africa and India:

- Cash balances which are subject to movements in the bank deposit rates;
- Long-term and short-term debt obligations with floating interest rates linked to the Johannesburg Interbank Agreed Rate, the South African prime and Indian bank lending rates.

The Group's policy is to manage its interest rate risk through both fixed and variable, long-term and short-term instruments at various approved financial institutions.

No financial instruments are entered into to mitigate the risk of interest rates.

Interest rate risk table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on balances subject to floating rates). There is no impact on the Group's equity.

	Change in rate %	(Decrease)/increase in profit before tax 2011 R'000	2010 R'000
Liabilities			
Indian rupee loans	+1	**(290)**	(381)
Cash balances			
Cash and cash equivalents	+1	**11 039**	14 309

No sensitivity analysis is performed on the South African loans as the loans with variable rates are subject to the application of IAS 23, Borrowing Costs, and are not expected to have a material impact on profits. Refer note 21.

Annexure E – Financial instruments
(continued)

Credit risk
Financial assets of the Group which are subject to credit risk consist mainly of cash resources and trade receivables. The maximum exposure to credit risk is set out in the respective cash and accounts receivable notes. The Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Cash resources are placed with various approved financial institutions subject to approved limits. All these institutions are credit worthy.

The Group trades only with recognised, credit worthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis with the result that the Group's exposure to bad debts is not significant. For transactions that do not occur in the country of the relevant operating unit, the Group does not offer credit terms without the approval of the corporate office. There are no significant concentrations of credit risk within the Group arising from the financial assets of the Group.

Substantially all debtors are non-interest bearing and repayable within 30 – 90 days.

Debtors are disclosed net of a provision for impairment.

Liquidity risk
As a result of the net cash position of the Group, the Group currently has limited exposure to liquidity risk as all obligations in the foreseeable future will be met.

The Group manages its risk to a shortage of funds using planning mechanisms. This considers the maturity of both its financial liabilities and financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

The maturity profile of the Group's long-term financial liabilities at 30 September 2011, based on contractual undiscounted payments, is shown in note 21 and the maturity profile of the trade and other payables in note 23.

Foreign currency risk
As the Group operates in various countries and undertakes transactions denominated in foreign currencies, exposures to foreign currency fluctuations arise. Exchange rate exposures on transactions are managed within approved policy parameters utilising forward exchange contracts or other derivative financial instruments in conjunction with external consultants who provide financial services to Group companies as well as contributing to the management of the financial risks relating to the Group's operations.

Foreign operations
In translating the foreign operations, the following exchange rates were used:

	2011 Income/ expenses	**2011 Assets/ liabilities**	2010 Income/ expenses	2010 Assets/ liabilities
	Average (Rand)	**Spot (Rand)**	Average (Rand)	Spot (Rand)
Kenyan Shilling	**0,0809**	**0,0810**	0,0954	0,0865
Ghanaian Cedi	**4,6141**	**5,0607**	5,1968	4,8662
Indian Rupee	**0,1546**	**0,1652**	0,1622	0,1568

Foreign assets/liabilities
In converting foreign denominated assets and liabilities, the following exchange rates were used:

	Rand		
	Assets	**Liabilities**	**Average**
2011			
US Dollar	**8,13**	**8,07**	**8,10**
Euro	**10,92**	**10,84**	**10,88**
2010			
US Dollar	6,99	6,97	6,98
Euro	9,53	9,50	9,52

Annexure E – Financial instruments

(continued)

Cash flow hedges

The Group's current policy for the management of foreign exchange is to cover 100% of foreign currency commitments with forward exchange contracts when a firm commitment for the order of inventory is in place. As a result, all material foreign liabilities were covered by forward exchange contracts at year-end.

The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy to fix the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness. Forward exchange contracts are entered into to cover import exposures. The fair value is determined using the applicable foreign exchange spot rates at reporting dates.

At 30 September 2011, the Group held no foreign exchange contracts designated as hedges of expected future sales to customers outside South Africa for which the Group has firm commitments. The Group had foreign exchange contracts outstanding at 30 September 2011 designated as hedges of expected future purchases from suppliers outside South Africa for which the Group has firm commitments. All foreign exchange contracts will mature within 12 months. The cash flow hedges of expected future purchases were assessed to be effective.

A summary of the material contracts, comprising 90% of the total contract outstanding, at 30 September 2011:

	Foreign currency '000	**Average forward rate**	**R'000**
Foreign currency			
US Dollar	**12 889**	**6,99**	**90 062**
Euro	**12 674**	**10,19**	**129 147**

A summary of the material contracts outstanding at 30 September 2010:

	Foreign currency '000	Average forward rate	R'000
Foreign currency			
US Dollar	6 645	7,36	48 967
Euro	14 277	9,71	138 646

The maturity analysis for the outstanding contracts at 30 September 2011 is as follows:

	US Dollar '000	**Rands '000**	**Euro '000**	**Rands '000**
Within 30 days	**5 506**	**38 062**	**6 223**	**63 315**
31 – 60 days	**2 602**	**18 346**	**3 194**	**32 625**
61 – 90 days	**1 247**	**8 655**	**939**	**9 517**
> 90 days	**3 534**	**24 999**	**2 318**	**23 690**
	12 889	**90 062**	**12 674**	**129 147**

The maturity analysis for the outstanding contracts at 30 September 2010 is as follows:

	US Dollar '000	Rands '000	Euro '000	Rands '000
Within 30 days	4 230	30 839	4 640	44 865
31 – 60 days	1 388	10 253	3 583	34 443
61 – 90 days	451	3 656	1 837	17 972
> 90 days	576	4 219	4 217	41 366
	6 645	48 967	14 277	138 646

Annexure E – Financial instruments

(continued)

Cash flow hedges (continued)

A summary of the material contracts bought during the year ended 30 September 2011:

	Foreign currency '000	Average forward rate	R'000
Foreign currency			
US Dollar	**55 593**	**6,9824**	**388 175**
Euro	**31 565**	**9,7556**	**307 935**

A summary of the material contracts bought during the year ended 30 September 2010:

	Foreign currency '000	Average forward rate	R'000
Foreign currency			
US Dollar	87 522	7,6236	667 235
Euro	44 092	10,4084	458 926

The following table demonstrates the sensitivity to change in foreign currencies, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of open forward exchange contracts and net investments hedges).

	Change in rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in other comprehensive income
	%	**R'000**	**R'000**
2011			
US Dollar	**+10**	**(1 421)**	**7 573**
	-10	**1 421**	**(7 576)**
Euro	**+10**	**(1 998)**	**9 988**
	-10	**1 998**	**(9 990)**
2010			
US Dollar	+10	(493)	2 278
	-10	493	(6 990)
Euro	+10	(3 388)	12 004
	-10	3 388	(15 086)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios, in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or repurchase shares.

The Group monitors its capital using gearing and interest cover ratios. The primary methods of measurement used are interest-bearing debt to total equity and annualised EBITDA, and interest cover. The Group is currently well within acceptable industry norms on all of these measures as it has no gearing.

	2011	2010
	R'000	R'000
Interest-bearing loans and borrowings	**842 843**	580 617
Less: Cash and short-term deposits	**(1 103 582)**	(1 430 917)
Net cash	**(260 739)**	(850 300)
Equity	**3 223 380**	3 073 340
Gearing ratio (%)	**(8)**	(28)

Annexure F – Interest in subsidiary companies, joint ventures and associates

	Shareholding 2011 %	Shareholding 2010 %
Subsidiaries		
Adcock Ingram Limited	**100**	100
Adcock Ingram Healthcare (Pty) Limited	**100**	100
Adcock Ingram Intellectual Property (Pty) Limited	**100**	100
The Scientific Group (Pty) Limited	**–**	74
Adcock Ingram Critical Care (Pty) Limited	**100**	100
Adcock Ingram International (Pty) Limited	**100**	100
Tender Loving Care – Hygienic, Cosmetic and Baby Products (Pty) Limited	**100**	100
Joint ventures		
Thembalami Pharmaceuticals (Pty) Limited	**50**	50
Adcock Ingram Limited India	**49,9**	49,9
Indirect holdings		
Adcock Ingram Pharmaceuticals (Pty) Limited	**100**	100
Premier Pharmaceutical Company (Pty) Limited	**100**	100
Metamorphosa (Pty) Limited	**50**	50
Menarini SA (Pty) Limited	**49**	49
Novartis Ophthalmics (Pty) Limited	**49**	49
Batswadi Biotech (Pty) Limited	**45**	45
Bioswiss (Pty) Limited	**51**	–
Addclin Research (Pty) Limited	**100**	51
Adcock Ingram Intellectual Property No 1 (Pty) Limited	**100**	100
Scientific Group Finance (Pty) Limited	**–**	100
South African Scientific Pharmaceuticals (Pty) Limited	**–**	100
H Investments No 161 (Pty) Limited	**–**	40
Scientific Group Holdings (Pty) Limited	**–**	100
Scientific Group Investments (Pty) Limited	**–**	100
Dilwed Investments (Pty) Limited	**100**	100
Adcock Ingram Namibia (Pty) Limited	**100**	100
National Renal Care (Pty) Limited	**50**	50
Adcock Ingram Healthcare Private Limited (India)	**100**	–
Adcock Ingram East Africa Limited	**100**	100
Ayrton Drug Manufacturing Limited (Ghana)	**71,35**	66,2
Ayrton Drug Manufacturing Limited (Sierra Leone)	**71,35**	N/A
Trusts and special purpose entities		
Adcock Ingram Holdings Limited Employee Share Trust (2008)		
Mpho ea Bophelo Trust		
Blue Falcon Trading 69 (Pty) Limited		

Annexure G – Accounting policies

The principal accounting policies applied in the presentation of the annual financial statements are set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries, joint ventures and special purpose entities deemed to be controlled by the Group. The financial statements of the subsidiaries are prepared for the same reporting period using consistent accounting policies.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes directly attributable costs of investment. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

The results of subsidiaries acquired are included in the consolidated financial statements from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Subsidiaries acquired with the intention of disposal within 12 months are consolidated in line with the principles of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* and disclosed as held for sale. All intra-group transactions, balances, income and expenses are eliminated on consolidation. Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to a parent. These interests are presented separately in the consolidated statement of comprehensive income, and in the consolidated statement of financial position, separately from own shareholders' equity.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to any relevant non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it:
- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Underlying concepts

The financial statements are prepared on the going concern basis, which assumes that the Group will continue in operation for the foreseeable future.

The financial statements are prepared using accrual accounting whereby the effects of transactions and other events are recognised when they occur, rather than when the cash is received or paid.

Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard. Financial assets and financial liabilities are only offset when there is a legally enforceable right to offset, and the intention is either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements. Changes in accounting policies are accounted for in accordance with the transitional provisions in the standard. If no such guidance is given, they are applied retrospectively. If after making every reasonable effort to do so, it is impracticable to apply the change retrospectively, it is applied prospectively from the beginning of the earliest period practicable.

Changes in accounting estimates are adjustments to assets or liabilities or the amounts of periodic consumption of assets that result from new information or new developments. Such changes are recognised in profit or loss in the period they occur.

Prior period errors are omissions or misstatements in the financial statements of one or more prior periods. They may arise from a failure to use, or misuse of, reliable information that was available or could reasonably be expected to have been obtained. Where prior period errors are material, they are retrospectively restated. If it is impracticable to do so, they are applied prospectively from the beginning of the earliest period practicable.

Foreign currencies

Foreign currency transactions

The consolidated financial statements are presented in South African Rands, which is the Company's functional and presentational currency. Each foreign entity in the Group determines its own functional currency. Transactions in foreign currencies are initially recorded by the Group entities in their respective functional currency.

Foreign currency balances

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the reporting date. Exchange differences are taken to profit or loss, except for differences arising on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to other comprehensive income until the disposal of the net investment, at which time they are recognised in profit or loss. Tax charges and credits attributable to such exchange differences are also accounted for in other comprehensive income.

If non-monetary items measured in a foreign currency are carried at historical cost, the exchange rate used is the rate applicable at the initial transaction date. If they are carried at fair value, the rate used is the rate at the date when the fair value was determined.

Foreign operations

At the reporting date, the assets and liabilities of the foreign operations are translated into the presentation currency of the Group (Rands) at the exchange rate ruling at the date of the statement of financial position. Items of profit or loss are translated at the weighted average exchange rate for the year. Exchange differences are taken directly to a separate component of other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

Goodwill and fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of that foreign operation, and are translated at the closing rate. The functional currencies of the foreign operations are as follows:

- Joint venture, Adcock Ingram Limited in India, the Indian Rupee;
- Subsidiary, Adcock Ingram Healthcare Private Limited in India, the Indian Rupee;
- Subsidiary, Adcock Ingram East Africa in Kenya, the Kenyan Shilling; and
- Subsidiary, Ayrton Drug Manufacturing Limited in Ghana, Ghanaian Cedis.

Interest in Group companies

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss or other comprehensive income as appropriate.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. The strategic, financial and operating policy decisions of the joint venture require the unanimous consent of the parties sharing control.

The Company carries its investment in joint ventures at cost less any impairment.

The Group reports its interests in joint ventures using the proportionate consolidation method. The Group's share of the assets, liabilities, income and expenses of joint ventures are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Where the Group transacts with its joint ventures, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture. Losses on transactions are recognised immediately if the loss provides evidence of a decrease in the net realisable value of the current asset.

Any goodwill arising on the acquisition of a joint venture is accounted for in accordance with the Group's policy for goodwill. The financial statements of the joint venture are prepared for the same reporting period as the Group, using consistent accounting policies.

Where an investment in a joint venture is classified as held for sale in terms of IFRS 5, proportionate consolidation is discontinued, and the investment is held at the lower of its carrying value and fair value less costs to sell. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control and provided the former jointly controlled entity does not become a subsidiary or associate, the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as an investment in an associate.

Annexure G – Accounting policies
(continued)

Associate
An associate is an entity over which the Group has significant influence through participation in the financial and operating policy decisions. The entity is neither a subsidiary nor a joint venture.

Associates are accounted for using the equity method of accounting. Under this method, investments in associates are carried in the statement of financial position at cost, plus post acquisition changes in the Group's share of the net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not tested separately for impairment.

The statement of comprehensive income reflects the Group's share of the associate's profit or loss. However, an associate's losses in excess of the Group's interest are not recognised. Where an associate recognises an entry directly in other comprehensive income, the Group in turn recognises its share as other comprehensive income in the consolidated statement of comprehensive income. Profits and losses resulting from transactions between the Group and associates are eliminated to the extent of the interest in the underlying associate.

After application of the equity method, each investment is assessed for indicators of impairment. If applicable, the impairment is calculated as the difference between the current carrying value and the higher of its value in use or fair value less costs to sell. Impairment losses are recognised in the statement of comprehensive income in profit or loss.

Where an investment in an associate is classified as held for sale in terms of IFRS 5, equity accounting is discontinued, and the investment is held at the lower of its carrying value and fair value less costs to sell.

Where an associate's reporting date differs from that of the Group, the associate prepares financial statements as of the same date as the Group. If this is impracticable, financial statements are used where the date difference is no more than three months. Adjustments are made for significant transactions between the relevant dates. Where the associate's accounting policies differ from those of the Group, appropriate adjustments are made to conform with the accounting policies of the Group.

Property, plant and equipment
Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment losses.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate assets. Expenditure incurred on major inspection and overhaul, or to replace an item is also accounted for separately if the recognition criteria are met. All other repairs and maintenance expenditures are charged to profit or loss during the financial period in which they are incurred. Each part of an item of property, plant and equipment with a cost that is significant is depreciated separately.

Depreciation is calculated on a straight-line basis, on the difference between the cost and residual value of an asset, over its useful life. Depreciation starts from when the asset is available for use. An asset's residual value, useful life and depreciation methods are reviewed at least at each financial year end. Any adjustments are accounted for prospectively.

The following useful lives have been estimated:

Freehold land		Not depreciated
Freehold buildings	– general purpose	40 years
	– specialised	20 – 50 years
Leasehold improvements		The lease term or useful life, whichever is the shorter period
Plant and equipment		3 – 15 years
Furniture and fittings		3 – 15 years
Computer equipment		3 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income through profit or loss in the year the asset is derecognised.

Goodwill and intangible assets
Goodwill
Goodwill is initially measured at cost, being the excess of the consideration transferred, the amount of any non-controlling interest and in a business combination achieved in stages, the acquisition date fair value of previously held equity interest in the acquiree, over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. Goodwill relating to subsidiaries and joint ventures is recognised as an asset and is subsequently measured at cost less accumulated impairment losses.

Annexure G – Accounting policies

(continued)

Goodwill is reviewed bi-annually for impairment or more frequently if there is an indicator of impairment. Goodwill is allocated to cash-generating units expected to benefit from the synergies of the combination. When the recoverable amount of a cash-generating unit is less than its carrying amount, an impairment loss is recognised. The impairment loss is allocated first to any goodwill assigned to the unit, and then to other assets of the unit pro rata on the basis of their carrying values. Impairment losses recognised for goodwill cannot be reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset acquired in a business combination is the fair value at the date of acquisition. Subsequently intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged to the statement of comprehensive income through profit or loss in the year in which the expense is incurred.

The useful lives of intangible assets are either finite or indefinite.

Intangible assets with finite lives are amortised over their useful life and assessed for impairment when there is an indication that the asset may be impaired. The amortisation period and the amortisation method are reviewed at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

The following useful lives have been estimated:

Trademarks	Indefinite
Customer, supplier and licence related intangibles	1 – 15 years

Amortisation is recognised in the statement of comprehensive income through profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised but are tested bi-annually for impairment either individually or at the cash-generating level. The useful lives are also reviewed in each period to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment to a finite life is accounted for prospectively.

Certain trademarks have been assessed to have indefinite useful lives, as presently there is no foreseeable limit to the period over which the assets can be expected to generate cash flows for the Group.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income through profit or loss when the asset is derecognised.

Research and development costs

Research costs, being the investigation undertaken with the prospect of gaining new knowledge and understanding, are recognised in profit or loss as they are incurred.

Development costs arise on the application of research findings to plan or design for the production of new or substantially improved materials, products or services, before the start of commercial production. Development costs are only capitalised when the Group can demonstrate the technical feasibility of completing the project, its intention and ability to complete the project and use or sell the materials, products or services flowing from the project, how the project will generate future economic benefits, the availability of sufficient resources and the ability to measure reliably the expenditure during development. Otherwise development costs are recognised in profit or loss.

During the period of development, the asset is tested annually for impairment. Following the initial recognition of the development costs, the asset is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation begins when development is complete and the asset is available for use. The development costs are amortised over the useful life of the intangible asset.

Impairment

The Group assesses tangible and intangible assets, including goodwill and indefinite life intangible assets, at each reporting date for an indication that an asset may be impaired. If such an indication exists, the recoverable amount is estimated as the higher of the fair value less costs to sell and the value in use. If the carrying value exceeds the recoverable amount, the asset is impaired and is written down to the recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, the hierarchy is firstly a binding arm's length sale, then the market price if the asset is traded in an active market, and lastly recent transactions for similar assets.

Impairment losses of continuing operations are recognised in the statement of comprehensive income through profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase which is recognised as other comprehensive income.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

The Group's classification of financial assets is as follows:

Description of asset	**Classification**
Amounts owing by/to Group companies	Loans and receivables
Trade and other receivables	Loans and receivables
Cash and cash equivalents	Loans and receivables
Other financial assets	Loans and receivables/Available-for-sale

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in fixed and administrative expenses.

Available-for-sale financial assets

Available-for-sale financial assets could include equity and debt securities. Equity investments classified as available-for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial assets are subsequently measured at fair value with unrealised gains and losses recognised as other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is recognised in the statement of comprehensive income in finance costs and removed from the available-for-sale reserve.

Impairment losses on equity instruments are not reversed through the statement of comprehensive income.

Derecognition

Financial assets or parts thereof are derecognised when:

- The right to receive the cash flows has expired;
- The right to receive the cash flows is retained, but an obligation to pay them to a third party under a 'pass-through' arrangement is assumed; or
- The Group transfers the right to receive the cash flows, and also transfers either all the risks and rewards, or control over the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables

The Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreased because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Available-for-sale financial assets

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original costs of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from other comprehensive income and recognised in the profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group has classified financial liabilities as follows:

Description of liability	Classification
Loans payable and borrowings	Loans and borrowings
Trade and other payables	Loans and borrowings
Loans from subsidiaries	Loans and borrowings
Bank overdraft	Loans and borrowings

Subsequent measurement

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income through profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of an existing liability and a recognition of a new financial liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income through profit or loss.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and offer price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and at banks, short-term deposits with an original maturity of three months or less and highly liquid investments.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as detailed above, net of outstanding bank overdrafts.

Derivative instruments

Derivatives are financial instruments whose value changes in response to an underlying factor, require no initial or little net investment and are settled at a future date. Derivatives, other than those arising on designated hedges, are measured at fair value with changes in fair value being recognised in profit or loss.

Hedge accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Fair value hedges

Fair value hedges cover the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment (except for foreign currency risk). Foreign currency risk of an unrecognised firm commitment is accounted for as a cash flow hedge.

The gain or loss on the hedged item adjusts the carrying amount of the hedged item and is recognised immediately in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value is also recognised in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the change in the fair value of the firm commitment is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The change in the fair value of the hedging instrument is also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges

Cash flow hedges cover the exposure to variability in cash flows that are attributable to a particular risk associated with:
- a recognised asset or liability, or
- a highly probable forecast transaction, or
- the foreign currency risk in an unrecognised firm commitment.

Annexure G – Accounting policies
(continued)

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income, while any ineffective portion is recognised in profit or loss.

Amounts taken to other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged income or financial asset or liability is recognised or when the forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amount deferred in other comprehensive income is transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in other comprehensive income are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Hedges of a net investment
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for similarly to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income, while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss.

Current versus non-current classification
Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e. the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

Non-current assets held for sale and discontinued operations
An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets classified as held for sale are not subsequently depreciated and are held at the lower of their carrying value and fair value less costs to sell.

A discontinued operation is a separate major line of business or geographical area of operation that has been disposed of, or classified as held for sale, as part of a single co-ordinated plan. Alternatively, it could be a subsidiary acquired exclusively with a view to resale.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separate from income and expenses from continuing activities, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in profit or loss and other comprehensive income.

Inventories
Inventories are stated at the lower of cost or net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials:	Purchase cost on a first-in, first-out basis.
Finished goods and work in progress:	Cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Consumables are written down with regard to their age, condition and utility.

Costs of inventories include the transfer from other comprehensive income of gains and losses on qualifying cash flow hedges in respect of the purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated completion and selling costs.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income through profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Leases

At inception date an arrangement is assessed to determine whether it is, or contains, a lease. An arrangement is accounted for as a lease where it is dependent on the use of a specific asset and it conveys the right to use that asset.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred from the lessor to the Group as lessee. Finance lease assets and liabilities are recognised at the lower of the fair value of the leased property or the present value of the minimum lease payments. Finance lease payments are allocated, using the effective interest rate method, between the lease finance cost, which is included in financing costs, and the capital repayment, which reduces the liability to the lessor.

Capitalised lease assets are depreciated in line with the Group's stated depreciation policy. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of its estimated useful life and lease term.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are charged against trading profit on a straight-line basis over the lease term.

Revenue

Revenue comprises turnover, dividend income and interest income. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received/receivable excluding value-added tax, normal discounts, rebates, settlement discounts, promotional allowances, and internal revenue which is eliminated on consolidation.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Turnover from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer.

Dividend income is recognised when the Group's right to receive payment is established.

Interest income is accrued on a time basis recognising the effective rate applicable on the underlying assets.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Income taxes

The income tax expense represents the sum of current tax, deferred tax and secondary taxation on companies.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position.

Current tax relating to items recognised outside profit or loss is recognised in other comprehensive income and not in profit or loss. Current tax items are recognised in correlation to the underlying transaction either in profit or loss or directly in equity.

Deferred income tax

Deferred tax is provided using the liability method on all temporary differences at the reporting date. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax liabilities are recognised for taxable temporary differences:

- Except where the liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- Except in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, where it is probable that the asset will be utilised in the foreseeable future:

- Except where the asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- Except in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, only to the extent that it is probable that the differences will reverse in the foreseeable future, and taxable profit will be available against which these differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Unrecognised deferred tax assets are reassessed at each statement of financial position date and recognised to the extent it has become probable that future taxable profit will allow the asset to be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates/laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is charged to profit or loss except to the extent that it relates to a transaction that is recognised outside profit or loss or a business combination that is an acquisition. In this case the deferred tax items are recognised in correlation to the underlying transaction either in profit or loss or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset and they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Secondary tax on companies

Secondary taxation on companies (STC) on dividends declared is accrued in the period in which the dividend is declared. Non-resident shareholders' taxation is provided in respect of foreign dividends receivable, where applicable.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Employee benefits

Short-term employee benefits

All short-term benefits, including leave pay, are fully provided in the period in which the related service is rendered by the employees.

A liability is recognised when an employee has rendered services for benefits to be paid in the future, and an expense when the entity consumes the economic benefit arising from the service provided by the employee.

Defined contribution plans

In respect of defined contribution plans, the contribution paid by the Company is recognised as an expense. If the employee has rendered the service, but the contribution has not yet been paid, the amount payable is recognised as a liability.

Defined benefit plans

The present value of the defined benefit obligation, the related current service costs and, where applicable, past service costs, are calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on high quality corporate bonds.

Actuarial gains and losses are recognised in the statement of comprehensive income through profit or loss when the net cumulative unrecognised actuarial gains and losses for each individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a defined benefit plan, the past service cost is recognised immediately.

The defined benefit asset or liability recognised in the statement of financial position comprises the present value of the defined benefit obligation, plus any unrecognised actuarial gains (minus losses), less unrecognised past service costs net of actuarial losses and the fair value of plan assets out of which the obligations are to be settled. The value of an asset recognised is restricted to the sum of the unrecognised past service costs and unrecognised actuarial gain or loss and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions.

Annexure G – Accounting policies
(continued)

Post-retirement medical obligations
The Group provides post-retirement healthcare benefits to certain of its retirees. The expected costs of these benefits are accrued over the period of employment, using the projected unit credit method. Valuations are based on assumptions which include employee turnover, mortality rates, discount rate based on current bond yields of appropriate terms, healthcare inflation costs and rates of increase in salary costs. Valuations of these obligations are carried out by independent qualified actuaries.

Actuarial gains or losses are recognised in the same manner as those of pension obligations.

Share-based payments
Certain employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions) or share appreciation rights (cash-settled transactions).

Equity-settled share options granted before 7 November 2002
No expense is recognised in the statement of comprehensive income in profit or loss for such awards.

The group has taken advantage of the voluntary exemption provision of IFRS 1 First-time Adoption of International Financial Reporting Standards in respect of equity-settled awards and has applied IFRS 2 Share-based Payment – only to equity-settled awards granted after 7 November 2002 that had not vested on 1 January 2005.

Equity-settled and cash-settled share options granted after 7 November 2002
Equity-settled transactions
The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a modified version of the Black-Scholes model, further details of which are given in Annexure B.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognised reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge in the statement of comprehensive income in profit or loss for a period represents the movement in the cumulative expense at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognised is the expense as if the terms had not been modified, if the original terms of the award are met. If at the date of modification, the total fair value of the share-based payment is increased, or is otherwise beneficial to the employee, the difference is recognised as an additional expense.

Where an equity-settled award is cancelled (other than forfeiture), it is treated as if it had vested on the date of cancellation, and any unrecognised expense recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted and designated as a replacement for the cancelled award, the cancelled and new awards are treated as if they were a modification of the original award, as described above. All cancellations are always treated equally.

The dilutive effect of outstanding equity-settled options is reflected as additional share dilution in the computation of diluted earnings and diluted headline earnings per share.

Cash-settled transactions
The cost of cash-settled transactions is measured initially at fair value at the grant date using a modified version of the Black-Scholes model, taking into account the terms and conditions upon which the instruments were granted (see Annexure B). This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each statement of financial position date up to and including the settlement date with changes in fair value recognised in profit or loss.

Accounting for BEE transactions
Where equity instruments are issued to a Black Economic Empowerment (BEE) party at less than fair value, the instruments are accounted for as share-based payments in terms of the stated accounting policy.

Any difference between the fair value of the equity instrument issued and the consideration received is accounted for as an expense in the statement of comprehensive income through profit or loss.

A restriction on the BEE party to transfer the equity instrument subsequent to its vesting is not treated as a vesting condition, but is factored into the fair value determination of the instrument.

BEE transactions are accounted for as equity-settled share-based payments and are treated the same as equity-settled transactions.

Treasury shares
Shares in Adcock Ingram Holdings Limited held by the Group, including shares held by special purpose entities, are classified within total equity as treasury shares. Treasury shares are treated as a deduction from the issued and weighted average numbers of shares for earnings per share and headline earnings per share purposes and the cost price of the shares is reflected as a reduction in capital and reserves in the statement of financial position. Dividends received on treasury shares are eliminated on consolidation. No gain or loss is recognised in the statement of comprehensive income through profit or loss on the purchase, sale, issue or cancellation of treasury shares. The consideration paid or received with regard to treasury shares is recognised in equity.

Contingent assets and contingent liabilities
A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Contingent assets are not recognised as assets.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. Alternatively it may be a present obligation that arises from past events but is not recognised because an outflow of economic benefits to settle the obligation is not probable, or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised as liabilities unless they are acquired as part of a business combination.

Subsequent events
Recognised amounts in the financial statements are adjusted to reflect significant events arising after the date of the statement of financial position, but before the financial statements are authorised for issue, provided there is evidence of the conditions existing at 30 September. Events after 30 September that are indicative of conditions that arose after 30 September are dealt with by way of a note.

Consolidation of special purpose entities
The special purpose entities established in terms of the share options schemes and Black Economic Empowerment (BEE) transaction have been consolidated in the Group results.

The substance of the relationship between the Company and these entities has been assessed, and the decision made is that they are deemed to be controlled entities.

Consolidation of Blue Falcon Trading 69 (Pty) Limited and Mpho ea Bophelo Trust as special purpose entities
Blue Falcon Trading 69 (Pty) Limited and Mpho ea Bophelo Trust are entities incorporated for the purpose of facilitating Adcock Ingram Holdings Limited BEE transaction and are consolidated into the Group in accordance with SIC 12 Consolidation – Special Purpose Entity. In substance, the activities of these entities are being conducted on behalf of the Group according to its specific business needs so that the Group obtains benefits from these entities' operations. In addition, the Group retains the majority of the residual or ownership risks and rewards related to these entities or their assets in order to obtain benefits from their activities in the form of BEE credentials.

Significant accounting judgements and estimates
Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Carrying value of goodwill, tangible and intangible assets
Goodwill and indefinite life intangible assets are tested for impairment bi-annually, while tangible assets and finite life intangible assets are tested annually or when there is an indicator of impairment. The calculation of the recoverable amount requires the use of estimates and assumptions concerning the future cash flows which are inherently uncertain and could change over time. In addition, changes in economic factors such as discount rates could also impact this calculation.

Residual values and useful lives of tangible and intangible assets
Residual values and useful lives of tangible and intangible assets are assessed on an annual basis. Estimates and judgements in this regard are based on historical experience and expectations of the manner in which assets are to be used, together with expected proceeds likely to be realised when assets are disposed of at the end of their useful lives. Such expectations could change over time and therefore impact both depreciation charges and carrying values of tangible and intangible assets in the future.

Fair value of BEE share allocations
In calculating the amount to be expensed as a share-based payment, the Group was required to calculate the fair value of the equity instruments granted to the BEE participants in terms of the staff empowerment transactions.

Annexure G – Accounting policies
(continued)

Share-based payments
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in Annexure B.

Share appreciation rights granted to employees for services rendered or to be rendered are raised as a liability and recognised in profit or loss over the vesting period. The liability is remeasured annually until settled and any changes in value are recognised in profit or loss. Fair value is measured using a Black Scholes option pricing model.

Deferred tax assets
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Pension and other post-employment benefits
The cost of defined benefit pension plans and post-employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Provisions
The establishment and review of the provisions requires significant judgement by management as to whether or not a reliable estimate can be made of the amount of the obligation. Best estimates, being the amount that the Group would rationally pay to settle the obligation, are recognised as provisions at the date of the statement of financial position.

Standards and interpretations issued that are not yet effective
The following standards and interpretations have not been applied by the Group as the standards and interpretations are not yet effective. The Group intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government related entities or for the entire standard.

IFRS 9 Financial Instruments: Recognition and Measurement
IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and deals with the classification and measurement of financial instruments. This standard is part of the IASB's project to replace IAS 39 in its entirety in 2011. The board's work on the subsequent phases is ongoing and includes impairment, hedge accounting and derecognition. On adoption the Group will need to consider its financial assets and liabilities in light of its business model or managing such assets and liabilities, as well as the cash flow characteristics of such instruments, in determining the appropriate classification and measurement of these items. IFRS 9 will be effective for the Group 1 January 2015.

IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interest in Other Entities
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities. The changes will require management to make significant judgement to determine which entities are controlled and therefore required to be consolidated by the parent. Therefore, IFRS 10 may change which entities are within a group.

IFRS 11 replaces IAS 31 Interest in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Ventures. IFRS 11 uses some of the terms that were used in IAS 31 but with different meanings which may create some confusion as to whether there are significant changes. IFRS 11 focuses on the nature of the rights and obligations arising from the arrangement compared to the legal form in IAS 31. IFRS 11 uses the principle of control in IFRS 10 to determine joint control which may change whether joint control exists. IFRS 11 addresses only two forms of joint arrangements; joint operations where the entity recognises its assets, liabilities, revenues and expenses and/or its relative share of those items and joint ventures which is accounted for on the equity method (no more proportional consolidation).

IFRS 12 includes all the disclosures that were previously in IAS 27 related to consolidated financial statements as well as all of the disclosures that were previously included in IAS 31 and IAS 28 Investments in Associates. A number of new disclosures are also required.

The Group will need to consider the new definition of control to determine which entities are controlled or jointly controlled and then to account for them under the new standards. IFRS 10, 11 and 12 will be effective for the Group 1 July 2013.

Annexure G – Accounting policies
(continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single framework for all fair value measurement when fair value is required or permitted by IFRS. IFRS 13 does not change when an entity is required to use fair value but rather describes how to measure fair value under IFRS when it is permitted or required by IFRS. There are also consequential amendments to other standards to delete specific requirements for determining fair value. The Group will need to consider the new requirements to determine fair values going forward. IFRS 13 will be effective for the group 1 July 2013.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment will have no impact on the financial statements of the Group.

Improvements to IFRS (issued in May 2010)

The IASB issued improvements to IFRS, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after 1 January 2011. These improvements are not expected to have a significant impact on the Group other than additional disclosures and deals with:

IFRS 7 Financial Instruments: Disclosures
IAS 1 Presentation of Financial Statements
IAS 34 Interim Financial Reporting

Annexure H – Segment report (pro forma)

Following a restructuring towards the end of the current financial year after the integration of the Hospital operations with the Pharmaceutical operations, decision making will change (refer to page 21), with a corresponding change in future segmental reporting to align the reporting in accordance with IFRS 8. The current year segmental report below has been reproduced in the way the business will report in future.

Continuing operations	6 months 2011 R'000	12 months 2011 R'000
Statement of comprehensive income		
Turnover		
Southern Africa	2 070 643	**4 296 829**
OTC	740 675	**1 608 046**
Prescription	815 535	**1 632 071**
Generics	398 338	**729 715**
Branded	417 197	**902 356**
Hospital	514 433	**1 056 712**
Rest of Africa	75 745	**155 318**
India	49 864	**102 158**
	2 196 252	**4 554 305**
Less: Intercompany sales	(43 985)	**(100 738)**
	2 152 267	**4 453 567**
Contribution after marketing expenses (CAM)		
Southern Africa	685 571	**1 369 231**
OTC	327 312	**680 703**
Prescription	253 704	**485 182**
Generics	124 064	**228 256**
Branded	129 640	**256 926**
Hospital	104 555	**203 346**
Rest of Africa	17 540	**33 249**
India	14 503	**29 495**
	717 614	**1 431 975**
Less: Other operating expenses	(191 366)	**(363 337)**
Shared services[3]	(158 153)	**(292 614)**
Research and development expenses[3]	(33 213)	**(70 723)**
Operating profit	526 248	**1 068 638**

[3] Shared service expenses including Research and Development and administrative expenses, Group financing (including finance costs and finance income) and income taxes are managed on a central basis and are not allocated to operating segments.

Shareholder analysis

Registered shareholder spread

In accordance with the JSE Listings Requirements, the following table confirms the spread of registered shareholders as detailed in the Annual Report and Accounts dated 30 September 2011:

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
1 – 1 000 shares	8 467	68,79	3 172 746	1,82
1 001 – 10 000 shares	3 084	25,05	9 525 452	5,47
10 001 – 100 000 shares	572	4,65	18 258 999	10,48
100 001 – 1 000 000 shares	161	1,31	49 391 611	28,35
1 000 001 shares and above	25	0,20	119 806 904	53,88
Total	**12 309**	**100,00**	**200 155 712**	**100,00**

Public and non-public shareholdings

Within the shareholder base, we are able to confirm the split between public shareholdings and directors/company related schemes as being:

Shareholder type	Number of holders	% of total shareholders	Number of shares	% of issued capital
Non-public shareholders	6	0,04	31 367 489	15,67
Adcock Ingram Holdings Employee Share Trust	1	0,01	56 365	0,03
Blue Falcon Trading 69 (Pty) Limited (A shares)	1	0,01	19 458 196	9,72
Blue Falcon Trading 69 (Pty) Limited (ordinary shares)		0,01	748 800	0,37
Mpho ea Bophelo Trust (B shares)	1	0,01	6 486 065	3,24
Mpho ea Bophelo Trust (ordinary shares)		0,01	293 500	0,15
Directors	2	0,02	39 400	0,02
Group companies	1	0,01	4 285 163	2,14
Public shareholders	12 303	99,96	168 788 223	84,33
Total	**12 309**	**100,00**	**200 155 712**	**100,00**

Substantial investment management and beneficial interest above 3%

Through regular analysis of STRATE registered holdings, and pursuant to the provisions of Section 56 of the Companies Act, the following shareholders held directly and indirectly equal to or in excess of 3% of the issued share capital as at 30 September 2011:

Investment manager	Total shareholding	%
PIC	21 520 317	10,75
Blue Falcon Trading 69 (Pty) Limited	20 206 996	10,10
STANLIB Asset Management	15 163 280	7,58
Prudential Portfolio Managers	11 547 811	5,77
RMB Asset Management	10 664 054	5,33
Ameriprise Financial Inc	10 473 120	5,23
Allan Gray Investment Council	10 416 366	5,20
Investec Asset Management	10 346 876	5,17
Mpho ea Bophelo Trust	6 486 065	3,24
Total	**116 824 885**	**58,37**

Beneficial shareholdings	Total shareholding	%
Government Employees Pension Fund (PIC)	23 869 208	11,93
Blue Falcon Trading 69 (Pty) Limited	20 206 996	10,10
Liberty Life Association of Africa	11 024 780	5,51
Columbia Acorn International Fund	9 072 220	4,53
Momentum Group Limited	7 225 069	3,61
Mpho ea Bophelo Trust	6 486 065	3,24
Total	**77 884 338**	**32,06**

Shareholder analysis
(continued)

Geographical split of beneficial shareholders

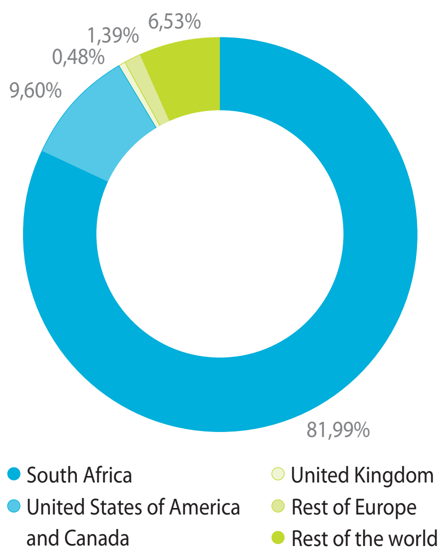
Country	Total shareholding	% of issued share capital
South Africa	164 114 610	81,99
United States of America & Canada	19 214 380	9,61
United Kingdom	967 461	0,48
Rest of Europe	2 783 830	1,39
Rest of the World[1]	13 075 431	6,53
Total	**200 155 712**	**100,00**

[1] Represents all shareholdings except those in the above regions.

Shareholder categories
An analysis of beneficial shareholdings, supported by the Section 56 enquiry process, confirmed the following beneficial shareholder types:

Category	Total shareholding	% of issued capital
Pension funds	50 633 347	25,31
Unit trusts/Mutual fund	49 785 894	24,87
BEE	32 535 096	16,25
Insurance companies	25 703 834	12,84
Other managed funds	12 673 741	6,33
Private Investors	10 667 961	5,33
Sovereign wealth	4 919 729	2,46
Treasury shares	4 285 163	2,14
Custodians	1 511 459	0,76
Exchange-traded fund	680 644	0,34
Charity	556 163	0,28
University	479 823	0,24
Employees	189 879	0,09
Investment trust	80 722	0,04
Local authority	80 000	0,04
Remainder	5 372 257	2,68
Total	**200 155 712**	**100,00**

Geographical split of beneficial shareholders



Shareholder analysis
(continued)

Monthly trading history (to be completed)

The high, low and closing price of ordinary shares on the JSE and the aggregated monthly value and volumes traded during the year are set out below:

Month	Total volume (m)	Total value (R'bn)	Total deals	High (R)	Low (R)	Closing price (R)
2010 – October	18 455 505	1 166	6 975	65,77	62,28	65,42
2010 – November	12 616 441	831	8 146	68,45	63,55	64,80
2010 – December	16 410 192	1 002	11 441	67,73	57,42	59,90
2011 – January	19 189 199	1 085	9 257	60,45	55,50	56,30
2011 – February	21 351 086	1 222	9 887	58,99	55,60	58,60
2011 – March	32 894 365	1 807	11 043	58,70	51,00	55,55
2011 – April	7 977 669	457	5 769	61,00	55,45	61,00
2011 – May	9 272 509	563	6 943	62,80	58,77	61,75
2011 – June	18 930 337	1 176	6 797	64,86	58,82	59,41
2011 – July	3 669 721	224	3 612	62,70	59,43	61,00
2011 – August	6 378 802	384	6 387	62,66	58,50	61,00
2011 – September	8 578 990	526	6 871	63,00	59,99	60,14
2011 – October	11 674 025	705	7 718	64,04	58,29	61,00

Source I-net Bridge.

Shareholders' diary

Financial year-end: 30 September 2011

Annual General Meeting: 24 January 2012

Distributions made to shareholders

Interim distribution	Cents per share	81 cents
	Paid	27 June 2011
Final distribution	Cents per share	106 cents
	Date declared	21 November 2011
	Payable	16 January 2012

ADCOCK INGRAM HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
Registration number 2007/016236/06
ISIN: ZAE000123436 JSE Share Code: AIP
(Adcock Ingram or the Company)

Board of directors: Dr KDK Mokhele (Chairman), Mr EK Diack, Mr AG Hall (Deputy CEO and Financial Director), Dr T Lesoli, Dr J Louw (CEO), Mr CD Raphiri, Mr LE Schönknecht, Dr RI Stewart, Mr AM Thompson.

Notice of annual general meeting of shareholders

Notice is hereby given that the Annual General Meeting of Shareholders of Adcock Ingram Holdings Limited ("the Company") will be held at the Company's premises, 1 New Road, Midrand, Gauteng on Tuesday, 24 January 2012 at 14h00. In terms of section 59(1) of the Companies Act 71 of 2008 (Companies Act) the Board has set the record date to determine which shareholders are entitled to participate in and vote at the Annual General Meeting as being Friday, 13 January 2012. The meeting is convened for the purpose of conducting the following business:

Ordinary resolution 1

To receive, consider and if deemed appropriate adopt the audited annual financial statements of the Group and the Company, incorporating the reports of the Audit Committee and the directors for the year ended 30 September 2011.

Ordinary resolution 2

To elect by way of separate resolutions the directors who retire by rotation in accordance with the Company's Memorandum of Incorporation. The directors retiring are listed below, all of whom being eligible and available, offer themselves for re-election:

2.1 Dr KDK Mokhele (Chairman);
2.2 Mr EK Diack; and
2.3 Dr T Lesoli.

An abbreviated *curriculum vitae* in respect of each director offering himself for re-election is contained on pages 12 and 13 of the Integrated Report.

Ordinary resolution 3

To elect by way of separate resolutions the Audit Committee members for the ensuing year in accordance with the Companies Act 2008. The proposed Audit Committee members listed below currently serve on the same committee and accordingly offer themselves for election:

3.1 EK Diack (Chairman);
3.2 RI Stewart; and
3.3 AM Thompson.

An abbreviated *curriculum vitae* in respect of each director offering himself for election is contained on page 13 of the Integrated Report.

Ordinary resolution 4

To re-appoint Ernst & Young as independent external auditors of the Company for the ensuing year (the designated auditor being Mr WK Kinnear) and to note the remuneration of the independent external auditors as determined by the Audit Committee of the Board for the past year's audit as reflected in note 5.1 to the annual financial statements.

Ordinary resolution 5

To authorise any one director and/or the Secretary of the Company to do all such things and sign all such documents as are deemed necessary or advisable to implement the resolutions set out in the notice convening the Annual General Meeting at which these resolutions will be considered.

Ordinary resolution 6

To consider and if deemed appropriate, through a non-binding vote, endorse the Company's remuneration policy (excluding the remuneration of the non-executive directors and the members of board committees for their services as directors and members of committees), as set out on page 34 of the integrated annual report, is endorsed.

Special resolution 1

To consider and if deemed appropriate, sanction, in accordance with section 66(8) and (9) of the Companies Act, the proposed remuneration payable to non-executive directors for their services as directors with effect from 1 February 2012 until the next Annual General Meeting, as set out in the table contained in the explanatory notes to this notice.

Special resolution 2

To consider and if deemed appropriate, sanction, subject to compliance with the provisions of the Companies Act and the Company's Memorandum of Incorporation, the provision by the Company, at any time and from time to time during the period of 2 (two) years commencing from the date of adoption of this special resolution, of such direct or indirect financial assistance, by way of a loan, guarantee of a loan or other obligation or securing of a debt or other obligation or otherwise as the board of directors may authorise, i) to any one or more related or inter-related company(ies) or corporation(s), or ii) to any one or more member(s) of a related or inter-related company or corporation, or iii) to any one or more person(s) related to any such company(ies) or corporation(s) or member(s) (as such relations and inter-relationships are outlined in the Companies Act 2008), on such terms and conditions as the board of directors may deem fit.

Special resolution 3

To consider and, if deemed fit, to pass, with or without modification, the following special resolution:

That the directors be and are hereby authorised to approve and implement the acquisition by the Company (or by a subsidiary of the Company in terms of Section 48(2)(b) of the Companies Act up to a maximum of 5% (five percent) of the number of issued ordinary shares of the Company), of ordinary shares issued by the Company, by way of a general authority, which shall only be valid until the Company's next Annual General Meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of the passing of the special resolution, whichever period is the shorter, in terms of the JSE Limited (JSE) Listings Requirements (Listings Requirements) which provide, *inter alia*, that the Company may only make a general repurchase of its ordinary shares subject to:

- the repurchase being implemented through the order book operated by the JSE trading system, without prior understanding or arrangement between the Company and the counter party;
- the Company being authorised thereto by its Memorandum of Incorporation;
- repurchases not being made at a price greater than 10% (ten percent) above the weighted average of the market value of the ordinary shares for the 5 (five) business days immediately preceding the date on which the transaction was effected;
- an announcement being published in accordance with the JSE Listings Requirements as soon as the Company has repurchased ordinary shares constituting, on a cumulative basis, 3% (three percent) of the number of ordinary shares in issue at date of the passing of this resolution (initial number), and for each 3% (three percent) in aggregate of the initial number of ordinary shares repurchased thereafter, containing such details of such repurchases as are required under the Listings Requirements as well as any confirmations and disclosures required of the Company and its directors;
- repurchases in terms of this general repurchase authority not exceeding 5% (five percent) in aggregate of the Company's issued ordinary shares, and aggregate repurchases under any general repurchases not exceeding 20% of the Company's issued ordinary shares in any one financial year;
- the Company's sponsor reporting to the JSE that it has discharged its responsibilities in terms of Schedule 25 of the Listings Requirements relating to the Company's working capital for the purposes of undertaking the repurchase of ordinary shares prior to entering the market to proceed with the repurchase;
- the Company and/or its subsidiaries not repurchasing securities during a prohibited period as defined in paragraph 3.67 of the Listings Requirements, unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed in an announcement published on SENS prior to the commencement of the prohibited period; and
- the Company only appointing one agent at any point in time to effect any repurchases on its behalf.

After considering the effects of the maximum repurchases authorised by this special resolution, the board is satisfied that –

- the authority sought is intended to be applied in the Company's interests by effecting repurchases;
- the Company and the Group will be able in the ordinary course of business to pay its debts for a period of 12 months after the date of notice of the Annual General Meeting at which this special resolution is proposed;
- the assets of the Company and the Group, recognised and measured in accordance with the accounting policies used in the latest audited Group annual financial statements, will exceed the liabilities of the Company and the Group for a period of 12 (twelve) months after the date of notice of the Annual General Meeting at which this special resolution is proposed;
- the Company's and the Group's ordinary share capital and reserves will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of notice of the Annual General Meeting at which this special resolution is proposed; and
- the working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of notice of the Annual General Meeting at which this special resolution is proposed.

Statement of intent

The directors undertake that, to the extent it is required by the Listings Requirements and the Companies Act, they will not implement any repurchase as contemplated in this special resolution while this general authority is valid, unless:

- the Board of directors have resolved to authorise such repurchase subject to the limitations set out in this special resolution, have applied the solvency and liquidity test set out in Section 4 of the Companies Act and have reasonably concluded that the Company and its subsidiaries (the Group) will satisfy the solvency and liquidity test immediately after completing such repurchase, and are satisfied that since the test was carried out there have been no material changes to the financial position of the Group; and
- the Company and its subsidiaries (the Group) will comply with the provisions of Section 46 of the Companies Act and the JSE Listings Requirements in relation to such repurchase.

The following additional information, some of which may appear elsewhere in the Integrated Report, is provided in terms of the Listings Requirements for purposes of this general authority:

- directors and management – pages 12 to 15;
- major shareholders – page 118;
- any material change – page 48;
- directors' interests in securities – page 49; and
- share capital of the Company – pages 87 and 88.

Litigation statement
The directors in office whose names appear on pages 12 and 13 of the Integrated Report, are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 (twelve) months, a material effect on the Group's financial position.

Any other business
In terms of Section 61(8)(d) of the Companies Act, an Annual General Meeting must provide for the transacting of business in relation to any matters raised by shareholders, with or without advance notice to the Company.

Directors' responsibility statement
The directors in office, whose names appear on pages 12 and 13 of the Integrated Report, collectively and individually accept full responsibility for the accuracy of the information pertaining to all special resolutions and certify that, to the best of their knowledge and belief, there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the special resolutions contain all information required by law and the Listings Requirements.

Material changes
Other than the facts and developments reported on in the Integrated Report, there have been no material changes in the financial or trading position of the Company and its subsidiaries that have occurred since the end of the last financial period for which the audited financial statements have been published and up to the date of this notice.

Electronic communication and participation
Shareholders are advised in terms of Section 63(3) of the Companies Act that:

- while the meeting will be held in person, it is open to shareholders (and/or their proxies) to participate in the Annual General Meeting meeting by electronic communication, as contemplated in subsection (2);
- shareholders and/or proxies will be able, at their own expense, to access the meeting by means of a teleconference facility. Arrangements can be made through the office of the Secretary of the Company.

Proxies and voting
A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, participate in and vote at the meeting in the place of the shareholder. A proxy need not also be a shareholder of the Company.

Please note that the person presiding at the meeting must be reasonably satisfied that the right of that person to participate and vote, either as a shareholder, or as a proxy for a shareholder, has been reasonably verified. Accordingly, meeting participants (including shareholders and proxies) must provide satisfactory identification.

Proxy forms must be lodged in person or posted to the Company's transfer secretaries, Computershare Investor Services (Proprietary) Limited (70 Marshall Street, Corner Sauer Street, Johannesburg; PO Box 61051, Marshalltown, 2107), by no later than 14h00 on Friday, 20 January 2012.

All beneficial owners whose shares have been dematerialised through a Central Securities Depository Participant (CSDP) or broker other than with "own name" registration, must provide the CSDP or broker with their voting instructions in terms of their custody agreement should they wish to vote at the Annual General Meeting. Alternatively, they may request the CSDP or broker to provide them with a letter of representation, in terms of their custody agreements, should they wish to attend the Annual General Meeting.

The Mpho ea Bophelo Trust (Trust) will, as contemplated in Schedule 10.5(c) to the Listings Requirements, have its votes taken into account at the Annual General Meeting. The Trust is now fully constituted and the JSE has been advised accordingly.

By order of the board

Company Secretary
Midrand

23 December 2011

Annual General Meeting – explanatory notes

Ordinary resolution 1 – Adoption of annual financial statements

Section 61(8) of the Companies Act requires directors to present the annual financial statements for the year ended 30 September 2011 to shareholders, together with the reports of the directors and the Audit Committee at the Annual General Meeting. These are contained within the Integrated Report.

Shareholders are advised that in terms of Section 62(3)(d) of the Companies Act a copy of the complete annual financial statements for the preceding financial year may be obtained by submitting a written request to the Company Secretary, and electronic copies are available on the Adcock website.

To be adopted, Ordinary resolution 1 requires the support of more than 50% of the voting rights exercised on the resolution.

Ordinary resolution 2 – Re-election of directors

In accordance with the Company's Articles of Association (now known as the Memorandum of Incorporation), one third of the directors are required to retire at each Annual General Meeting and may offer themselves for re-election. In addition, any person appointed to the board of directors of the Company following the previous Annual General Meeting is similarly required to retire and is eligible for re-election at the next Annual General Meeting.

The following directors retire by rotation, and having been evaluated and had their suitability for reappointment confirmed by the Nominations Committee, are eligible for re-election:
Dr KDK Mokhele (Chairman);
Mr EK Diack; and
Dr T Lesoli.

Brief biographical details of each of the above directors and the remaining members of the board, are set out on pages 12 and 13 of the Integrated Report.

To be adopted, each of the resolutions for the re-election of directors in Ordinary resolution 2 requires the support of more than 50% of the voting rights exercised on the resolution.

Ordinary resolution 3 – Election of the Audit Committee

Section 94(2) of the Companies Act requires the Company to elect an Audit Committee comprising at least three members at each Annual General Meeting. In order to comply with this provision of the Companies Act, the board following the recommendations of the Nominations Committee hereby presents the following directors to be elected as members of the Audit Committee:
EK Diack (Chairman);
Dr RI Stewart; and
AM Thompson.

It is worth noting that these directors currently serve as the members of the same Committee and accordingly offer themselves for election.

To be adopted, each of the resolutions for the election of members of the Audit Committee in Ordinary resolution 3 requires the support of more than 50% of the voting rights exercised on the resolution.

Ordinary resolution 4 – Auditors

Ernst & Young has indicated its willingness to continue in office and Ordinary resolution 4 proposes the re-appointment of that firm as the Company's auditors with effect from 25 January 2012 until the next Annual General Meeting. As required in terms of Section 90(1) of the Companies Act 71 of 2008, as amended or replaced, the name of the designated auditor, Mr WK Kinnear, forms part of the resolution. The resolution also notes the remuneration of the independent external auditors as determined by the Audit Committee of the board.

To be adopted, Ordinary resolution 4 requires the support of more than 50% of the voting rights exercised on the resolution.

Ordinary resolution 5 – Director or Secretary of the Company authorisation

Any one director or the Secretary of the Company be authorised to do all such things and sign all documents and take all such action as they consider necessary to implement the resolutions set out in the notice convening the Annual General Meeting at which this ordinary resolution will be considered.

To be adopted, Ordinary resolution 5 requires the support of more than 50% of the voting rights exercised on the resolution.

Ordinary resolution 6 – Remuneration policy non-binding advisory vote

Chapter 2 of King III dealing with boards and directors requires companies to table their remuneration policy every year to shareholders for a non-binding advisory vote at the annual general meeting. This vote enables shareholders to express their views on the remuneration policies adopted and on their implementation. The Company's remuneration report is contained on pages 34 to 38 of the Integrated Report. Ordinary resolution 6 is of an advisory nature only and failure to pass this resolution will therefore not have any legal consequences relating to existing arrangements. However, the board may take the outcome of the vote into consideration when amending the Company's remuneration policy.

Annual General Meeting – explanatory notes

(continued)

Special resolution 1 – Proposed remuneration of non-executive directors payable with effect from 1 February 2012

Shareholders are requested to consider and if deemed appropriate, sanction the proposed fees payable to non-executive directors with effect from 1 February 2012 until the next Annual General Meeting as set out in the table hereunder. Full particulars of all fees and remuneration for the past financial year are contained on page 13 of the Integrated Report. Since the coming into effect of the Companies Act, in particular sections 65(11), 66(8) and (9), remuneration of directors may only be paid for their services in accordance with a special resolution approved by the shareholders (i.e. a resolution passed with the support of at least 75% of the voting rights exercised on the resolution) within the previous two years. The current remuneration was approved in January 2011 with the support of 90,7% of the voting rights exercised on the resolution.

To be adopted, Special resolution 1 requires the support of at least 75% of the voting rights exercised on the resolution.

Category	Current remuneration	Proposed remuneration payable with effect from 1 February 2012
Board		
Chairman	918 750	973 875
Board member	210 210	222 823
Audit Committee		
Chairman	199 500	211 470
Audit Committee member	99 750	105 735
Risk and Sustainability Committee		
Chairman	199 500	211 470
Committee member	99 750	105 735
Human capital, remuneration and nominations Committee		
Chairman	81 900	86 814
Committee member	51 975	55 094
Transformation Committee		
Chairman	76 860	81 472
Committee member	41 580	44 075

Board members are paid an additional R13 000 (unchanged) when they attend special meetings which last more than three hours. The Chairman of the board is not paid an additional amount for attending committee meetings.

Special resolution 2 – Inter-company loans

It is important for the Company and the Group to be able to administer its cash resources efficiently. From time to time it is advisable for the Company to borrow from its subsidiaries, and to on lend or provide loans to its subsidiaries. It is not possible to detail in advance all instances where inter-company loans could be required, and approval is accordingly sought as contemplated in Section 45(3)(a)(ii) of the Companies Act generally for the provision of financial assistance to certain categories of potential recipients. Accordingly, the Company requires flexibility and the authority to act promptly as the need arises, and the authority of this special resolution is sought in advance to obviate the need for shareholder approval in each instance.

Special resolution 3 – Share repurchase

The board of directors believes that it may be prudent to obtain a general authority to repurchase the Company's shares to enable it to act promptly should the opportunity arise. Shareholders' approval, by way of a special resolution, is sought for a repurchase of the Company's shares, subject to the provisions of the JSE Listings Requirements and the Companies Act as set out in the proposed resolution. This resolution is subject to the statement of intent as set out above.

Glossary

The following terms and abbreviations, used in this Integrated Report, mean:

Adcock Ingram	Adcock Ingram Holdings Limited
AICC	Adcock Ingram Critical Care (Pty) Limited
A ordinary share	A share with a par value of 10 cents in the Company, which carries the same voting rights as an ordinary share, and which is automatically convertible into an ordinary share on a one-for-one basis
API	Active Pharmaceutical Ingredient(s) used in the manufacturing of products
ARV	Anti-retrovirals, used in the treatment of HIV and AIDS
BBBEE	Broad based black economic empowerment, as defined by the codes of BEE good practice
BEE	Black Economic Empowerment, as envisaged in the BEE legislation
BEE-Co	Blue Falcon 69 Trading (Proprietary) Limited (Registration number 2009/016091/07), a private company through which the Strategic Partners hold their equity interests in Adcock Ingram
BEE Participants	BEE-Co and the Employee Trust
Blue Falcon 59 Trading (Pty) Limited	BEE-Co owned by Kagiso 62,9%, Kurisani 26,6% and Mookodi 10,5%
B ordinary share	A share with a par value of 10 cents in the Company, which carries the same voting rights as an ordinary share, and which is automatically convertible into an ordinary share on a one-for-one basis
CO_2	Carbon dioxide
CO_2e	Carbon dioxide equivalent
Companies Act	The Companies Act (Act 71 of 2008), as amended from time to time or replaced
Employee Trust	The Mpho ea Bophelo Trust (Master's reference number IT330/2010)
FDA	The Food and Drug Administration, a regulatory body in the United States
Flow cytometry	A technique for the optical analysis and separation of cells
FMCG	Fast moving consumer goods
GMP	Good manufacturing practice
Group	Adcock Ingram and its direct and indirect subsidiaries and associated from time to time
HVL	High-volume liquids, used in the context of the plant currently being developed by Adcock Ingram
IFRS	International Financial Reporting Standards
IT	Information Technology
JIBAR	Johannesburg Interbank Agreed Rate
JSE	JSE Limited, the securities exchange on which the shares of Adcock Ingram are listed
Kagiso	Kagiso Strategic Investments III (Proprietary) Limited (Registration number 2007/023000/07)
Kurisani	Kurisani Youth Development Trust (Master's reference number IT8979/04), a trust set up in accordance with the laws of South Africa to benefit historically disadvantaged South African youth through loveLife's Programmes
kWh	Kilowatt hour
MCC	Medicines Control Council, the regulatory body responsible for evaluation of and monitoring the quality, safety and efficacy of medicines on the South African market
MNC	Multinational companies
Mookodi	The Mookodi Pharma Trust (Master's reference number IT314/2010), a trust set up in accordance with the laws of South Africa and for the benefit of black medical doctors and/or health professionals
MSD	MSD (Pty) Limited, also known as Merck
OTC	Over the Counter products, available without prescription
PIC/S	Pharmaceutical Inspection Convention and Pharmaceutical Co-operation Scheme
R&D	Research and Development
Reagent	A substance used in a chemical reaction to detect, measure, examine or produce another
RONA	Return on net assets
SEP	Single exit price, the price determined by regulation, at which medicines may be offered for sale on the South African private market
SIP	Strategic Industrial Project
TSG	The Scientific Group (Pty) Limited
WHO	World Health Organisation
ZAR	South African Rand

Form of proxy

ADCOCK INGRAM HOLDINGS LIMITED
(Incorporated in the Republic of South Africa)
Registration No: 2007/016236/06
ISIN: ZAE000123436
JSE Share Code: AIP
(Adcock Ingram or the Company)

For use by certificated shareholders and "own name" dematerialised shareholders of Adcock Ingram in respect of the Annual General Meeting of shareholders to be held at 1 New Road, Midrand, Gauteng, on Tuesday, 24 January 2012 at 14h00.

A shareholder is entitled to appoint one or more proxies (none of whom need to be a shareholder of Adcock Ingram) to attend, speak and vote or abstain from voting in the place of that shareholder at the Annual General Meeting.

This form of proxy is only to be completed by those ordinary shareholders of Adcock Ingram who hold ordinary shares in certificated form or who are recorded on sub-registered electronic form in "own name". Shareholders who hold dematerialised ordinary shares are referred to paragraphs 1 and 2 of the "Notes" overleaf for further instructions.

I/We, the undersigned

of (address)

being a member of the Company, and entitled to (insert number) votes, do hereby appoint

or failing him/her,

or, failing him/her,

the chairman of the meeting, as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of shareholders of the Company to be held at the Company's premises, 1 New Road, Midrand, Gauteng on Tuesday, 24 January 2011 at 14h00 or any adjournment thereof, as follows:

*(*Indicate instructions to proxy by insertion of the relevant number of votes exercisable by the members in the space provided below. If no directions are given, the proxy holder will be entitled to vote or to abstain from voting as such proxy holder deems fit.)*

		Number of Votes		
		* In favour of the resolution	* Against the resolution	* Abstain from voting on the resolution
1.	To receive, consider and adopt the annual financial statements for the year ended 30 September 2011			
2.	To re-elect the following directors who retire in terms of the Company's Articles of Association:			
2.1	Dr KDK Mokhele			
2.2	Mr EK Diack			
2.3	Dr T Lesoli			
3.	To elect the following Audit Committee members:			
3.1	Mr EK Diack			
3.2	Dr RI Stewart			
3.3	Mr AM Thompson			
4.	To re-appoint Ernst & Young Inc. as the Company's auditors			
5.	To authorise any one director or the secretary to do all such things and sign all such documents to implement the above resolutions			
6.	To endorse remuneration policy			
7.	Special resolution 1. To sanction the proposed remuneration payable to non-executive directors			
8.	Special resolution 2. To authorise the Company to provide intercompany financial assistance as contemplated in section 45 of the Act, to any of the recipients falling within the categories identified in, and on the terms contemplated in, the resolution contained in the Notice of Annual General Meeting			
9.	Special resolution 3. To authorise the directors to undertake a general repurchase of the Company's shares on the terms contemplated in the resolution contained in the Notice of Annual General Meeting			

And generally to act as my/our proxy at the Annual General Meeting.

Signed by me (full names) in my capacity as

at (place) on this (date, month and year)

Signature

Notes for completion of proxy forms

1. If you have disposed of all your ordinary shares, this document should be handed to the purchaser of such ordinary shares or the broker, Central Securities Depository Participant (CSDP), banker, attorney, accountant or other person through whom the disposal was effected.

2. If you are in any doubt as to what action you should take arising from this document, please immediately consult your broker, CSDP, banker, attorney, accountant or other person through whom the disposal was effected.

3. A form of proxy is only to be completed by those ordinary shareholders who are:
   3.1 holding ordinary shares in certificated form; or
   3.2 recorded on sub-register electronic form in "own name".

4. If you have already dematerialised your ordinary shares through a CSDP or broker and wish to attend the Annual General Meeting, you must request your CSDP or broker to provide you with a Letter of Representation or you must instruct your CSDP or broker to vote by proxy on your behalf in terms of the agreement entered into between yourself and your CSDP or broker.

5. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space provided. The person whose name stands first on the form of proxy and who is present at the Annual General Meeting of shareholders will be entitled to act as proxy to the exclusion of those whose names follow.

6. On a show of hands a member of the company present in person or by proxy shall have 1 (one) vote irrespective of the number of shares he/she holds or represents, provided that a proxy shall irrespective of the number of members he/she represents have only 1 (one) vote. On a poll a member who is present in person or represented by proxy shall be entitled to that proportion of the total votes in the company which the aggregate amount of the nominal value of the shares held by him/her bears to the aggregate amount of the nominal value of all the shares issued by the company (excluding treasury shares).

7. A member's instructions to the proxy must be indicated by the insertion of the relevant numbers of votes exercisable by the member in the appropriate box provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he/she deems fit in respect of all the member's votes exercisable thereat. A member of the proxy is not obliged to use all the votes exercisable by the member or by the proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the member or by the proxy.

8. Forms of proxy must be received by the Company's transfer secretaries by no later than 14h00 on Thursday, 19 January 2012. The transfer secretaries' address is: Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107). The Company may at its sole discretion and in exceptional circumstances accept late forms of proxy.

9. The completion and lodging of this form of proxy will not preclude the relevant member from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.

10. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity or other legal capacity must be attached to this form of proxy, unless previously recorded by the transfer secretaries or waived by the chairman of the Annual General Meeting.

11. Any alteration or correction made to this form or proxy must be initialled by the signatory/ies.

12. Notwithstanding the aforegoing, the chairman of the Annual General Meeting may waive any formalities that would otherwise be a prerequisite for a valid proxy.

13. If any shares are jointly held, this form of proxy must be signed by all joint members. If more than one of those members is present at the Annual General Meeting either in person or by proxy, the person whose name first appears in the register shall be entitled to vote.

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Company details

Adcock Ingram Holdings Limited
(Registration number 2007/016236/06)
(Incorporated in the Republic of South Africa)
Share code: AIP ISIN: ZAE000123436

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

Company Secretary
NE Simelane

Registered office
1 New Road, Midrand, 1682

Postal address
Private Bag X69, Bryanston, 2021

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

For more information please visit www.adcock.com

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ENQUIRIES:
For questions regarding this report, contact

Ntando Simelane – Company Secretary
Email: Ntando.simelane@adcock.com
Tel: +27 11 6350143

Dudu Ndlovu – Corporate Affairs & Government Relations Manager
Email: Dudu.ndlovu@adcock.com
Tel: +27 11 6350171

More detailed information is also available on **www.adcock.com**

Adcock Ingram welcomes feedback from stakeholders at
investor.relations@adcock.com

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