2012

Cipla Medpro
SOUTH AFRICA LTD.

Integrated Annual Report 2012

About our report

Thank you for reading Cipla Medpro South Africa Limited's (CMSA's) integrated annual report (IAR) for the year ended 31 December 2012. We are pleased to present our report, which has been approved by the board on 13 May 2013, to our stakeholders.

Scope and boundary of our report

Our report aims to reflect the integration of our strategy, performance and risks, both from a financial and non-financial perspective.

Our IAR includes the results of the CMSA group and all operating subsidiaries for the financial year 1 January 2012 to 31 December 2012, unless stated otherwise.

Assurance

We have not obtained external assurance on the non-financial aspects of our 2012 IAR, however, the Audit and Risk Committee acknowledges their responsibility to ensure the integrity of the report and has recommended the report for board approval. The board is satisfied that our IAR presents fairly the integrated performance of the CMSA group.

Our broad-based black economic empowerment (BBBEE) scorecard levels have been assured by SANAS-approved Empowerdex, an independent economic empowerment rating agency.

www.ciplamedsa.co.za/about-us/bee

Feedback

This is our second IAR and we have followed the same approach as we did for the 2011 IAR, where we've issued one integrated report, with both financial and non-financial aspects included. For the 2012 year we will again publish a full report in hard copy, but in future aim to only publish this full report in an electronic format on our website, with a summarised printed version, including the key non-financial aspects and a condensed set of financial results.

Access to our report

A printed version of our 2012 IAR has been sent to all shareholders registered in the company's share register as at 30 April 2013 that have elected to receive hard copies.

Our report is available on our website www.ciplamedsa.co.za.

A printed version of our report can be obtained by e-mailing such a request to investor@ciplamedpro.co.za.

Reporting icons

This icon indicates that there is further information available on the web. This will be referenced with the URL.

This icon indicates that there is further information available within this document. This will be referenced with a page number.

Scan this barcode with your smartphone and it will take you to our IAR located on the web.

WELCOME

Welcome to our world. A world where all South Africans have access to world class medicines at affordable prices. A world where affordable healthcare is a right, not a privilege. A world where the final measure of our success is a simple curve – the smile of health regained.

VISION

To heal South Africa and to become the largest and the most respected pharmaceutical company in Southern Africa.

MISSION

To become the preferred partner in medicine.

VALUES

- Respect, pride, passion and integrity
- Empowerment
- Freedom to succeed
- Service excellence
- Social responsibility

Strategic focus points

page 12 and 13.

CMSA commits itself to endeavour to satisfy our customers' needs in every manner possible: through excellent service, by developing and marketing an effective, safe, quality product and by offering our product at a price affordable to all patients.

It is our dream that through our policy of dedication and commitment we will create an environment whereby CMSA will come to be recognised as the preferred partner in medicine.

P

PREFERRED PARTNER IN MEDICINE

It is our wish that we be recognised as innovators in the field of pharmaceutical marketing rather than just followers, be the investors' choice and achieve sustainable above average returns to the investor.

I

INVESTORS' PICK

We commit ourselves to contributing to continued medical education and research into new drug delivery systems in the belief that this contribution will improve technical expertise and ultimately benefit all patients in South Africa.

P

PROMOTE AN INTEGRATED, SUSTAINABLE AND RESPONSIBLE BUSINESS

E

EMPLOYER OF CHOICE

We intend to be the employer of choice in the pharmaceutical sector, developing our most valuable asset, human capital, irrespective of race, colour or creed so that they may realise their full potential and ambitions. We pledge personal respect, fair compensation and a clean and safe working environment.

Contents

Our business

PIC/S
-compliant facility

CMSA is a pharmaceutical company based in the Republic of South Africa and listed on the Johannesburg Stock Exchange (JSE). The group's operations comprise Cipla Medpro Holdings Proprietary Limited (Cipla Medpro), a wholly owned subsidiary of CMSA, the manufacturing facility (CMM or Cipla Medpro Manufacturing), which operates a world class 4 000 square metre Pharmaceutical Inspection Convention/Pharmaceutical Inspection Cooperation Scheme (PIC/S) compliant facility, and the other operating segments, including Cipla Vet, Cipla Agrimed, Cipla Agricare and Cipla Nutrition.

The company has experienced significant growth over the last decade, and has either been the fastest growing or the second fastest growing pharmaceutical company, of the top 10 pharmaceutical companies, in the South African market as measured by IMS data. The company is involved in the manufacturing, marketing and sales of pharmaceutical products. Since being founded 20 years ago, Cipla Medpro has grown to become the third largest pharmaceutical company by value in the South African pharmaceutical market. Cipla Medpro currently markets more than 180 products to the private and public sectors in South Africa and the neighbouring countries in a variety of forms, including solids, liquids, inhalers and injectables. Our product range consists of asthma/allergy, antimalarials/antibiotics, gastrointestinal, neuropsychiatry, NSAIDs/analgesics, cardiovascular drugs and antiretrovirals (ARVs), amongst others. We have a growing over-the-counter (OTC) division, as well as Animal Health (Cipla Vet and Cipla Agrimed) and crop care (Cipla Agricare) divisions, with a nutritional division (Cipla Nutrition) in start-up phase.

pages 4 and 5.

First 3-in-1 ARV
combination therapy in South Africa

Cipla Medpro has become known for championing the cause of access to affordable, safe, efficacious and quality medicines, and is responsible for many firsts in the South African market; including the first 3-in-1 ARV combination therapy Triomune. The company continues to bring many lifesaving and lifegiving medicines to the market and retains a leadership position in segments such as respiratory and central nervous system.

The company employs a total of 696 employees (excluding temporary/contract workers) and has one of the largest sales forces in the South African pharmaceutical market. We are ably represented across all market channels and hold a number one or two position in the big retail chains, and the number one position with independent pharmacies.

The group's operations are divided into the following three reporting segments:

SEP: Includes scheduled products, which incorporates all business related to products above schedule 2, for both private and tender business.

OTC: Includes all non-scheduled products, as well as schedule 0, 1 and 2, which are available over the counter, for both private and tender business.

OTHER OPERATING SEGMENTS:

Includes our small animal (Cipla Vet), large animal (Cipla Agrimed), agricultural (Cipla Agricare), nutritional (Cipla Nutrition) and other divisions (which are immaterial for this reporting period). This includes tender business relating to these other operating segments.

The 2012 results of these segments are presented in note 2 of the Annual Financial Statements.

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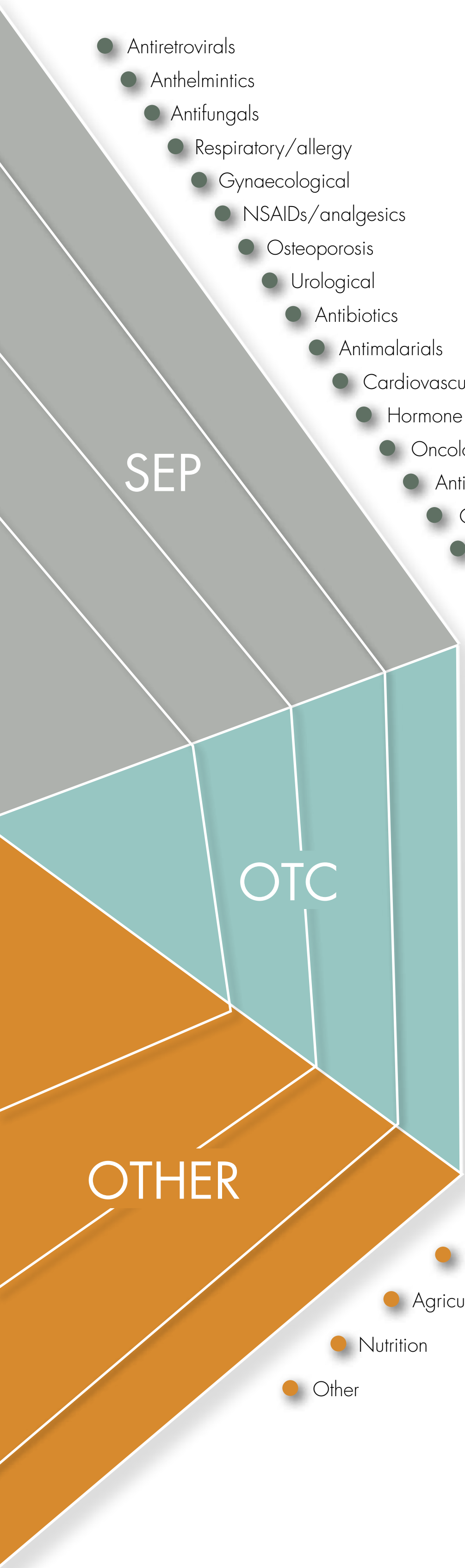
NEW TRIPLE THERAPY COMBINATION

Our business continued

THERAPEUTIC CATEGORIES



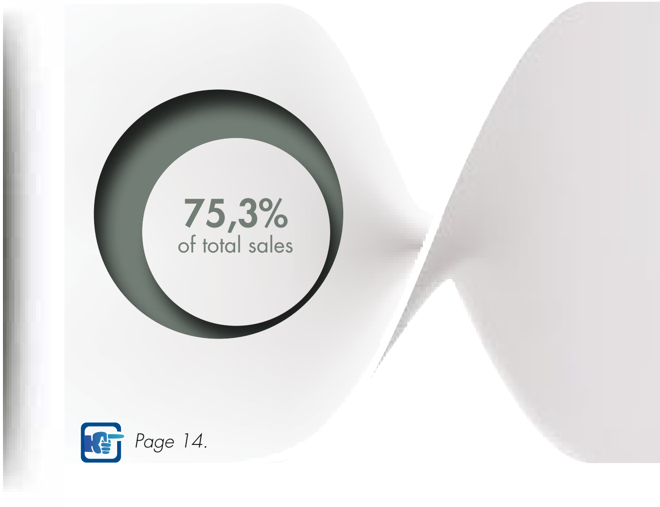
- Antiretrovirals
- Anthelmintics
- Antifungals
- Respiratory/allergy
- Gynaecological
- NSAIDs/analgesics
- Osteoporosis
- Urological
- Antibiotics
- Antimalarials
- Cardiovascular
- Hormone inhibitors
- Oncology
- Antivirals
- Gastrointestinal
- Neuropsychiatry
- Opthalmic
- Topicals

- Allergy
- Cough and cold
- Pain
- Topicals
- Diabetes management
- Sexual health
- Vitamins and minerals
- Asthma
- Gastrointestinal
- Skincare
- Weight management

- Small animals
- Large animals
- Agricultural
- Nutrition
- Other

PERFORMANCE

SEP



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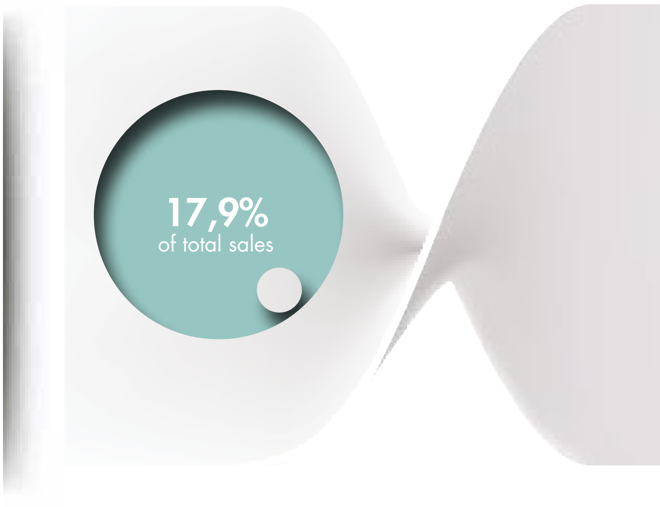
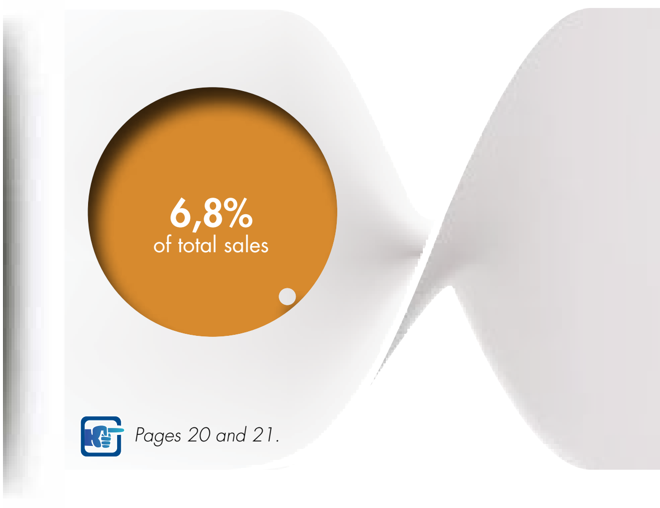
OTC



OTHER OPERATING SEGMENTS



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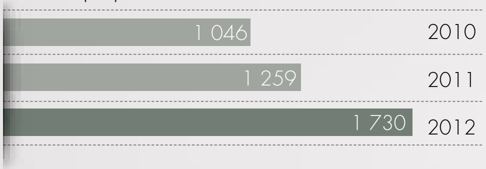
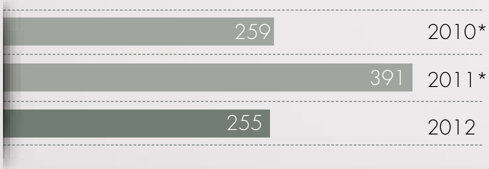
PERFORMANCE HIGHLIGHTS

Revenue (Rm)



PBIT



ANTIRETROVIRALS

- Cipla-abacavir tablets/oral solution
- Cipla-duovir tablets
- Cipla-duovir and Epavirenz 600 co-pack tablets
- Cipla-efavirenz 600 tablets
- Cipla-lamivudine 150/300 tablets

RESPIRATORY/ALLERGY

- Asthavent HFA/Ecohaler MDI
- Asthavent syrup
- Beclate HFA 50/100/200 MDI
- Foratec HFA MDI
- Ipvent-40 MDI HFA
- Sereflo 50/125/250 MDI with gentle-haler

ONCOLOGY

- Bicadex 50 tablets
- Cipla-irinotecan 40/100
- Cipla-paclitaxel 30/100/300
- Cipla-vinorelbine 10/50
- Granicip 1 mg and 2 mg tablets
- Cipla-cyproterone acetate 50 tablets

Revenue (Rm)

PBIT

ALLERGY

- Nexomist Nasal Spray
- Allecet Tablets
- Fexo Tablets
- Cipla-loratadine Tablets
- Beclate Aquanase Nasal Spray
- Flomist Aquanase Nasal Spray

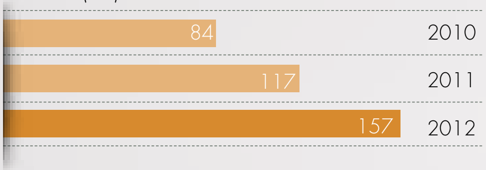
COUGH & COLD

- Medifed Linctus Solution
- Medilyn Solution
- Sinu-Flu Tablets
- Breathewell Inhaler
- Septosol Lozenges
- Flemsolv Syrup

ASTHMA

- Asthavent DP Capsules
- Budeflam DP Capsules
- Foratec DP Capsules
- Dp-haler
- Revolizer
- Asthavent HFA MDI/Ecohaler MDI
- Asthavent Syrup

Revenue (Rm)



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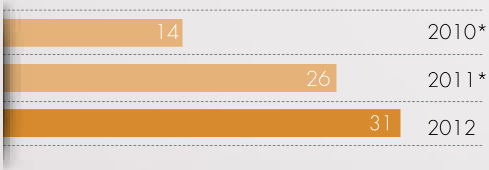


CIPLA VET

- Calmeze
- Cipla-Band
- Dermavet
- Efazol
- Equisyllium
- Fiprotec Spot-On
- Fiprotec Spray

CIPLA AGRIMED

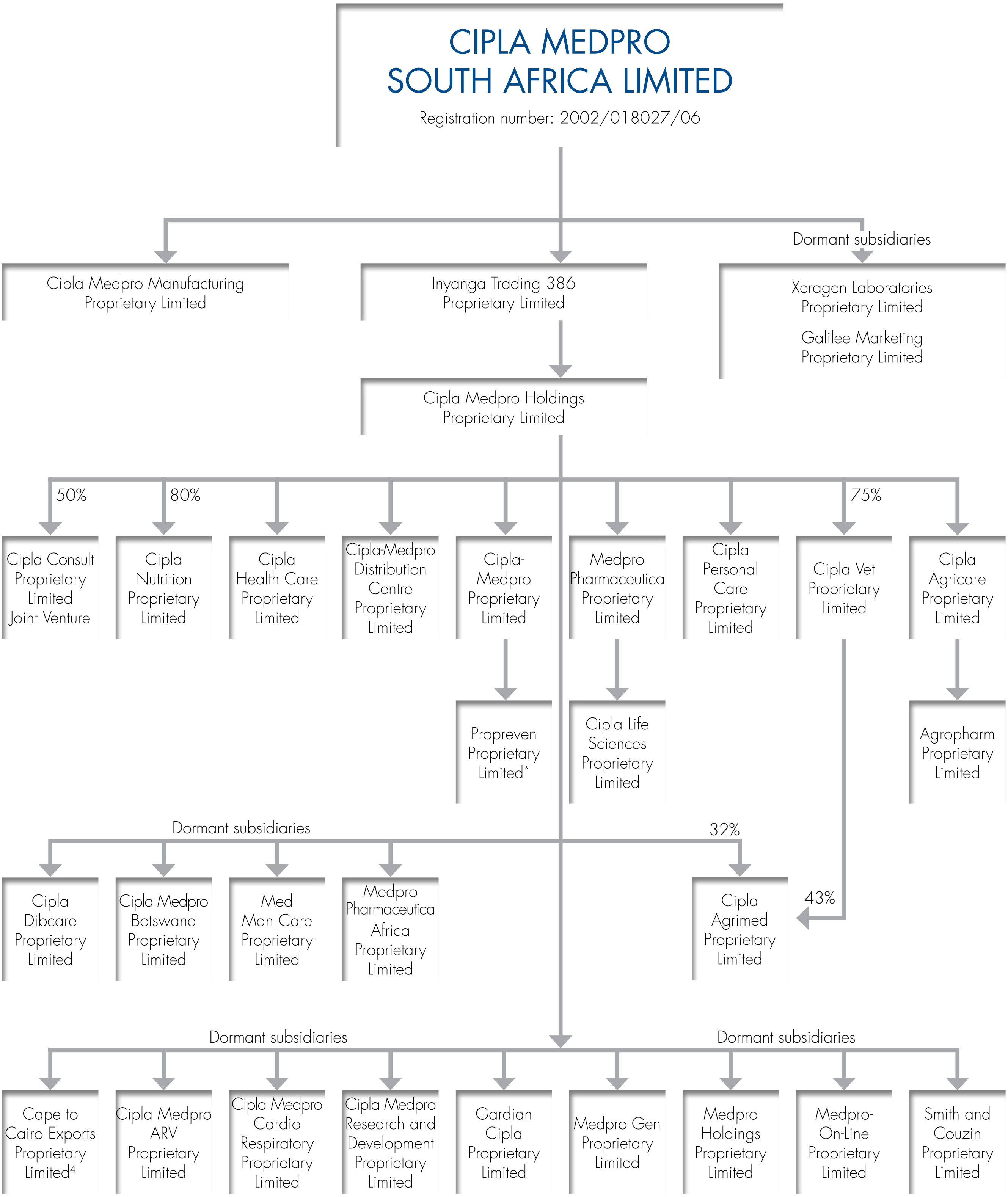
- AD3E
- Bantik
- Complex-AD3E+ minerals
- Component TE-S + Tylan
- Doraject + AD3E LA
- Ectoshield
- Endo+Lint

CIPLA AGRICARE

- Ciplasate 360
- Cipla 2,4 D
- Cipla Hydrox
- Ciplachlor S 700
- Ciplamet 915
- Ciplamet 960
- Ciplamethrin 200 EC
- Ciplamyl 90 SP

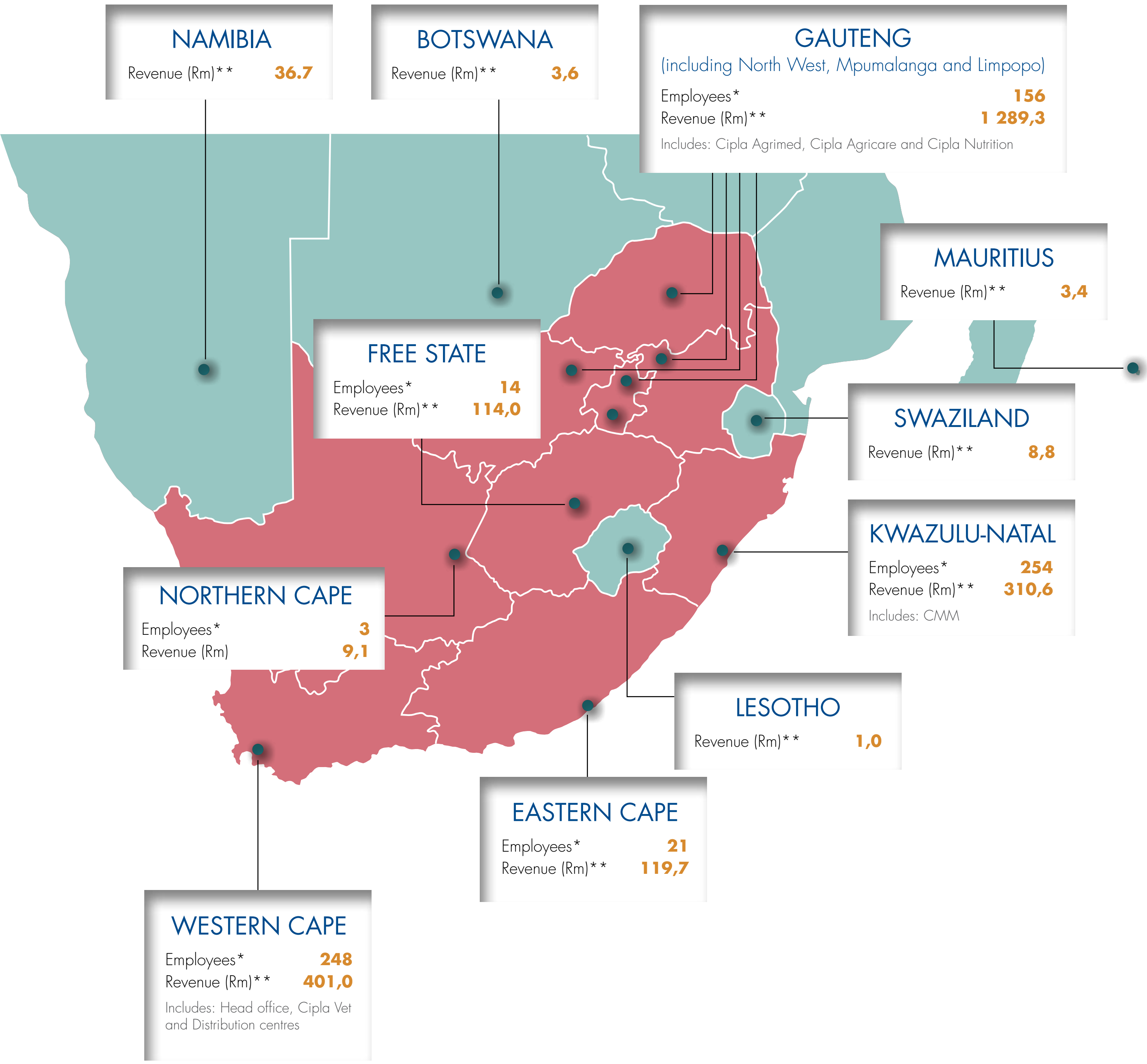
* *Restated results (refer to note 30 of the annual financial statements for details on the restatements).*

Group structure



* *Propreven Proprietary Limited is currently dormant.*

Locations in Southern Africa



* *Number of employees relates to permanent employees, excluding contract workers.*
** *All revenues are shown after inter-company eliminations.*

Timeline

1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001

1991
One man's vision to build the largest pharmaceutical company in South Africa starts to take shape…

1992
January
Medpro Pharmaceutica Proprietary Limited founded by Jerome Smith

2 employees

10 products launched
9 registered

Betavit launched
(first OTC product)

First sales of R38 000 per month

1993
14 employees
(10 sales people, 3 directors, 1 admin)

6 products launched
9 products registered
(18 in total)

1994
8 products launched
4 products registered

1995
May
Cipla Medpro Proprietary Limited registered

9 products launched
(including Fluvirin)
4 products registered
(26 in total)

1996
First respiratory products launched: Asthavent, Beclate, Budeflam

23 employees

(15 sales people)

1997
Turnover
>R1 million

First clinical study completed in South Africa: Beclate versus Becotide (University of Stellenbosch)

Cipla was instrumental in lowering the cost of malaria prophylaxis in South Africa

1998
NUZAK registered (Fluoxetine 20 mg), the first product in the neuropsychiatry range

1999
Cipla Medpro Distribution Centre officially opens in Durbanville, Cape Town (100 employees)

2000
73 products registered

December
First Namibian sales person appointed

2001
Turnover
>R100 million

Second clinical study completed: Asthavent versus Ventolin

2002

April
CARLOC launched

June
Coxflam Range launched; signifies start of Cipla Cardiovascular portfolio

2003

151 employees

March
Gauteng regional offices open in Midrand

2004

Turnover
>R250 million

Cipla Vet launched

December
Eastern Cape regional office opens in Port Elizabeth, Eastern Cape

2005

May
Epitec Range launched

June
Enaleni Pharmaceuticals Limited (Enaleni) lists on the AltX

186 employees (100 sales people)

77 products registered (more molecules than any other pharmaceutical company in a year)

Cipla Agrimed launched

August
Lansoloc 30 launched

September
KwaZulu-Natal regional offices open in Durban

December
Company moved to main board of the JSE Limited

Cipla Medpro acquires Enaleni for R1,5 billion, one of the largest pharmaceutical transactions ever undertaken in South Africa

2006

Turnover
>R500 million

February
TRIOMUNE registered: Cipla Medpro, the first pharmaceutical company in South Africa to launch a 3-in-1 ARV combination drug of a first-line regimen

June
VENLOR launched

September
FEXO launched (Fexofenadine)

November
Cipla Medpro Proprietary Limited wins Scrip Awards in London as best company in an emerging market

285 products registered

562 employees

Cipla Miles for Smiles Foundation founded and registered as an non-profit organisation (NPO)

2007

Company logo and slogan changed to:

First Cipla Medpro TV advertisement

2008

May
LEXAMIL launched

November
Group name changes to Cipla Medpro South Africa Limited

2009

Turnover
>R1 billion

CMSA fastest growing pharmaceutical company in South Africa

Cipla Agricare launched

February
CLOPIVAS Launched (Clopidogrel)

April
Adcock Ingram Proprietary Limited unsolicited bid of R4,72 per share to acquire CMSA; bid unsuccessful and withdrawn in August

December
Frost & Sullivan company of the year award

2010

Second distribution centre opens in Atlas Gardens, Cape Town

April
Third distribution centre opens in Montague Gardens, Cape Town

South African President Jacob Zuma opens Cipla Medpro Manufacturing in KwaZulu-Natal, Durban

CMSA awarded 15% of the ARV tender

429 products registered

601 employees

Cipla Consult launched

2011

Cipla Oncology division launched

2012

Turnover
>R2 billion

CMSA awarded 24% of the ARV tender

Breathefree SA launched

CMSA top three pharmaceutical companies in South Africa by value

696 employees (Cipla Medpro 478) (CMM 218)

372 products (219 SEP, 153 OTC)

62 tender products

Of the top 10 selling products, seven are market leaders

February
ODIMUNE launched

April
Cipla Nutrition launched

Market overview

SEP increase
2013: 5,8%
2012: 2,1%
2011: none

CMSA grew by
15,3%
and market grew by
7,1%

Significant pricing pressure

We continue to benefit from Cipla India

COMPETITION

The pharmaceutical industry is one of the most highly-regulated industries in the world. It is also one of the most dynamic and challenging industries with high velocity change and fierce competition. Multinational pharmaceutical companies, facing thinning pipelines and the so-called patent cliff, with imminent patent expiries of molecules with sales in excess of 60 billion USD to 2016, are changing business models in an effort to protect revenues and profits. This has resulted in the blurring of the boundaries in the pharmaceutical market as more and more innovator companies enter the generic segment and aggressively pursue opportunities in the emerging markets. To this extent, generic medicines are facing increasing competition as more entrants from the generic arms of innovator companies and more cost producers from the east receive marketing authorisations and enter the market. Compounding this is the tendency of multinationals to offer their own pseudo-generics or clones, which typically enter the market a few years before patent expiry. This early entry by originator clones, coupled with the increasing number of new entrants has led to an erosion of sales, prices and margins. At the same time, the increasing number of patients requiring chronic care, as well as the double burden of HIV/AIDS and tuberculosis (TB), continue to exert significant pressure on government coffers. This has led to significant pricing pressure as governments and funders try to contain prices and increase access. Consequently, there is a decline in profits as a result of the robust competition and cost containment measures and the subsequent pricing pressure.

To add to this, the retail segment is consolidating with big chains; as well as courier pharmacies accounting for a significant share of the market. These strong retail chains are also entering the pharmaceutical segment and launching their own house brands, thus increasing competition for shelf space even more. We do, however, remain strong in these segments where we occupy either the number one or two positions and with the independent community pharmacy, where we hold a leading position. Whilst there is intense competition from many new entrants and innovator companies, we are confident that our broad product portfolio, ability to introduce new products across various therapeutic segments early, our reputation for quality, the provisions of value added services and our significant sales and marketing competencies, will stand us in good stead.

To further enhance and protect our position, we continue to benefit from Cipla Limited's (Cipla India's) significant platform technologies, broad product offering, manufacturing efficiencies and favourable payment terms.

REGULATORY

Like everywhere else in the world, the regulatory regime in South Africa is evolving and becoming more stringent. This leads to an increasingly more challenging environment for registering medicines and increases the associated costs. This is further compounded by the long registration timelines.

The evolving regulatory landscape is in response to the evolving nature of pharmaceutical science and other developments that impact on safety, quality and efficacy. There are, however, other issues influencing the South African regulatory environment, some of which are driven by the pressing need to improve patient access to medicines, to combat counterfeiting and to deal with the current challenges experienced by the local Regulatory Authority, vis-à-vis the long review and approval time-lines.

To this extent, the Medicines Control Council (MCC) will be replaced in the near future by the South African Health Products Regulatory Authority (SAHPRA), an organisation that will see an increase in staff numbers, and hence the capacity to evaluate clinical trials and medicines internally. It is hoped that the current registration timelines will be reduced significantly, with the stated targets being to register generic medicines within six months, and new chemical entities in twelve months.

Further, the Medicines Control Council (MCC) is now piloting an electronic Common Technical Document (CTD) dossier submission, and consequently we hope the submission and dossier follow-up processes will be streamlined and made easier, and will facilitate speedier review and approval times. The electronic submission prospects mentioned above also go hand in hand with new challenges for the MCC and the industry. New guidelines have been published in this regard addressing various aspects of the process, including electronic dossier validation.

Other developments that will be introduced to improve access include international benchmarking and the introduction of the National Health Insurance (NHI). Although NHI will be introduced over a 14-year period, there are many developments already taking place in preparation for a full NHI roll-out. These include the 11 NHI pilot sites, the infrastructure revitalisation project, the recruitment and training of appropriate staff, and the introduction of the central procurement unit (CPU) among others.

A further development in the pharmaceutical industry in South Africa was the launch of the South African Code of Marketing Practice and the creation of the Marketing Code Authority, which will enforce the code. The aim of the code is to enhance ethical pharmaceutical marketing practices by providing guidance, advice and a complaints procedure to Member Companies. Cipla Medpro subscribes to the philosophy of the code and welcomes ethical marketing practices which will support access to safe, efficacious and high quality medicines at affordable prices for the people of South Africa.

Although this will be a self-regulating mechanism, it is premised on Act 101 of 1965, which in actual fact makes provision for this autonomous body. To that extent, in the event that the self-regulation fails, companies will still have recourse to lodge a complaint with the Department of Health to review a complaint in terms of the Medicines Act.

Finally, we are eagerly awaiting the release of the new South African Patent Act, which will replace the Patent Act of 1978 (as amended) and hope that beyond the current provisions like the Bolor provision which facilitate early entry of generic medicines, the new act will endeavour to close the loop on some of the gaps that have allowed frivolous patents to keep generics medicines off the market.

ECONOMY

This past year was yet another challenging year locally and abroad, with unstable economic conditions worldwide. The fluctuating foreign exchange rates impacted most importing companies in South Africa and consumers in South Africa continue to exercise caution with their disposable income.

Being a highly regulated industry, only a 2,1% increase in SEP was granted in 2012 with no increase granted in 2011. These, almost ignorable, increases in the past two years took its toll on the performance of the total pharmaceutical market (TPM), with the TPM growing by 7,1% for the full year to December 2012. CMSA is still outperforming the market and grew by 15,3%. Looking at these stats and the increase in tender business, CMSA seems to be on the right track with regards to revenue growth. An increase in SEP of 5,8% has been granted with effect from March 2013.

CMSA aims to limit its risk to the fluctuating foreign exchange rates by taking out forward exchange contracts (FECs) to cover its cash flows. The average USD rate for the year ended 31 December 2012 was R8,21, with CMSA covering approximately 80% of its purchases for 2012 with FECs at an average rate of R7,81.

Despite all the uncertainties and negative forecasts, South Africa is still seen as the gateway to Africa and this is a key focus area in the pharmaceutical industry as well. From multinationals to smaller pharmaceutical groups, companies are constantly in the process of evaluating and implementing strategies to expand into the African continent. South Africa is a member of the international economic organisation, BRICS, that also includes Brazil, Russia, India and China. Being a member of BRICS increases South Africa's global standing and trade relations with the other BRICS members.

(Sources: IMS and South Africa Pharma Report 2012)

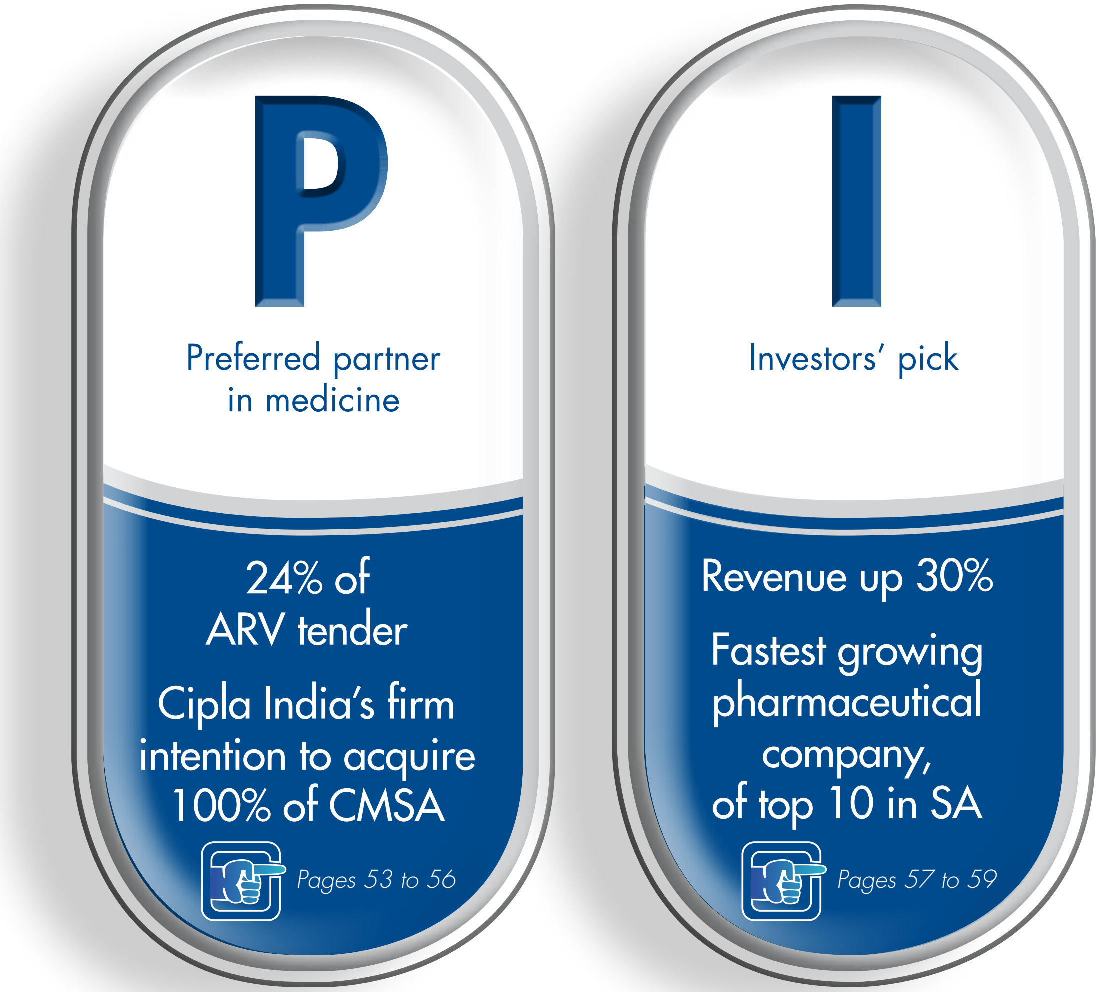
For the 2012 financial year, average USD rate was

R8,21

and our average FEC rate was

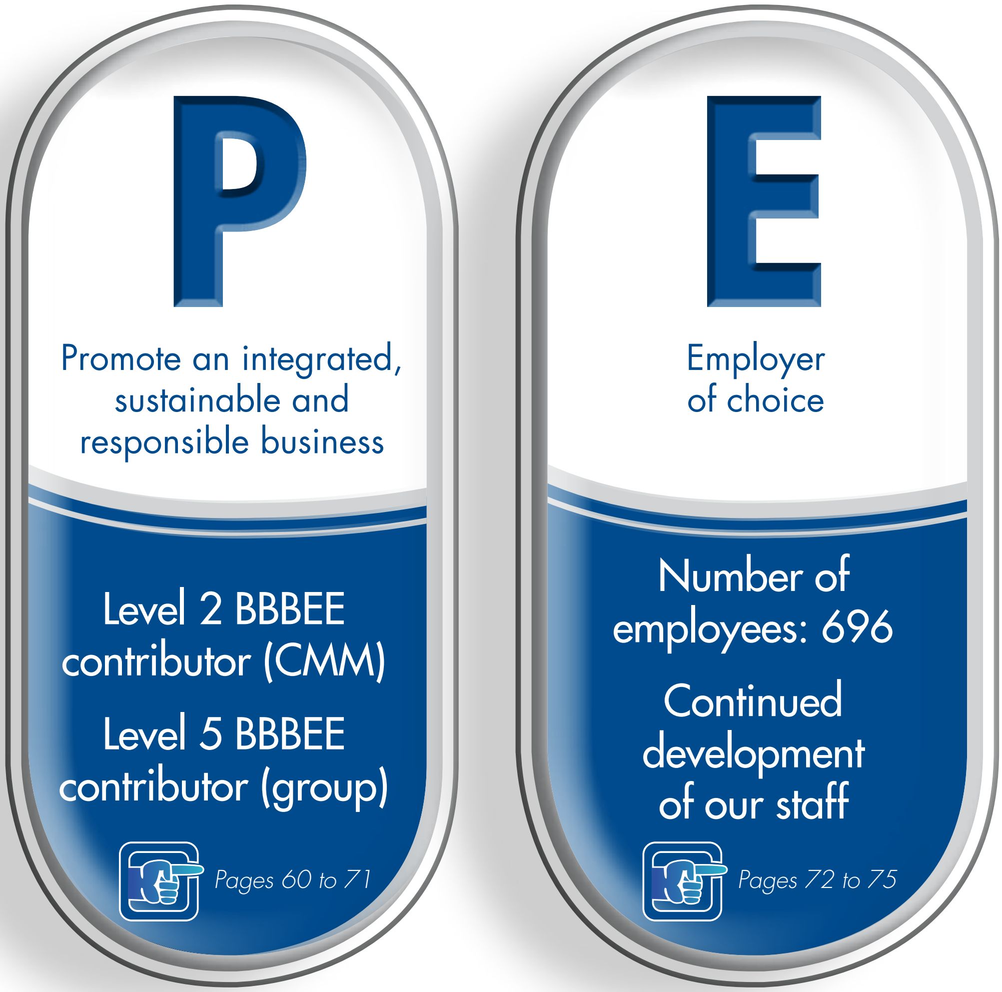
R7,81

Our strategy



Our strategy going into the future will be based on three pillars:

- Diversification into difficult-to-make products in order to tap into the high value opportunities with little competition:
  - Value added/niche generics, popularly referred to as supergenerics, in which significant competencies are required in varying platform technologies, including different delivery systems and combination products among others, where the competition is not too intense due to the highly specialised skills needed to develop these products;
  - Biosimilars or follow-on biological products that also require significant expertise and are costly to produce, and where the competitive landscape is confined to a few companies;
  - Oncology which will remain a core focus area for us going into the future; and
  - Animal health.
- Tapping into the increasing self-medication industry and growing our OTC portfolio. To this extent, we will focus on the pain, colds and flu, and the vitamins and mineral segments to fill our portfolio and focus on unmet need. Our product, Entiro, which was developed for Cipla Medpro by the University of Stellenbosch and is patented in many countries globally, presents an exciting opportunity, and has seen interest from many leading global pharmaceutical companies. We will finalise joint ventures for the international markets in 2013, and should see Entiro on the shelves in Europe and North America before the end of 2013.
- Growing our geographic footprint to take advantage of the immense opportunities offered by the African market. We believe that the African market will offer a significant opportunity for us in the future because of the increasing political stability and the accompanying social cohesion and economic growth. Some of the reasons we are confident that the African market – which is projected to reach USD24 billion by 2020 according to IMS Health – presents significant opportunities in the future include:



- Healthcare reform and the emergence of NHI schemes in Nigeria, Tanzania, Rwanda, Ghana among others, bringing more people into the private sector market and lessening dependence on publicly funded healthcare;
- African economies are growing at a phenomenal rate, with six out of the 10 fastest growing global economies located on the African continent. This has translated into increasing spending power, with more and more people having a disposable income and able to afford branded product;
- Massive investments in infrastructure with the development of transport corridors and megacities; all of which have conspired to drive massive urbanisation and rapid economic development;
- The demographic divide with more than 50% of the population under the age of 35 and in the economically active age;
- A changing disease profile with the increasing prominence of non-communicable disease (NCD), and projections that by 2030, NCDs will surpass communicable diseases as the leading causes of mortality on the continent; and
- The Pharmaceutical Manufacturing Plan for Africa (PMPA) and an increasing push by continental leaders and some in the global public health community for local production of essential medicines, and preferential procurement from locally produced goods.

We are pleased that our efforts to register products in a number of African countries outside the historical markets of Botswana and Namibia are proceeding well. We will increase the number of submissions and are confident that we will reach the critical mass needed to enter the various markets we are targeting soon.

Operational review

Number of employees

367

Third largest pharmaceutical manufacturer

Nine of our top 10 SEP products were first-to-market opportunities

Cipla Medpro

Despite a challenging environment and long delays in the registration of our products at the MCC and the absence of any significant new launches – including many potential first-to-market opportunities – Cipla Medpro has continued to grow on the back of a strong reputation for quality and excellent service, a strong brand, a well-oiled sales and marketing operation, reliable supply and excellent channel relationships.

The TPM grew by 7,1% in Rand value, whilst Cipla Medpro posted a growth of 15,3% with an evolution index of 107,7; the second highest in the top 20 pharmaceutical companies in South Africa. Our SEP division grew 17,0% by value and 9,9% by volume (market 5,4% by value and 5,1% by volume), whilst the OTC division grew 10,9% by value and 8,3% by volume (market 11,3% by value and 4,3% by volume) *(Source: IMS)*.

Our overall market share has held steady at 5,2% and we are now firmly entrenched as the third largest pharmaceutical manufacturer by value.

In an effort to serve the profession better, we have continued to support medical conferences and congresses, and also now have one of the largest Continuing Medical Education programmes in the country.

As part of our value added services to the profession and patients, we developed a web based application MiMood™; an electronic, web based mood diary to assist patients and their doctors to manage their mood disorders better. MiMood™ was launched early in 2013 and has already received wide-spread support from the profession. We intend to deploy technology further to assist doctors and their patients to manage their medical conditions, and will be rolling out more applications in the future in select therapeutic areas.

SEP

In the South African market our success was built on the ability to be first-to-market with many leading molecules. The top 10 SEP products account for 46,1% of our turnover, and of these, nine were first-to-market opportunities. The ability to be first-to-market also depends on our willingness to challenge invalid patents, and although we have prevailed in the past, there have been some setbacks, for example with Docetaxel. Despite this temporary legal setback, and the fact that we have not been able to improve access to this much needed therapy, we will continue to pursue these first-to-market opportunities. We will also continue patent challenges where we feel the patents are invalid, in order to improve access to much needed therapies.

Like the rest of the industry, we continued to face challenges with the registration of new products at the MCC, many of which are potential first-to-market opportunities. This lack of new registrations has negatively affected our growth. We are, however, pleased that we have managed to grow faster than the market and to maintain a leadership position, and to grow sales across various product lines and therapeutic categories. Our leading brands like Lexamil and Venlor (central nervous system), Asthavent (respiratory) and Carloc (cardiovascular drug) have maintained leadership positions in the market despite significant and robust competition, and the entry of new players with aggressive pricing in the South African pharmaceutical market.

We are pleased with the performance of our SEP division in a very tough operating environment which saw significant movements in the exchange rate and a meagre increase in the SEP of 2,1%. We currently have a broad portfolio of products across various therapeutic categories, and continue to maintain our leadership position in the respiratory and central nervous system segments. We will continue to benefit from our relationship with Cipla India, which has strong research and development capabilities, and access to one of the most exciting pipelines in the generic industry. Leveraging off this relationship and other third party relationships, we continue to pursue first-to-file and first-to-market opportunities across various therapeutic categories, including oncology, biosimilars, difficult-to-make generics, and hormonal therapies among others. We have a strong pipeline and are encouraged that there are many potential first-to-market opportunities already submitted to the MCC awaiting registration.

ONCOLOGY

Our Oncology division, with a broad portfolio of products has performed well, and we have now launched a total of 12 products to the market. We will this year launch a number of other registered and as yet, unlaunched products, including a first-to-market opportunity with an exciting new molecule, Imatinib, a leading cancer drug. We are particularly pleased that we will be able to offer this exciting product to the market at a significant discount to the originator, and increase access to these critical medicines. Our broad portfolios and competitive pricing should stand us in good stead for the next tender cycle.

TENDER DIVISION

Although 75% of our sales are in the private sector, we are pleased with the performance of our tender division, and will continue to build on the successes as we move into NHI and the opportunities that will accrue from designation of sectors by the Department of Trade and Industry and preference for locally produced products. We are particularly pleased that the tender unit was able to grow sales from buy-out opportunities more than threefold.

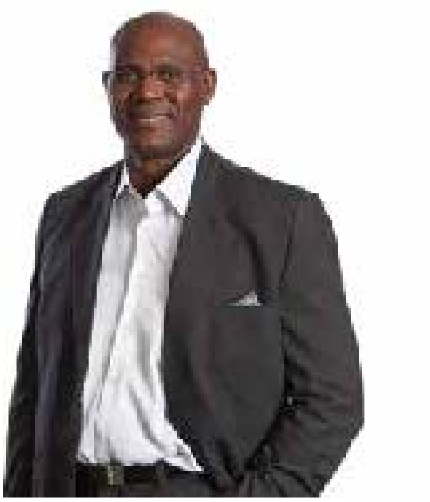
In the last year we have achieved success in the respiratory tender where we were once again awarded the tender for leading respiratory products like our Asthavent (Salbutamol) for the relief of acute asthma, and for Budeflam (budesonide) for long-term control of asthma.

We have also won the tender for another leading combination asthma product Sereflo (Salmeterol/ Fluticasone).

Our allocation in the ARV tender – awarded in November 2012 – is the highest ever for Cipla Medpro, with us attaining 24% of the value of the tender, and getting a third of the leading triple combination therapy with our product Odimune (Tenofovir, Emtricitabine and Efavirenz), and 100% of the combination product containing Lamivudine and Tenofovir.

In real terms we have:

- Delivered 131 stock keeping units (SKUs) to the state (2011: 108);
- Shipped 24 867 368 units (2011:14 299 195);
- Received tender buy-outs (for tenders awarded to other companies who were not able to deliver) to the tune of R80,3 million excluding VAT (2011: R18,7 million); and
- Achieved total tender sales of R692,8 million excluding VAT (2011: R372,7 million).



Dr Skhumbuzo Ngozwana

Deputy CEO

MBChB, MPharm Med and MBA

Skhumbuzo is a pharmaceutical expert with extensive experience in the South African healthcare and pharmaceutical sectors having worked in the private and public healthcare profession as a medical doctor, and in the various functions of the pharmaceutical industry including regulatory, business development, medical affairs, tender and institutional business and strategy. He has sound knowledge and understanding of the African pharmaceutical sector and international public health gained through extensive research and face-to-face engagements with the key role players in the healthcare and pharmaceutical sectors on the continent and in the global public health community.

Operational review continued

Number of employees
63

Packed
95 469
sales orders in 2012

Improved forecasting and replenishment system

Cipla-Medpro Distribution Centre

CIPLA MEDPRO SUPPLY CHAIN

Cipla-Medpro Distribution Centre is a localised supply chain operation distributing stock from distribution centres located in Cape Town to all Cipla Medpro's customers.

OVERVIEW

Companies throughout the industry are constantly looking for opportunities to improve the efficiency of their operations, better understand their customers' demands and devise more creative responses to marketplace challenges by using technology to their advantage.

A very important piece of technology is business analytics and the use of data to make decisions. Analytics is ultimately about making better decisions faster, to understand the current processes and challenges, and to improve where possible. The emphasis moves from measurement to understanding and changing our operations in order to always remain competitive.

During the past year we rolled out a number of new projects with good results. These include:

- Improvements in forecast accuracy to meet year end targets;
- Adapting to changes in demand;
- Profiling our products scientifically;
- Improved product availability across all therapeutic classes and a reduction in stock-outs;
- Overall transparency of the supply chain and customised reporting to assist managers throughout the company;
- Developing a web based supplier portal to manage and control orders and to simplify receiving of stock;
- Exposing cost savings opportunities in the logistics and distribution network through more effective planning;
- Simplified and standardised logistics operations to all customers with standardised ways of working;
- Incorporating technology to reduce risk and implementing a paperless warehouse environment;
- 79,8% of all orders were picked within three hours;
- Improved delivery service level with over 97% of shipments being delivered to customers on time; and
- Picking accuracy of 99,9% achieved.

The distribution centre carries a total of 801 active stock keeping units (SKU). On average we receive approximately 62 full container loads, consisting of 2 200 full pallets, each month, comprising about 384 individual product batches. Each batch is carefully evaluated by our quality teams before it is accepted into stock.

During the past 12 months we successfully picked and packed 95 469 individual sales orders. A total of 60 259 579 units were sent out to our customers of which only 72 picking errors could be confirmed.

FORECASTING AND REPLENISHMENT

We have developed a mature system in this regard, making use of interdepartmental collaboration and integrated software to obtain desired results (see figure 2), and no longer follow the traditional method (see figure 1). We have also employed a skilled demand planner to refine the process of forecasting. The process developed is a collaborative process between the distribution centre, marketing, sales and senior management within the company. The process will soon be expanded to incorporate our suppliers by means of a supplier portal including more visibility of the international inbound delivery leg. This will not only ensure greater transparency in the supply chain, but will also be mutually beneficial to us and our suppliers.

WAREHOUSE MANAGEMENT

The warehouse operation is controlled by an integrated warehouse management system. This system controls the entire warehousing operation and gives us the

Figure 1

opportunity to measure our productivity on several levels. It manages all our stock related procedures from receipt of stock, picking, checking, batch control, all the way to dispatch. The system is integrated into the main financial system and the information is provided in real time. The system has revolutionised our processes.

Batch and lot releasing of products are system driven and are integrated with both our ERP and warehouse management systems. It makes use of a data repository for the storage of source documents and records. This will soon be integrated into a larger quality management system built on a similar platform.

RECYCLING AND CHARITY

The distribution centre is extremely proud of its recycling and waste management programmes. Since the start of these programmes we have significantly reduced our impact on the environment and almost 100% of all paper and plastic waste is recycled. The proceeds of the recycling programme are used to employ a contracted staff member to assist with our recycling programme. But more importantly, the recycled funds are ploughed back into the community. Each quarter the staff identifies a particular charity within the community to support. The list of charities includes old age homes, orphanages and schools. During these charity drives our distribution centre staff supply food, equipment and much needed supplies to those less fortunate.

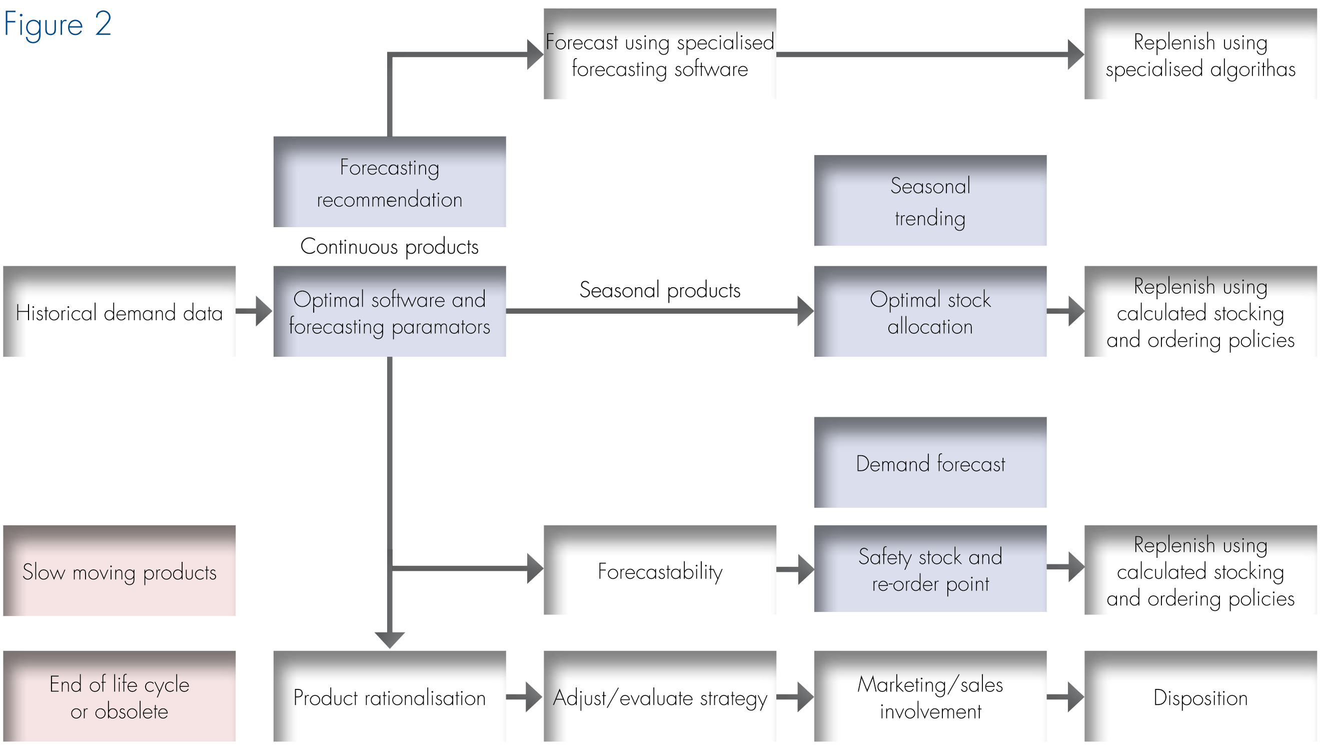
Joseph Ludorf

Managing Director
BPharm
Qualified Pharmacist

Joseph has more than twelve years' experience in the South African pharmaceutical industry, procurement and supply chain management. The majority of his experience was gained by holding the position as national procurement manager for a major international private hospital group.

He gained valuable international experience participating in many operational, software and inventory optimisation projects with a number of large international suppliers, and has over ten years' experience in multi-site domestic and international supply chain management including responsibility for procurement, warehousing and distribution of global product lines.

Figure 2



Operational review continued

Number of employees

218

Cipla Medpro Manufacturing

BACKGROUND

CMM is our manufacturing facility based in Durban, KwaZulu-Natal, employing 218 staff.

In August 2007, CMM embarked on a full upgrade of its manufacturing facility in KwaZulu-Natal in order to meet the requirements set by the PIC/S. The decision was then taken to upgrade the plant to a state-of-the-art facility at a total capital investment of R400 million.

Being one of the first local manufacturers to attain PIC/S accreditation enabled CMM to manufacture some of the group's own products. In addition, CMM is able to offer local and multinational pharmaceutical companies world-class, high volume manufacturing solutions in line with the MCC, current Good Manufacturing Practice (cGMP) and PIC/S regulations. CMM is also one of a few facilities in South Africa offering the manufacturing of effervescent products.

Key features of the facility include:

- Greater capacity and flexibility when compared to historic capabilities;
- Annual planned capacity of more than one billion tablets and capsules;
- Environmentally controlled production areas;
- New laboratory dedicated to full analysis of raw materials, finished product and packaging materials;
- New stability chambers;
- Individual air handling units per processing module, controlling temperature, humidity and airflow;
- New processes for tablet and effervescent manufacturing; and
- Full validation and qualification of plant, equipment and processes.

The revised infrastructure of the facility has allowed for an expanded dispensary, in-process control labs, additional wash bags, and granule and work-in-progress (WIP) stores.

The below mentioned (in the table) is all manufactured in terms of the cGMP modular layout which is environmentally controlled to 23°C at 20% to 45% relative humidity under negative pressure. It should be noted that CMM has dedicated storage, receiving and sampling areas. There are 54 air handling units throughout the facility which allow for the modular commissioning and reduces downtime.

CMM continuously invests in its facility to improve efficiencies, create capacity and improve capabilities.

OVERVIEW OF THE MANUFACTURING FACILITY

UTILISATION OF MACHINERY	PLANT CAPABILITIES	PROCESS CAPABILITIES	PACKAGING CAPABILITIES	BULK PRODUCTION CAPABILITIES
• Dynamic pass boxes in dispensary • Variety of blenders • Sophisticated tablet presses • Fluid bed equipment • Vertical granulators • Integrated material transfer and sizing	• Tablets • Capsules • Powders • Effervescent powders and granules • Laboratory testing • Full contract packing	• Granulation (vertical granulators, planetary mixers) • Oven-drying • Fluid-bed drying • Aqueous and solvent based coating • Effervescent manufacturing and packing	• Container/bottle packing • Blister packing • Strip packing lines • Sachet packing • Effervescent/powder packing • Patient ready pack (PRP) packing	• Oral solid dose (2x granulation suites, 1x granulation suite dedicated to effervescent production, 1x blending suite, 4x compression machines, 1x encapsulation machine and 2x coating machines • Granules/powders (fluid bed equipment) • Effervescents

HUMAN RESOURCES

The retention of key skills at CMM has been a major challenge throughout the year. We experienced a very high staff turnover with 56 employees leaving the employment of Cipla Medpro Manufacturing. The production, laboratory and engineering departments were mostly affected, with pharmacists and laboratory analysts accounting for just more than 33% of the staff turnover. To address this major challenge in 2013, we have rolled out a retention programme to staff that will hold key skills in the organisation, particularly pharmacists, laboratory analysts and artisans.

The Chemical Industries Education & Training Authority has awarded CMM just over R2 million in discretionary grants during the year. The grants were used primarily to fund scarce and critical skills and employment promotion, namely, pharmacist assistant learner and post basic learnerships, engineering apprenticeships and laboratory in-service training programmes.

Suvy Rajh

General Manager
BSc; BScPharm
Registered Pharmacist

Suvy has acquired a wealth of experience during his 17 years within the pharmaceutical industry and has previously worked for three multinational pharmaceutical companies namely: Bayer, Pfizer and Johnson & Johnson. Suvy joined CMM in November 2011.

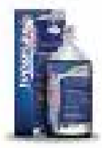
MANUFACTURING	
AS BUILT CAPACITY (3 SHIFTS, 240 DAYS)	
CAPABILITIES	CAPACITY
Tablets	677 million
Capsules	100 million
Powders	187 tons
Granules	103 tons

PACKAGING		
AS BUILT CAPACITY (3 SHIFTS, 240 DAYS)		
TYPE	CAPACITY	LOADING
Securitainers	0,9 million	80%
Glass bottles	1,2 million	50%
HDPE bottles	4,2 million	56%
Blisters	33,7 million	86%
Sachets	8,1 million	58%

Operational review continued

Cipla Agrimed

Number of employees
30



Cipla Agrimed was launched in 2005 and is situated in Centurion, Gauteng.

Cipla Agrimed develops, manufactures and supplies a broad range of animal health products for the OTC and prescription markets. The business owns leading brands in several product categories and is committed to high quality and innovative formulations at affordable prices.

The product range includes ectoparasiticides, endo-parasiticides, endectoparasiticides, antibiotics, vitamin and mineral supplements, feed additives and environmental control products. The target market is the extensive and intensive livestock markets, i.e. cattle, sheep, pigs, poultry and game.

The business has shown strong growth in 2012 and has provided a solid platform to expand the product range in the next five years into other categories of products with a strong product pipeline. There will also be a strong focus on expanding into the rest of Southern Africa in 2013.

Dr Jan Wentzel

General Manager
BVSc; MBA
Qualified Veterinary Surgeon

Jan has been employed in the animal health pharmaceutical industry since 1995 in various responsibilities including regulatory affairs, clinical development, sales and marketing. Prior to starting Cipla Agrimed he was the sales and marketing director for Pfizer Animal Health for the Southern African region.

Cipla Vet

ANIMAL HEALTH

Number of employees
9

Cipla Vet was launched in 2004 and is situated in the Western Cape.

Cipla Vet's vision and purpose is to introduce high quality, yet cost-competitive veterinary medicines into the South African market. The business has a market share of approximately 8% in its market segment and products are sold principally through the professional channel, i.e. registered veterinary practices. The broad range of products covers most of the therapeutic groups for the treatment of dogs, cats and horses.

The business prides itself on an experienced sales team with a very low staff turnover rate, and an emphasis on launching unique and novel products; either in terms of combinations of active ingredients or in dosage forms.

The business launched two new products novel and unique to the South African market during the year:

- CalmEze for anxiety and stress; unique in both its formulation and its presentation; and
- GCS-Omega range with unique properties for joint care.

Cipla Vet has shown a 16% growth in both sales and net profit before tax for the financial year, and is well-positioned for growth with a strong pipeline of products in the registration process.

Dr Craig Mincher

Managing Director
BScAgric; BVSc; MBA
Qualified Veterinarian

Craig started Cipla Vet nine years ago within the stable of Cipla Medpro leveraging off the holding company's expertise and supportive structures. He was previously sales manager with 10 years' UK pharmaceutical sales experience bringing new ideas into the South African animal health market.

Cipla Agricare

Cipla Agricare was launched in 2009 and is also situated in Centurion, Gauteng.

Cipla Agricare owns a list of crop protection products predominantly focused on maize producing areas. Existing products include herbicides, fungicides and insecticides, with a strong pipeline of additional products currently under development.

Number of employees

3

Cipla Nutrition

Cipla Nutrition was launched in 2012 and is situated in Gauteng.

Cipla Nutrition is a leading sports nutrition brand and supplement range, providing products that are pharmaceutically formulated, approved and manufactured with the most up-to-date technology and highest quality raw materials.

The product range is segmented into:

- Essential series: Currently consisting of two products focused on the lifestyle market for men and women;
- Elite series: Currently consisting of seven products focused on the more serious and professional athlete; and
- Weight management series: Currently consisting of four products focused on healthy weight control.

To ensure top quality, all Cipla Nutrition products must meet certain minimum certifications and are manufactured in facilities that are MCC licensed, CGMP and Halaal certified.

There are currently ten new products in development including a complete Endurance Series with planned launch in 2013. Five line extensions on the existing range will also be launched during 2013.

Cipla Nutrition has successfully listed in 300 retailers throughout South Africa. These include Pick n Pay Pharmacy, Wallmart (Game), Sportsmans Warehouse, all large independently-owned retail pharmacy groups, and many smaller independently-owned pharmacies, health shops and gyms.

Deon Lewis

Managing Director

Deon has more than 12 years' experience in the pharmaceutical supply chain and a combined 18 years management experience. He co-founded Cipla Nutrition and was responsible for the development of the entire product range. Prior to joining Cipla Nutrition, Deon was a shareholder and Managing Director of X/Procure Software SA Proprietary Limited, a company he headed up for nine years during which time he played an instrumental role in building the business to its current market leading position and its eventual sale to Primedia Proprietary Limited.

We'll Make Nutrition Better

Number of employees

6

Cipla Consult

Cipla Consult was launched in 2010 and is situated in the Western Cape.

Cipla Consult is a joint venture partnership with Cipla Medpro and specialises in providing corporate healthcare solutions and support, as well as specialised consulting and actuarial services to both open and restricted medical schemes, medical scheme administrators and managed care organisations.

The team consists of 12 highly experienced staff members including a highly specialised and experienced actuarial team.

Cipla Consult has become an established player in the healthcare consulting market providing high-end specialised solutions to clients.

The joint venture provides Cipla Medpro with direct access to specialised healthcare and actuarial expertise, and assists in building the Cipla Medpro brand amongst medical scheme members and in the medical scheme market in general.

Directorate

Sibusiso Luthuli (40)

Chairman and independent non-executive director

CA (SA)

Board member since
1 January 2005

Sbu is the independent, non-executive Chairman of the board. He is currently the CEO of the Eskom Pension and Provident Fund. Prior to that Sbu was the CEO of Ithala Limited. Sbu has served on various other boards and audit committees.

Johan du Preez (47)

Acting Chief Executive Officer (independent non-executive director until August 2012)

MPharm
MBA

Board member since
16 March 2010

Johan is the founder and managing director of SAAD Investment Holdings, an investment company primarily focusing on private equity investments in the financial services industry. He has been involved in various industries locally and in the USA, including Pharmaceutical Retail, Medical Insurance and Risk Management, Investment Management, Life Insurance and Financing. Johan brings extensive corporate experience to the CMSA board, having previously held the positions of CEO of ADATO Capital, Glacier by Sanlam (previously called Innofin) and Sanlam Health. He has a MPharm from the University of Pretoria, as well as an MBA from the National University in San Diego, California.

Mark Daly (33)

Chief Financial Officer

CA (SA)

Board member since
26 November 2012

Mark was appointed as the CFO of CMSA and as an executive director of the company with effect from 26 November 2012. Mark is a chartered accountant and holds a BCom Honours degree in accounting from the University of Natal, Pietermaritzburg. He served as Company Secretary of CMSA since March 2008, and also occupied the position of Financial Director of the manufacturing division in Durban since January 2008. Previously, Mark held the position of group Corporate Finance executive. Mark has been with CMSA for more than six years. Prior to joining CMSA he was a manager in the Corporate Finance and Auditing departments at KPMG Inc.

Bongani Caga (41)

Non-executive director

BJuris (Bachelor of Law)
LLM (Masters) International Business Law

Board member since
13 November 2007

Bongani is a director of Umnombo Consulting as well as Sweet Sensation 67 Proprietary Limited (Sweet Sensation), which is our BEE consortium. He is also a deputy chairman of Sunspace, the company that manufactured the Sumbandila Satellite on behalf of the Department of Science and Technology. He is a former legal executive with New Africa Mining Fund, which was a Private Equity Mining Fund, capitalised at R560 million. Before joining the Fund, Bongani was an investment banker in the Corporate Finance Division of Standard Corporate and Merchant bank (SCMB). At SCMB, his career highlight was being part of the team to govern on the listing of Telkom SA Limited on the JSE and the New York Stock Exchange. Previously, he worked as a legal analyst with the Special Investigations Unit and the Truth and Reconciliation Commission in East London. Bongani was awarded a Nelson Mandela Scholarship to study for a Masters in International Business Law, with Leiden University in the Netherlands.

Nthabiseng Mokone (41)

Independent non-executive director

CA (SA)

Board member since
13 November 2007

Nthabiseng is the founder of Moche Mokone Capital Partners, a corporate finance outfit, and of Landomed, a medical supplies distribution company. She was previously head of the Amabubesi Health Private Equity Fund Services. In her role at Amabubesi, she participated in some of the major deals concluded by the company and continued to add value to the investee companies by representing Amabubesi at their respective boards. She is experienced in corporate finance and financial reporting. Before Amabubesi, Nthabiseng was with ABC South Africa, a subsidiary of ABC Holdings Limited, where she held the position of group head accountant. Her career started in 1996 when she joined Transtel, division of Transnet, and in 2002 moved to Transnet Group Finance to start Training Outside Public Practice until 2003.

Mpho Mosweu (38)

Independent non-executive director

CA (SA)
MBL

Board member since
22 February 2007

Mpho is the Head of the Projects and Corporate Finance department at the Industrial Development Corporation. She currently serves on the board of Merafe Resources Limited, a JSE-listed resources company, as a non-executive director. She is involved in various audit committees and has significant commercial experience, which together with her technical and governance acumen, adds significant value to the CMSA board.

Sandile Zungu (46)

Independent non-executive director

BSc (Mechanical Engineering)
MBA

Board member since
16 March 2010

Sandile is the executive chairman and founder of Zungu Investments Company (Zico), which has diversified holdings in various sectors including Financial Services, Media, Resources and Gaming. He has a wealth of corporate experience and was previously the chairman of Barnard Jacobs Mellet Holdings. He is currently chairman of the Africa Vanguard group of companies (part of Zico) as well as non-executive director of Grindrod Limited, Supercare Cleaning Services, G4S Cash Management Services and Outdoor Network. He also serves as the Presidential Advisor on the BBBEE Advisory Council, the board of Trustees of the Brand South Africa and on the Advisory Board of the University of Cape Town (UCT) Graduate School of Business. In addition, Sandile has a certificate in programme for Global Leadership from the Harvard Business School in Boston, USA.

Directorate organogram

Sibusiso Luthuli

Johan du Preez

Mark Daly

Bongani Caga

Nthabiseng Mokone

Mpho Mosweu

Sandile Zungu

Board

BOARD COMMITTEES

- Nomination Committee
- Independent Board Committee
- Remuneration Committee
- Audit and Risk Committee
- Social, Ethics and Transformation Committee

Johan du Preez

CEO

Mark Sardi*

Mark Daly

Dr Skhumbuzo Ngozwana

Herman Grobler

EXECUTIVE COMMITTEE

- Mark Sardi*: Legal; Human Resources; Other operating segments
- Mark Daly: Finance; Manufacturing; Investor relations
- Dr Skhumbuzo Ngozwana: Medical & Regulatory; Public sectors/ tenders; Training
- Herman Grobler: Sales & Marketing; Information Technology; Distribution

* *Mark Sardi joined CMSA in April 2013, before that Johan du Preez was overseeing these functions.*

Corporate governance

The board of directors of CMSA endorses a culture of transparency, integrity and accountability in terms of its corporate governance philosophy. To that end it strives to continuously monitor, assess and improve all operational and corporate practices in order to best comply with the principles and practices as recommended in King III, which became effective from 1 March 2010. Since 2009 we began a staggered process of reviewing and updating, where appropriate, all documents and policies to ensure we comply, where practicable, with the guidelines of King III (King Code). This is a continual process where we constantly review our practices and policies to ensure compliance.

Corporate governance includes the structures, processes and practices that the board of directors uses to direct and manage the operations of the group. The board is accountable to shareholders and other stakeholders and is ultimately responsible for the implementation of sound corporate governance practices throughout the group. In an environment of increasing regulatory pressure, the board is aware of the importance of maintaining an appropriate balance between the governance expectations of investors, regulators, government and other stakeholders, as well as the expectations from the market and shareholders to continually produce competitive financial returns.

STATEMENT OF COMPLIANCE

Whilst the board is satisfied with its level of compliance with the King III Code and the corporate governance provisions prescribed by the JSE Listings Requirements, it recognises that its practices can be improved, and accordingly the board will continue to review the group's governance framework against prevailing best practices.

KING III, THE COMPANIES ACT AND THE JSE LISTINGS REQUIREMENTS

The implementation of King III, together with the implementation of the Companies Act with effect from 1 May 2011, required the group to undertake a review of prevailing corporate governance practices. This resulted in the formation of a Social, Ethics and Transformation Committee, improved sustainability and integrated reporting, the implementation of an anonymous whistle-blowing hotline, and the amendment and approval of the Memorandum of Incorporation (MOI) by the board, the JSE and thereafter the shareholders at the August 2012 AGM.

The group's corporate governance practices are reviewed on an ongoing basis to ensure adherence to legislation, regulations and global governance trends.

During January 2013, the JSE issued a guidance letter providing a list of mandatory King III principles also contained in paragraph 3.84 of the JSE Listings Requirements, which must be applied by companies listed on the main board of the JSE, without these issuers having the option of "explaining" non-compliance with a principle – which is allowed as an alternative by King III.

Illustrated in the table adjacent are the mandatory principles and CMSA's adherence thereto.

JSE ANNUAL COMPLIANCE SUBMISSION

On an annual basis, CMSA submits a compliance certificate to the JSE indicating whether or not the company has complied with the JSE Listings Requirements and every disclosure requirement for a continued listing on the JSE, imposed by the JSE during that period.

For the past financial year, we noted in our compliance submission to the JSE that the composition of the company's Remuneration Committee, during the latter half of the 2012 year, was not in accordance with the King Code as required by section 3.84 (d) of the Listings Requirements. Due to the suspension on 15 August 2012 of the former CEO, Jerome Smith, independent non-executive director Johan du Preez, who was then serving as Chairman of the Remuneration Committee, was appointed as Acting CEO. The board of directors has since resolved this transitory issue and in March 2013 appointed independent non-executive director, Mpho Mosweu, as a member of the Remuneration Committee, thereby bringing this committee in line with the requirements of the King Code.

NON-MANDATORY ("APPLY OR EXPLAIN") PRINCIPLES OF KING III

The group is currently preparing a register of all King III principles, which will be made available on our website, www.ciplamedsa.co.za, in due course. This register will disclose how each principle has been applied or will explain why or to what extent they were not applied.

The board is of the opinion that every effort has been made in the past year to comply in all material respects with King III. Where we were not able to comply, we have disclosed this in the report, along with the reasons therefore.

BOARD OF DIRECTORS

CMSA is led by a board of directors, currently constituted as required in terms of the Companies Act and the company's MOI. Following the implementation of the Companies Act with effect from 1 May 2011, the structure and composition of the board was reviewed to ensure compliance and the directors of CMSA are satisfied that we currently comply with the Companies Act as well as the recommendations of King III.

MANDATORY PRINCIPLES OF KING III IN TERMS OF THE JSE LISTINGS REQUIREMENTS			
NUMBER	MANDATORY KING III PRINCIPLE	COMPLY	COMMENT
1.	There must be a policy detailing the procedures for the appointment to the board.	Yes	Contained in the board charter and Nomination Committee terms of reference.
2.	Appointments must be formal and transparent and a matter for the board as a whole, assisted where appropriate by a nomination committee.	Yes	All board appointments are conducted in a transparent and formal manner, and this is supported by the respective charter/terms of references.
3.	Where appropriate the issuer may appoint a nomination committee.	Yes	Fully operational Nomination Committee in existence.
4.	If a nomination committee is appointed, such committee must only constitute non-executive directors and the majority must be independent. The committee must be chaired by the chairman of the board.	Yes	Refer to page 41 for the membership of the duly constituted Nomination Committee.
5.	There must be a policy evidencing a clear balance of power and authority at board level to ensure that no one director has unfettered powers.	Yes	Contained in Board Charter.
6.	Issuers must have a CEO and a chairman and these positions must not be held by the same person.	Yes	These positions are kept separate.
7.	The chairman must either be an independent director or the issuer must appoint a lead independent director as defined in the King Code.	Yes	Chairman is an independent non-executive director.
8.	Issuers must appoint an audit committee in compliance with the King Code.	Yes	Refer to page 81 for the composition of the duly constituted Audit and Risk Committee. Although the Audit and Risk Committees are combined, the membership of the combined committee meets the more stringent independence criteria of the Audit Committee as set out in the King Code and the Companies Act.
9.	Issuers must appoint a remuneration committee in compliance with the King Code.	Yes	Refer to page 33 for the composition of the Remuneration Committee, and note the changes in membership during the year.
10.	Where appropriate, issuers must appoint a risk and nomination committee.	Yes	Both committees in existence as noted above. The Audit and Risk Committee is combined.
11.	The composition of the committees, a brief description of their mandates, the number of meetings held and any other relevant information must be disclosed in the annual report.	Yes	Refer to pages 32, 33, 38, 41 and 81 for the detailed information.
12.	Brief CV of each director standing for election or re-election must accompany relevant notice of meeting.	Yes	Refer to pages 22 and 23 for a CV of all directors, including those standing for election and re-election.
13.	Capacity of directors in relation to executive, non-executive and independent must be categorised and disclosed in the relevant documentation.	Yes	Refer to pages 22 and 23 for the detailed breakdown.
14.	Issuers must have a full-time executive financial director.	Yes	Mark Daly is the full-time executive CFO, having replaced Chris Aucamp who occupied this position until November 2012.
15.	The audit committee must consider on an annual basis, and satisfy itself of the appropriateness of the expertise and experience of the financial director and report thereon in the annual report.	Yes	Refer to the Audit and Risk Committee report on page 83.
16.	The provision deals with the competence, qualifications and experience of the company secretary and the board of directors' responsibility in relation thereto.	Yes	Refer to the Board and Committees report on page 30.
17.	The provision deals with the arm's-length relationship between the board of directors and the company secretary and the board of directors' responsibility in relation thereto.		Relationship between the board and the Company Secretary is at arm's-length; the Company Secretary is not a director of the company.

Corporate governance continued

Board composition and appointment

The board of directors currently comprises five non-executive directors (four of whom are independent) and two executive directors. The composition of the board ensures that there is a balance of power and authority in the decision-making processes. The non-executive directors are appointed by the board in terms of a formally documented and transparent process which takes place under the guidance of the Nomination Committee. Non-executive directors are appointed based on their skills, business experience and acumen, qualifications and reputation. The non-executive directors collectively bring a wealth of skills, knowledge and experience from their own fields of business to the board.

In terms of CMSA's MOI, one-third of the non-executive directors retire by rotation at each AGM. The non-executive directors to retire, shall be those who have been longest in office since their last election, and must include any director who has held office for a period of three years since his/her last election or appointment. Directors who retire may, if eligible, offer themselves for re-election. The names of the directors who retire by rotation at the next AGM appear in the notice of AGM on page 146 of this report. Directors who are appointed during a reporting period must have their appointments ratified by shareholders at the next AGM.

Notice of AGM, refer to page 146.

Newly appointed directors are provided with an overview of the group's operations. In addition, directors are provided guidance with regard to their fiduciary duties and provided with information relating to the relevant statutory and regulatory frameworks. They also receive a copy of the board charter, board committee terms of references as well as previous board and board committee packs.

During the 2012 year, the following changes to the board occurred:

- Former CEO, Jerome Smith, was suspended in August 2012 and he subsequently resigned in October 2012;
- Former independent, non-executive board member, Johan du Preez was appointed as Acting CEO in August 2012;
- Former CFO, Chris Aucamp, resigned in November 2012; and
- Mark Daly, former Company Secretary and Financial Director of CMM, was appointed as CFO in November 2012.

Succession

The board has delegated succession planning for the Chairman, CEO and CFO to the Nomination Committee, while the Remuneration Committee is tasked with succession planning for the organisation in general.

Fees for services as directors

Fees paid to the non-executive directors are independent of the group's financial performance and as per the recommendations of King III the fees payable to the non-executive directors were approved by a special resolution of CMSA's shareholders at the company's AGM, on 2 August 2012. This shareholders' approval was for non-executive directors' fees covering the period 1 August 2012 until 30 June 2013. Shareholders will be required at the forthcoming AGM to approve, via special resolution, the non-executive directors' fees for the period 1 July 2013 until the next AGM.

Independence of directors and leadership

The independence of the non-executive directors is discussed on a regular basis to ensure that there is no business or other relationships that could materially interfere with a director's capacity to act independently. A register containing the directors' declarations of interest is kept by the Company Secretary and is available for inspection by any of the directors on request. Directors must at all times observe the legal requirements in respect of the declaration of interests and do everything reasonably possible to avoid a conflict of interest in the execution of their duties. Any possible conflict of interest must at all times be declared upfront and the director concerned may not participate in a discussion, or vote, on the subject matter. In addition, the agenda at each scheduled board meeting makes provision for the signing of the latest declarations of interests and allows the board to consider any conflicts arising from changes to the directors' declarations of interests.

Bongani Caga is at present the only board member representing our empowerment partner, Sweet Sensation. Bongani is the only non-executive on the board who is considered not to be independent by virtue of his shareholding through Sweet Sensation, representing 180 000 CMSA indirect shares or 0,04% of the issued share capital of the company.

Directors must observe the provisions of the buying or selling of their shares in respect of any relevant rules, legislative or regulatory procedures. Directors are prohibited from any share dealings in closed periods and are required to obtain clearance from the CEO, CFO or Company Secretary prior to trading the company's shares. Directors are obliged to provide the CEO, CFO and/or Company Secretary with all information required by the company to comply with its disclosure duties in terms of the JSE Listings Requirements by no later than 24 hours after the share dealing.

The roles of Chairman and CEO were kept separate during the financial year in accordance with best practice principles. Independent non-executive director Sbu Luthuli chairs the board. Although Sbu owns 2 787 024 CMSA shares in total (789 024 direct and 1 998 000 indirect shares), this is not material in terms of the company (being only 0,62% of the issued share capital), nor is this material in terms of his own personal wealth.

The board has satisfied itself that no relationships exist which could adversely affect the classification of its independent non-executive directors, and accordingly that the classification of each of the directors is appropriate.

A brief curriculum vitae, and the classification of each director, appears on pages 22 and 23 of this report.

Board mandate

Directors have unrestricted access to all group information, records and documents through the Company Secretary. Directors receive detailed information packs on operations and group affairs to facilitate effective preparation and decision-making. Board packs are provided to directors in a timely manner before the respective meetings, and any director may propose additional matters to be included on the agenda of board meetings. In addition, non-executive directors have unrestricted access to members of management and, where appropriate, are entitled to access the external auditors, internal auditors and legal counsel without members of management being present. Directors, after discussion with the Chairman, may also seek independent professional advice at the group's expense should they deem it necessary for the proper execution of their duties.

The CMSA board has been established to retain full and effective control over the company and its subsidiaries. It functions in accordance with a formal board charter and its responsibilities include, inter alia:

- Giving strategic direction to the company;
- Ensuring that procedures and practices are in place to protect the company's assets and reputation;
- Monitoring and evaluating the implementation of strategies, policies, management performance and business plans;
- Ensuring that the company complies with relevant laws, regulations and codes of best practice;
- Assessing its performance and effectiveness, as a whole, and of the individual directors;
- Ensuring that the company has a succession plan for its executive directors; and
- Familiarising itself with issues of concern to stakeholders.

Executive directors are non-voting invitees at meetings of all board committees and their attendance is by invitation only. Executive directors receive no fees or remuneration for their roles as directors of the group. Refer to the Remuneration Committee report on pages 36 and 37 for disclosure of amounts paid to executive and non-executive directors during the year.

Remuneration Committee Report, refer to pages 36 and 37.

Attendance by the directors at board and special board meetings is set out in the table below, while attendance of members at Independent Board, Nomination, Audit and Risk, Social, Ethics and Transformation and Remuneration Committee meetings are tabulated in the relevant committee's reports within this IAR.

CVs of each director, refer to pages 22 and 23.

ATTENDANCE AT BOARD AND SPECIAL BOARD MEETINGS DURING 2012

DIRECTOR	BOARD	SPECIAL BOARD
EXECUTIVE		
Chris Aucamp[1]	3/4*	10/12*
Mark Daly[2]	1/1*	0/0
Johan du Preez[3]	1/1*	6/6*
Jerome Smith[4]	3/4*	2/8*
NON-EXECUTIVE		
Sbu Luthuli	5/5#	13/13#
Bongani Caga	5/5*	13/13*
Johan du Preez[3]	4/4*	7/7*
Nthabiseng Mokone	5/5*	13/13*
Mpho Mosweu	5/5*	9/13*
Sandile Zungu	3/5*	11/13*

1 *Former CFO, Chris Aucamp, resigned in November 2012.*

2 *Mark Daly, former Company Secretary and Financial Director of Cipla Medpro Manufacturing in Durban, was appointed as CFO in November 2012.*

3 *Former independent, non-executive board member, Johan du Preez was appointed as Acting CEO in August 2012.*

4 *Former CEO, Jerome Smith, was suspended in August 2012 and then resigned in October 2012.*

* *Member*

\# *Chairman*

Corporate governance continued

Rochelle Manilall (33)

Company Secretary
CA (SA)

Rochelle was appointed as the Company Secretary of CMSA with effect from December 2012. Her career with the CMSA group commenced in February 2006, with Rochelle having previously occupied the roles of Head of Internal Audit and Group Accountant. Rochelle is a qualified chartered accountant and graduated with a Bachelor of Commerce Honours degree from the University of Natal in Durban. An alumni of Deloitte, Rochelle has also completed secondments at their New York and London based offices.

Board committees

In order to better equip the board to discharge its collective responsibilities, board committees are in operation. These committees report back to the main board, which acknowledges its ultimate collective accountability and responsibility for the performance and affairs of the company. These committees are the Audit and Risk Committee, Remuneration Committee, Nomination Committee and the Social, Ethics and Transformation Committee. In addition to these committees, the board may constitute additional committees as and when required.

Accordingly, on 9 May 2012, the board of CMSA resolved that an Independent Board, as contemplated by Regulation 81(j) of the Companies Act, being those directors of CMSA who it has indicated are independent directors, be constituted in order to deal with the proposed transaction with Cipla India. The Independent Board consists of Nthabiseng Mokone, Mpho Mosweu and Sandile Zungu, none of whom hold any material shareholdings in CMSA.

The primary purpose of the Independent Board is to assist the board of CMSA with the oversight of fundamental transactions, takeovers and offers affecting the company.

COMPANY SECRETARY

The Company Secretary attends all board and committee meetings at the invitation of the board, is responsible for preparing the agenda and packs in advance of the board and committee meetings and for accurately recording the minutes of these meetings. In addition, the Company Secretary acts as a central advisor to the board, providing guidance to directors and committees on matters concerning corporate governance, updates and training on legal and statutory amendments and on the effective execution of their responsibilities and fiduciary duties. When required, the Company Secretary will involve the Sponsor and other experts to ensure the directors have the required information to discharge their responsibilities.

Mark Daly, former Company Secretary and Financial Director of CMM, was appointed as CFO in November 2012. Rochelle Manilall, former Head of CMSA Internal Audit, was appointed as Company Secretary in December 2012.

The Company Secretary maintains an arm's-length relationship with the board of directors and is not a director of the company.

The board of directors is satisfied with the competence, qualifications and experience of the Company Secretary.

INTERNAL AUDIT

Internal Audit functions in accordance with an approved charter, which defines the role, organisational status, authority, responsibilities and scope of activities of the Internal Audit function.

The internal audit objective includes promoting effective risk management and operational efficiency. Working together with the group's external auditors, the Internal Audit function reports into the Audit and Risk Committee to assist the company in further formalising and managing its risk management process, and has channels of communication to the CFO.

Internal Audit provides written assessments of the effectiveness of the system of internal controls and risk management to the board. An assessment, based on a written documented review of the internal financial controls, is reported directly to the Audit and Risk Committee.

The responsibility of Internal Audit includes conducting activities in accordance with the Institute of Internal Auditor's (IIA's) standards. The Internal Audit plan is submitted to the Audit and Risk Committee for its approval and Internal Audit reports at all Audit and Risk Committee meetings.

The Audit and Risk Committee ensures that the Internal Audit function is subjected to an independent quality review as and when the Audit and Risk Committee determines it appropriate as a measure to ensure that the function remains effective.

Internal Audit is an independent appraisal function which, for the majority of the 2012 year, was established as co-sourced arrangement from both within the company and with an external third party, RAFT Consulting, to examine and evaluate the company's processes as a service to the company in the effective discharge of its responsibilities.

As an interim measure, effective from 18 December 2012, the committee approved that RAFT Consulting take over the Internal Audit function solely, as the Head of Internal Audit was appointed as the Company Secretary. The Audit and Risk Committee in conjunction with management are currently evaluating a new co-sourced arrangement for the Internal Audit function, and are of the opinion that RAFT Consulting is adequately positioned to maintain the Internal Audit function in the short-term, until a co-partner can be appointed.

ETHICS, VALUES AND COMPLIANCE

Refer to the Social, Ethics and Transformation Committee report for further information.

Social, Ethics and Transformation Committee Report, refer to pages 39 and 40.

WHISTLE-BLOWING HOTLINE

For more information on the anonymous whistle-blowing hotline, refer to the Audit and Risk Committee report.

Audit and Risk Committee Report, refer to page 84.

LEGISLATIVE COMPLIANCE

Refer to the Social, Ethics and Transformation Committee report for further information.

Social, Ethics and Transformation Committee Report, refer to page 40.

Independent Board Committee report

INDEPENDENT BOARD COMMITTEE	
Composition	Three independent non-executive directors.
Appointment	Appointed by the board.
Chairman	Independent non-executive director elected by the board.
Members	Nthabiseng Mokone (Chairman) Mpho Mosweu Sandile Zungu
Attendance by invitation	Board members, CEO, CFO, Company Secretary and independent advisors.
Key responsibilities	Obtain appropriate external advice from an independent expert in the form of a fair and reasonable opinion. Perform a valuation of the company's shares that are the subject of an offer, and where necessary utilise the services of an appointed independent expert in doing so. Form an opinion on an offer consideration, taking cognisance of the fair and reasonableness of the opinion received, which opinion must be communicated to the company's shareholders.

ATTENDANCE AT INDEPENDENT BOARD COMMITTEE MEETINGS DURING 2012

MEMBER	19 JUN	4 JUL	5 JUL	9 JUL	23 JUL	30 JUL	7 AUG	8 OCT	6 DEC	13 DEC
Nthabiseng Mokone	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Mpho Mosweu	✔	✔	✔	✔	✔	✔	✔	✔	✔	✔
Sandile Zungu	✔	✗	✔	✔	✗	✔	✗	✔	✔	✗

CONSTITUTION

On 9 May 2012, the board of CMSA resolved that an Independent Board, as contemplated by Regulation 81(j) of the Companies Act, being those directors of CMSA who it has indicated are independent directors, be constituted in order to deal with the proposed transaction with Cipla India, which will affect the shareholding of the company. The Independent Board is constituted as a committee of the board of CMSA in terms of section 72(1) of the Companies Act to fulfil the functions of the Independent Board as required by the Regulations.

The Independent Board, in carrying out its duties must have due regard to the principles of governance and code of best practice as contained in the King III Report, the provisions of the Companies Act, the Company's MOI and any other applicable law or regulatory provision.

The primary purpose of the Independent Board is to assist the board of CMSA with the oversight of fundamental transactions, takeovers and offers affecting the company.

EXECUTION OF THE INDEPENDENT BOARD COMMITTEE FUNCTION

During the 2012 year, the Independent Board Committee has operated in accordance with its terms of reference which is approved by the CMSA board, and has carried out at least the following duties until February 2013:

- Appointed Bridge Capital as its Independent Expert in terms of the Takeover Regulations to consider the terms of the Proposed Transaction (i.e. the offer from Cipla Limited to acquire, by way of scheme of a arrangement, 100% of the issued share capital of CMSA for a offer price of R10,00 per CMSA ordinary share) and to give an opinion on whether or not the Proposed Transaction is fair and reasonable to the holders of CMSA shares and the share option holders;
- Obtained appropriate external advice from Bridge Capital in the form of a fair and reasonableness opinion;
- Noted that in Bridge Capital's view the terms and conditions of the Proposed Transaction are fair and reasonable to the holders of CMSA shares and the share option holders;
- After due consideration of the Independent Expert's Report, determined that it would place reliance on the valuation performed by the Independent Expert for the purposes of reaching its own opinion regarding the scheme of arrangement and the offer price of R10,00 per CMSA ordinary share;
- Unanimously opined that the terms and conditions of the Proposed Transaction were fair and reasonable to the holders of CMSA shares and the share option holders; and
- Unanimously resolved to approve the Proposed Transaction and to recommend without qualification, to the CMSA Board and the CMSA shareholders that they support the Proposed Transaction and vote in favour of the requisite resolutions to be passed to give effect to it.

Nthabiseng Mokone
Chairman

13 May 2013

Remuneration Committee report

REMUNERATION COMMITTEE	
Composition#	Three non-executive directors, two of whom were independent (between August 2012 and March 2013, the composition temporarily comprised two non-executive directors, one of whom was independent).
Appointment	Recommended by the Nomination Committee and appointed by the board.
Members	Johan du Preez (Chairman until August 2012) Bongani Caga (Chairman from August 2012) Sbu Luthuli Mpho Mosweu*
Optional attendance by invitation	CEO, CFO, Company Secretary, HR Executive
Key responsibilities	Approve the remuneration philosophy and policy for the group. Appraisal of the performance of executive directors. Recommending the conditions of employment, service agreements and basic remuneration for executive directors. Developing appropriate short and long-term incentive structures for executive directors. Recommending actual short-term incentive payments and share option allocations for executive directors. Recommending fees for non-executive directors. Setting the policy for the company's share option scheme. Monitoring succession planning for the organisation.

The committee's composition was temporarily disrupted when Johan du Preez, who was the chairman of the Remuneration Committee until August 2012, began serving as Acting CEO of CMSA to cater for the suspension and subsequent resignation of the former CEO during the 2012 year.

* *Mpho Mosweu, an independent non-executive director, was appointed as member of the Remuneration Committee during March 2013, to bring this committee back in compliance with the King Code, from a composition perspective.*

ATTENDANCE AT REMUNERATION COMMITTEE MEETINGS DURING 2012							
MEMBER	20 JAN	24 JAN	6 MAR	7 MAY	16 JUL	15 OCT	6 DEC
Johan du Preez	✔•	✔•	✔•	✔•	✔•	n/a	n/a
Bongani Caga	✔	✔	✔	✔	✔	✔•	✔•
Sbu Luthuli	✔	✔	✔	✔	✔	✔	✔

• *Chairman*

REMUNERATION PHILOSOPHY AND POLICY FOR THE GROUP

CMSA has an ongoing process of reviewing its policies and practices to ensure good governance at all times, and ultimately achieve compliance with the recommendations and best practices described in King III. The underlying objectives of the remuneration policy are to attract, retain and motivate employees, and promote superior performance while striving to comply with the guidelines set out in the appropriate legislative frameworks with regard to Empowerment and Employment Equity. The group aims to remunerate staff based on experience, grading and performance whilst simultaneously remaining competitive in order to retain our human capital and set us apart from the competition.

The group continues to make use of the Paterson Grading System and benchmarks salaries against two market-related surveys. Bonuses are not guaranteed (except for certain contractual obligations), but are based on individual performance and the financial performance of the group.

The CEO/Acting CEO will establish the basis for annual increases each year and will pre-approve the proposed increases before it is reported to the Remuneration Committee. The Remuneration Committee must approve the average percentage increase for all staff and the individual increases for Level F employees (other than the executive directors) before they are implemented. The board will approve the increases for the CEO, CFO and Deputy CEOs as recommended by this committee.

Remuneration Committee report continued

THE VARIOUS COMPONENTS THAT MAKE UP TOTAL REMUNERATION AND BENEFITS INCLUDE:	
COMPONENT	DESCRIPTION
Directors' fees	Executive directors do not receive directors' fees. Directors' fees relate to fees paid only to the non-executive directors, for attendance at board and committee meetings.
Guaranteed Remuneration (total cost of employment)	Guaranteed Remuneration refers to the fixed components of earnings, i.e. basic salary, employer contributions to retirement, healthcare and any other guaranteed allowances. Increases in Guaranteed Remuneration are reviewed annually (applicable from January each year) unless promotions or other changes require review before the annual period has expired.
Annual bonus (short-term incentive)	This is the variable portion of the remuneration that is payable in cash, and is linked to the group's performance and individual performances that are reviewed at least biannually. Executive directors' bonuses are recommended by the Remuneration Committee and approved by the board. Level F executives' bonuses are recommend by the CEO and approved by the Remuneration Committee. At other levels, additional discretionary bonuses may be paid to employees who have provided exceptional service to the group – this would be approved by the CEO and noted by the Remuneration Committee.
Other benefits	Included in Guaranteed Remuneration.
Retirement and medical benefits	Included in Guaranteed Remuneration.
Share-based payments (share options) (long-term incentive)	Long-term incentives comprise options granted to staff under the CMSA Employee Share Option Scheme approved on 24 November 2010. These options vest over a period of time (two to five years) to create employee wealth and provide retention of top-performing employees or employees with particular critical skills. The group is continuously evaluating critical skills and proactive methods to retain these employees. These share options will accelerate if the Cipla India transaction is successfully concluded. Another form of long-term incentive would then need to be put in place.

SHARE OPTION SCHEMES

- The two legacy employee share schemes, i.e. the broad-based employee share plan and the share incentive scheme, are no longer being utilised and both these schemes will be collapsed.
- To ensure compliance with the new JSE Listings Requirements, the group proposed a new share option scheme that was approved by shareholders at a general meeting held on 24 November 2010.
- This employee share scheme will be utilised for the issue of all share options in the future, subject to the outcome of the Cipla India transaction, with the vesting conditions having been amended as indicated in the diagram below. In addition, all vested options must be exercised within 18 months from the vesting date.
- This scheme is utilised for the issue of share options to certain employees and executives within the group, and is based on a benchmarked multiple of their guaranteed remuneration packages, their grading, position and performance. The issue of options is recommended by the Remuneration Committee and approved by the board. Share options issued under this scheme will accelerate if the Cipla India transaction is successfully concluded. Another form of long-term incentive would then need to be put in place.
- In May 2011 this scheme was utilised to offer certain employees a total of 4,7 million share options.
- Under this scheme, the former CFO was issued 289 256 options in March 2011 and a further 617 284 options in March 2012, as part of his long-term incentive. Subsequent to year end, and before his resignation on 31 March 2013 as a director of certain group subsidiaries, 28 925 of these share options vested and were exercised accordingly. The unvested share options have since been forfeited due to his resignation as a director/employee of the group.
- Subsequent to year end, on 26 April 2013, 300 000 share options were issued to two directors of Medpro Pharmaceutica Proprietary Limited (a wholly owned subsidiary of Cipla Medpro Holdings Proprietary Limited), both of whom are considered to be key personnel of CMSA.

	10% vesting	30% vesting	30% vesting	30% vesting
Grant date	Year 2	Year 3	Year 4	Year 5

Remuneration Committee report continued

REMUNERATION POLICY FOR THE EXECUTIVE AND NON-EXECUTIVE DIRECTORS

CMSA uses an independent market-related remuneration survey to benchmark the appropriate remuneration for its executive and non-executive directors. Executive directors' remuneration is also linked to the performance of CMSA and the prevailing rate of inflation. Shareholders approve the company's remuneration policy and the fees for non-executive directors on an annual basis.

The former CEO as well as the former and current CFO are bound by restraint of trade clauses as per their employment contracts.

The Deputy CEOs (who are not executive directors of the board) and the CFO do not have fixed-term contracts, but their contracts contain a four-month notice period.

The Acting CEO has agreed to stay on until at least the date of the shareholders' Scheme meeting, scheduled for 15 May 2013. His package was recommended by the Remuneration Committee and approved by the board.

Notice of the AGM, refer to page 148.

Non-executive directors do not receive any bonuses, share options, incentives or any other payments except for their directors' fees. Following research into benchmarking, market trends in non-executive director remuneration among companies of a similar size and complexity, and the duties performed, non-executive directors' fees are proposed by management to the Remuneration Committee. After review and discussion, the Remuneration Committee makes appropriate recommendations to the board for approval. The proposal approved by the board is tabled for final approval by shareholders at the AGM. As required by the Companies Act, at the forthcoming AGM, the group will request approval, by special resolution, of its non-executive directors' remuneration for the period from 1 July 2013 until the next AGM.

The non-executive remuneration structure proposed for approval by shareholders at the forthcoming AGM, covering the period 1 July 2013 until the next AGM, remains unchanged, i.e. the Chairman of the board will continue to earn a monthly retainer and will receive no further fees for attending individual board committee meetings; all other non-executive directors will earn a fee for each meeting attended with the respective Chairman of each committee receiving a higher fee per meeting compared to other members of the committee. 100% of the prescribed fee will be paid for the first meeting that a non-executive director is unable to attend in that year, as is the case with the current fee structure. A 6% increase in the Chairman's retainer and the fee per meeting has been proposed for approval at the forthcoming AGM, as detailed in the notice of the AGM on page 148 of the IAR.

Management and the board are cognisant of the fact that many of the non-executive directors add significant value, and contribute their time and skills throughout the year, even if they are unable to attend all of the meetings.

2012 EXECUTIVE DIRECTORS' REMUNERATION AND BENEFITS

EXECUTIVE DIRECTORS 2012	DIRECTORS' FEES R'000	BASIC SALARY R'000	ANNUAL BONUS R'000	OTHER BENEFITS R'000	RETIREMENT AND MEDICAL BENEFITS R'000	TOTAL REMUNERATION AND BENEFITS R'000	IFRS 2 SHARE-BASED PAYMENT EXPENSE R'000	TOTAL PACKAGE R'000
Chris Aucamp[1]	–	3 505	683	281	108	4 577	408	4 985
Mark Daly[1]	–	207	–	9	18	234	7	241
Johan du Preez[2]	–	1 457	–	–	–	1 457	–	1 457
Jerome Smith[2]	–	9 666	–	1 273	148	11 087	–	11 087
Total	**–**	**14 835**	**683**	**1 563**	**274**	**17 355**	**415**	**17 770**

Refer to note 23 for comparative information on the executive directors' remuneration and benefits.

1 *Mark Daly was appointed as CFO on 26 November 2012. His total package for 2012 is therefore only representative of the period he was employed as CFO.*

The former CFO, Chris Aucamp resigned on the same date.

2 *Johan du Preez was appointed as Acting CEO on 16 August 2012. Until that date he was a non-executive director and received directors' fees for his role as a non-executive director, as indicated in the non-executive remuneration table on page 37. His total package, presented in the table above, is therefore only for the period he was employed as Acting CEO.*

The former CEO, Jerome Smith was suspended on 15 August 2012 and subsequently resigned on 5 October 2012.

2012 AND 2013 NON-EXECUTIVE DIRECTORS FEE STRUCTURE			
TYPE OF FEE	PROPOSED FEE IN ZAR APPLICABLE FOR THE PERIOD 1 JULY 2013 UNTIL THE NEXT AGM R	APPROVED FEE IN ZAR APPLICABLE FOR THE PERIOD 1 AUGUST 2012 UNTIL 30 JUNE 2013 R	PROPOSED PERCENTAGE INCREASE %
Board			
Chairman	68 900*	65 000*	6
Member	39 750#	37 500#	6
Audit and Risk Committee			
Chairman	48 760#	46 000#	6
Member	35 722#	33 700#	6
Remuneration Committee			
Chairman	44 944#	42 400#	6
Member	22 472#	21 200#	6
Nomination Committee			
Chairman	44 944#	42 400#	6
Member	22 472#	21 200#	6
Social, Ethics and Transformation Committee			
Chairman	44 944#	42 400#	6
Member	22 472#	21 200#	6

* *Retainer per month. The Chairman of the board receives a monthly retainer rather than fees for attending committee meetings.*

\# *Fee per meeting.*

NON-EXECUTIVE DIRECTORS' FEES		
NON-EXECUTIVE DIRECTOR	DIRECTORS' FEES 2012 R'000	DIRECTORS' FEES 2011 R'000
Sbu Luthuli	788	722
Bongani Caga	511	245
Johan du Preez[1]	348	432
Nthabiseng Mokone	752	200
Mpho Mosweu	559	368
Sandile Zungu	249	100
Total	**3 207**	**2 067**

1 *Since Johan du Preez was appointed as Acting CEO on 16 August 2012, he earned directors' fees for services as a non-executive director between January 2012 and August 2012.*

Independent Board Committee fees

The Independent Board Committee was constituted on 9 May 2012 and initially received a fee per meeting of R21 200 per member and R42 400 for the Chairman. Between November 2012 and its dissolution in February 2013, the committee chairman was paid a monthly retainer of R50 000 and the members received a monthly retainer of R25 000.

PRESCRIBED OFFICERS

After consideration by the board, the members of the executive committee of CMSA are currently regarded as prescribed officers of the group. In 2011, only the executive directors were regarded as prescribed officers.

The executive committee was only formed in December 2012 and therefore their remuneration and benefit packages will be disclosed from 2013.

SENIOR MANAGEMENT REMUNERATION AND BENEFITS

We have expanded the established process of benchmarking the fixed and variable portions of executive management's remuneration and benefits to include Level F employees' remuneration and benefits in order to achieve a suitable balance between Guaranteed Remuneration, and short and long-term incentives based on performance. At the same time, a second benchmark survey was added for the 2012 review.

Currently, bonuses are performance-based, and are linked to the achievement of financial targets.

On behalf of the committee

Bongani Caga
Chairman

13 May 2013

Social, Ethics and Transformation Committee report

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE	
Composition	Two non-executive directors, of which one is independent, one executive director[1] and two members of senior management.
Appointment	Recommended by the Nomination Committee and appointed by the board.
Chairman	Independent non-executive director elected by the board, cannot be the Chairman of the board.
Members	Nthabiseng Mokone (Chairman) Chris Aucamp[1] Bongani Caga Janine Baillie-Stewart[2] (former HR Director) Dr Skhumbuzo Ngozwana (Deputy CEO)[2] Joe Brink[3] (General Legal Counsel)
Attendance by invitation	CEO, Company Secretary and members of management.
Key responsibilities	Monitoring the company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to: • Social and economic development (including the Employment Equity Act and the BBBEE Act); • Good corporate citizenship; • Environment, health and public safety; • Consumer relationships; and • Labour and employment. Implementation and monitoring of an effective ethics management programme in the company. Monitoring compliance with health and safety regulations, the Labour Relations Act and the BBBEE Act. Overseeing the sustainability reporting issues in the IAR and determining those material elements requiring external assurance.

1 *During November 2012, Chris Aucamp (CFO) resigned from the CMSA board and as a member of this committee, he was only appointed to this committee on 20 June 2012. His appointment was approved by the board during June 2012.*

2 *During March 2013, Dr Skhumbuzo Ngozwana (Deputy CEO) was appointed as a member to the Social, Ethics and Transformation Committee to replace Janine Baillie-Stewart who resigned from the company.*

3 *As from April 2013, Joe Brink resigned from the committee, as he is retiring in July 2013.*

ATTENDANCE AT SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE MEETINGS DURING 2012					
MEMBER	24 JAN	7 MAR	20 JUN	7 AUG	5 DEC
Nthabiseng Mokone	✔	✔	✔	✔	✔
Chris Aucamp	n/a	n/a	n/a	✗	n/a
Bongani Caga	✔	✔	✔	✔	✔
Janine Baillie-Stewart	✔	✔	✔	✔	✔
Joe Brink	✔	✔	✔	✔	✔

CONSTITUTION

The Social and Ethics Committee is constituted as a committee in terms of the Companies Act read with the Companies Regulations 2011. The primary purpose of the committee is to assist the board with the oversight of social, ethical, transformation and any other sustainability matters relating to the company. The committee operates in accordance with its terms of reference which is approved annually by the board. An annual work plan is established for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year.

The Social, Ethics and Transformation Committee is the only board committee which comprises both board members and members of management. The composition satisfies the requirements of the Companies Act and the board believes that the members have the relevant experience, knowledge and independence to fulfil the committee's responsibilities. The committee members are required to keep up-to-date with developments affecting the required skill-set.

The composition of this committee will be reviewed by the board in June 2013, to incorporate recent changes in management.

The formation of the Social, Ethics and Transformation Committee not only addresses the requirements of the Companies Act, but also the recommendations of King III in terms of ethical leadership and corporate citizenship.

EXECUTION OF THE SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE FUNCTION

The Social, Ethics and Transformation Committee has executed its duties and responsibilities during the year in accordance with its terms of reference and the Companies Act.

LABOUR, EQUALITY AND HUMAN RIGHTS

It is CMSA's objective to offer fair terms of employment and to provide employees with appropriate opportunities to develop their skills and progress in their careers. A Training and Development policy has been introduced to support the company's contribution towards the educational development of its employees. Refer to pages 73 and 74 for further details of training initiatives undertaken during the year.

The company recognises its duty and the benefits of providing working conditions which promote good health, safety and sound environmental practices.

All employees regardless of their race, religion, marital status, sexual orientation, disability or age should be treated fairly and honestly with both respect and dignity. The infliction of harassment or discrimination are subject to disciplinary and grievance procedures.

The human rights of all employees are respected including freedom of association, appropriate restrictions on the access and use of personal employee information and elimination of unfair discrimination.

In carrying out its duties during the year under review, the committee also reviewed the group's employment equity policy and plans, as well as the employment equity targets for the group.

TRANSPARENCY AND ANTI-CORRUPTION

- No bribes will be tolerated to be paid to or accepted from customers, politicians, government representatives or advisors.
- Products and services should stand on their own merits and quality, rather than false advertising, misrepresentations or exaggerated claims.
- Complaints from customers and suppliers, advisors or representatives must be dealt with promptly and fairly.
- Industrial espionage is not permitted.
- Management should have due regard as to how contracts with new suppliers, et al, will reflect on the reputation of CMSA.

ETHICS MANAGEMENT AND CONFLICTS OF INTEREST

The group is committed to ensuring that all directors and employees continue to conduct themselves, and all business, in a professional manner, with integrity and honesty, consistent with the group's business philosophy, values and standards of conduct.

The group has a detailed Ethics policy which has been drafted in line with the 10 principles set out in the United Nations Global Compact Principles and requires that the company and its employees act in accordance with legislation at all times, with integrity and professionalism, and to safeguard its reputation and resources. The objectives of this policy include, inter alia, the following:

- Adherence to all the applicable laws;
- Zero tolerance of discrimination or harassment of any kind;
- Confirmation that as a matter of policy, no political donations will be made;
- No bribes shall be given or received;
- Conflicts of interest must be avoided;
- Striving to be a responsible partner within our local communities; and
- Employees are encouraged and supported to report in confidence any suspected wrongdoing via the whistle-blowing hotline.

For further information on the whistle-blowing hotline, refer to the Audit and Risk Committee report on page 84.

Training initiatives during the year, refer to pages 73 and 74.

Whistle blowing hotline, refer to page 84.

Social, Ethics and Transformation Committee report continued

Transformation, CSI and BBBEE initiatives, refer to pages 62 to 71.

Conflicts of interest must be avoided. Actions taken by employees must be objective and based on the best interests of the company. Conflicts of interest include the acceptance of personal payments from suppliers to influence business decisions and where an employee or a close family member has an interest in a business with which CMSA has substantial dealings.

The Conflict of interest policy also prohibits any employee or director of the group, or persons related to them, from trading in CMSA shares during a closed period. It is also prohibited for employees or directors or persons related to them, to trade in CMSA shares on the basis of price sensitive information which is not available to the public, or disclosing this to outside parties. Directors and the Company Secretary may only trade in CMSA shares with prior written approval through the office of the Company Secretary. Directors shall provide the Company Secretary with all information required by the company to comply with its disclosure duties in terms of the JSE Listings Requirements by no later than 24 hours after dealing.

ENVIRONMENTAL AND OTHER LEGISLATIVE COMPLIANCE

The board is ultimately responsible for overseeing the group's compliance with laws, rules, codes and standards in terms of King III. The board has delegated to management the responsibility for the implementation of an effective legislative compliance framework and processes as envisaged by King III. The Audit and Risk Committee and the Social, Ethics and Transformation Committee assist in this process, by ensuring that all relevant legislation is adequately addressed by the company.

Currently there is no dedicated Compliance Officer, but this function is fulfilled by various members of senior management and was driven in the 2012 year by our General Legal Counsel.

During the 2012 year, we utilised the services of an external consultant to identify any legislation, regulations, standards or best practice principles relevant to our business. In conjunction with senior members of management from each area of the business, the resultant compliance matrix was utilised to perform a legislative gap analysis through each faculty of the company. Non-compliance/weaknesses in legislative controls were identified, a compliance rating was allocated against each requirement and corrective actions proposed and action plans put in place. The top rated compliance areas are reported on and progress reviewed quarterly by the committee.

During the latter part of 2012, a self-imposed environmental, health and safety legal compliance audit was conducted by an external consultant at the manufacturing facility in Durban. Plans have been put in place to address findings identified, which were presented to the committee for review.

The senior management team at each operating unit, division or department is responsible for ensuring that environmental legislation is complied with and that the requirements are appropriately communicated to employees.

TRANSFORMATION AND INVOLVEMENT IN THE COMMUNITY

CMSA aims to be a responsible partner within the local communities within which it operates through the support of community initiatives, local charities and involvement in various CSI initiatives.

For more on transformation, BBBEE and CSI initiatives the group supports, refer to pages 62 and 71.

During the 2012 year, senior members of management underwent BBBEE training, and armed with that knowledge, embarked on the development of a three-year BBBEE plan for the group. The committee monitors ongoing progress against that plan.

INTEGRATED SUSTAINABILITY REPORTING

Amongst its responsibilities the committee oversees the sustainability reporting issues in the IAR and determines for the benefit of the Audit and Risk Committee, those material elements over which external assurance should be obtained. During the December 2012 meeting of members, a decision was taken by the committee not to obtain external assurance on the sustainability report until such time as sustainable integrated reporting is at a more mature stage of reporting.

On behalf of the Social, Ethics and Transformation Committee

Nthabiseng Mokone
Chairman

13 May 2013

Nomination Committee report

NOMINATION COMMITTEE	
Composition	Three directors, majority to be independent non-executives.
Appointment	Appointed by the board.
Chairman	Independent non-executive director elected by the board or the committee.
Members	Sbu Luthuli (Chairman) Mpho Mosweu Sandile Zungu[1]
Attendance by invitation	CEO, CFO and Company Secretary.
Key responsibilities	To identify and recommend suitable candidates to fill new or potential executive/non-executive positions on the board and its committees. To ensure succession plans and strategies for the Chairman of the board, the CEO and CFO. To regularly review the required mix of skills, experience and other qualities of the board. To involve itself in the annual performance evaluations of the directors, board and the committees.

1 *With effect from 1 January 2012, Sandile Zungu and Nthabiseng Mokone swapped roles on the Nomination and the Audit and Risk Committee respectively, i.e. Sandile Zungu stepped down from the Audit and Risk Committee and accepted the appointment to the Nomination Committee, whilst Nthabiseng was appointed as a member of the Audit and Risk Committee (subject to approval by shareholders at the AGM) and resigned from the Nomination Committee.*

ATTENDANCE AT NOMINATION COMMITTEE MEETINGS DURING 2012			
MEMBER	7 MAR	5 NOV	6 DEC
Sbu Luthuli	✔	✔	✔
Mpho Mosweu	✔	✔	✔
Sandile Zungu	✗	✔	✔

CONSTITUTION

The Nomination Committee has been established by the board and its purpose is to ensure that the procedures for appointments to the board are formal and transparent, by making recommendations to the board on all new board appointments.

The committee operates in accordance with its terms of reference which is approved annually by the board. An annual work plan is established for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for the year.

EXECUTION OF NOMINATION COMMITTEE FUNCTION

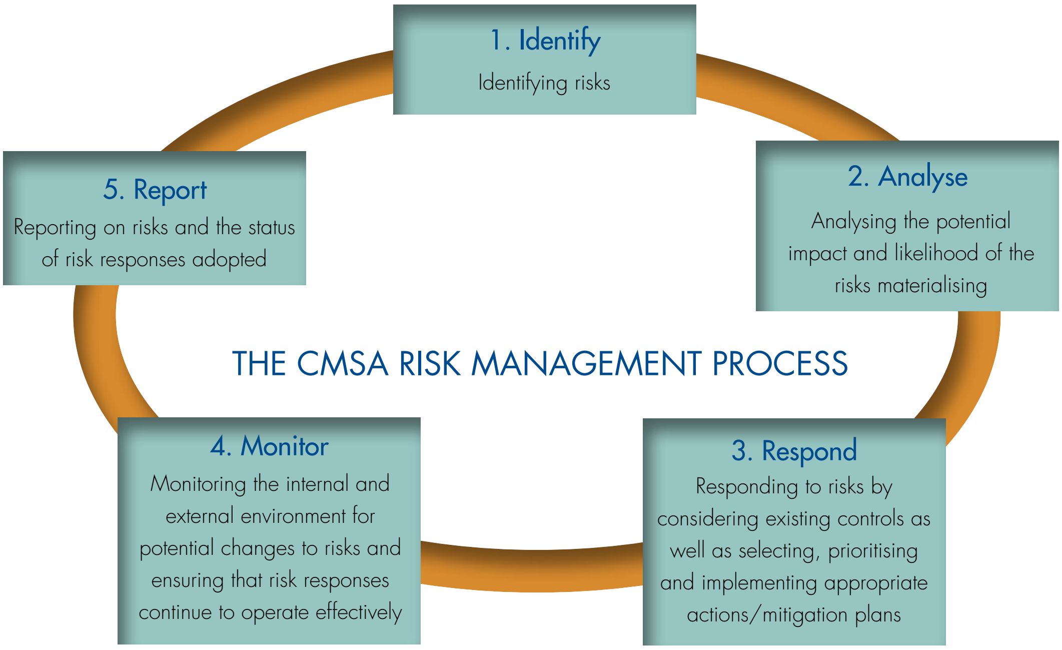
During the 2012 year the Nomination Committee has operated in accordance with its terms of reference and annual work plan, and has carried out at least the following duties:

- Confirmation of the resignations of the former CEO (Jerome Smith) and CFO (Chris Aucamp);
- Confirmation of the appointment of Mark Daly as CFO and Johan du Preez as Acting CEO;
- Involvement in the search and selection criteria for a new CEO;
- Rearrangement and confirmation of the composition of each committee, including the Independent Board Committee;
- Deliberated on the mix of skills and balance of executives and non-executives on the board; and
- Deliberated and recommended those directors who would retire by rotation and stand for re-election at the August 2012 AGM, in accordance with the rules of the MOI and the Companies Act.

Sbu Luthuli
Chairman

13 May 2013

Risk management



CMSA is committed to its vision, which is to be a leading pharmaceutical company, to the benefit of all stakeholders. In achieving this vision, CMSA will face risks to its business strategy, operational risks and risks associated with the protection of its people, property and reputation.

Risk management is a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on and communicating risk issues and opportunity.

The group has adopted an enterprise-wide risk management approach based on King III and the group's Enterprise Risk Management policy. This policy which is reviewed and approved by the board annually, sets out the identification, analysis and responses to risk in the organisation. The risk responses selected are determined by the risk appetites and tolerance levels for risk. These will vary over time according to the specific business objectives, and are subject to board approval.

KEY PRINCIPLES ON MANAGING RISK

- In order to achieve business objectives, risks must be considered and managed enterprise-wide.
- Risk management is integral to the strategic planning process, business decision-making and day-to-day operations.
- Risks are identified, analysed, responded to, monitored and reported on, in accordance with CMSA's policy and procedures.
- Risk responses must be tailored to each particular business circumstance.
- Management must regularly assess the status of risks and risk responses.
- Compliance with the Enterprise Risk Management Framework must be monitored and reported.

Each business unit has a local Risk Management Committee that regularly reports to the Audit and Risk Committee via the CFO, on risk management in the group, while the board maintains an oversight role over risk governance in the organisation. The Risk Management Committees have undergone risk management training to upskill themselves in carrying out their duties, and meet regularly to discharge their responsibilities.

The group makes use of risk registers to manage and monitor risk on an ongoing basis. Assessments are conducted on both strategic and operational levels (focusing, among others, on risks relating to regulatory aspects, engineering, production, finance and quality operations), and operational risks identified must be linked back to strategic risks. The following risk areas are monitored in detail: legal and compliance risks, financial risks, business continuity risks, fraud risks and IT risks. Risk owners are allocated to each identified risk and are responsible for the implementation of action plans to mitigate the risk to a tolerable level. Risks are rated in terms of likelihood and impact and are depicted on a risk map representing CMSA's risk profile.

ROLE OF THE BOARD AND THE AUDIT AND RISK COMMITTEE

The board has delegated (not abdicated) the risk function to the Audit and Risk Committee, which:

- Maintains oversight over risk governance;
- Reviews the effectiveness of Enterprise Risk Management processes of management;
- Concurs on risk appetite and risk tolerance;
- Reviews critical and significant risks; and
- Annually reviews and approves the CMSA Enterprise Risk Management policy.

ROLE OF THE RISK MANAGEMENT COMMITTEES

- Indentifies and assesses risks at an operational level.
- Escalate risks where relevant and aligns operational risks to the strategic risks.
- Manages the execution of the Enterprise Risk Management framework and any updates thereto.
- Monitoring and reporting of Enterprise Risk Management compliance.
- Integration of risk management into the business.

ROLE OF INTERNAL AUDIT

- Monitoring of enterprise risk management processes and the quality of performance.
- Assists in monitoring, examining, evaluating, reporting and recommending improvements to the adequacy and effectiveness of management's risk management processes.

Listed in the table below are the top ranked strategic risks the organisation would inherently face, assuming that there were no controls in place to mitigate these risks.

TOP RANKED STRATEGIC RISKS

RISK	IMPACT	LIKELIHOOD	MITIGATING FACTORS
Non-compliance with pharmaceutical related laws and regulations i.e.: – MCC requirements – GMP compliance – Industry standards	Catastrophic	Unlikely	Policies and SOPs in place. Ongoing training of all staff members. Internal quality audits and self inspections. Change control system and non-conformance system closely monitored to ensure effective and timely implementation of corrective actions.
Inability to secure and register sufficient alternate sources of critical API and IPIs to ensure continuity of supply	Major	Moderate	Procurement strategy includes the identification of alternative API and IPI sources where possible with specific reference to cost, quality and service, with the goal to secure at least two alternative sources. Where supply proves volatile, supply is split between two approved sources. Service level agreements in place with suppliers.
Going concern risk from a cash flow/working capital perspective	Catastrophic	Unlikely	Access to overdraft facilities and group cash resources. Contracts in place with customers specifying payment terms. Good track record of debt collections.
Inability to attract and retain critical skills and talent	Moderate	Moderate	Online careers website successful. Retention agreements in place tied into study loans and bursaries. Long-term share incentive scheme implemented for key members of staff.

Chairman's report

Cipla India to acquire
100%
of CMSA at R10 per share

Awarded
24% of ARV tender

696 employees

2012 has been one of the most challenging and testing periods that the company, and that I and my fellow board members, have had to endure, including:

- The suspension and subsequent resignation of the former CEO;
- Investigation by the TRP;
- Termination of discussions around a possible deal in August;
- The forensic audit;
- Resignation of the former CFO;
- Accusations by certain shareholders of value destruction and lack of governance structures; and
- Prior period restatements in our results.

Despite this trying period and the issues noted above, there are many positives that I can take away from this period that has seen the company grow from strength to strength despite all these distractions. It has been very satisfying, and I am grateful to have been part of the negotiations with Cipla India, to conclude what should be one of the largest foreign direct investments into South Africa by a fellow BRICS country. I have also been encouraged by the tenacity and leadership shown by the senior management team during this period that saw us retaining our position as the third largest and fastest growing of the top 10 pharmaceutical companies in South Africa, by value *(Source: IMS)*.

I am extremely proud of what the company, under the leadership of Johan du Preez in the Acting CEO role, has managed to accomplish including:

- Successful negotiations surrounding the Cipla India transaction;
- Key appointments including the two Deputy CEOs, Dr Skhumbuzo Ngozwana and Mark Sardi, and the promotion of Mark Daly to CFO and executive director (from the positions of group Company Secretary and Financial Director of CMM);
- Winning the largest portion of the ARV tender in November 2012, equating to 24% of the total award and being only one of three companies to be awarded the triple combination therapy that the State is rolling out across South Africa in a ground breaking initiative. We are very proud to be able to supply this product at more than a 6% discount to the other two suppliers; and
- The appointment of new external auditors, KPMG Inc., in December 2012.

I would personally like to extend my heartfelt thanks and appreciation for the support, dedication and leadership shown by Johan over the past 10 months and in particular his involvement in the Cipla India transaction.

I also need to extend a special vote of thanks to my fellow board members who all remained resolute and steadfast during this turbulent period. I can honestly say that the unity and wisdom displayed was very encouraging and I value the input of each member.

It is evident from the changes in the business and the continued growth that succession planning has been successful and we will look to continue to build on this for the future.

On behalf of the board I am pleased to present our IAR. It is the board's responsibility to ensure the integrity of this report and I believe this was achieved in our 2012 IAR.

CHANGES TO THE BOARD

During 2012 the following changes were made to the board:

- Former CEO, Jerome Smith, was suspended in August 2012 and he subsequently resigned as CEO in October 2012;

- Independent non-executive director, Johan du Preez, was appointed as Acting CEO in August 2012;
- Former CFO, Chris Aucamp, resigned in November 2012; and
- Former Company Secretary and Financial Director of CMM, Mark Daly, was appointed as CFO in November 2012.

The board currently consists of seven directors (2011: eight directors), of which four are independent, non-executive directors, in-line with King III's recommendation that the majority of the board should consist of independent, non-executive directors.

Following Mark Daly's appointment as CFO in November 2012, Rochelle Manilall was appointed as Company Secretary in December 2012.

CIPLA INDIA TRANSACTION

I am excited about this potential transaction and the positive implications it holds for CMSA going into the future. Cipla India's offer to acquire 100% of CMSA for approximately R4,5 billion shows their positive interest in our company, a gateway to Africa, and belief in CMSA as a partner. This transaction will create a stronger, more efficient pharmaceutical player and will generate benefits for all our stakeholders. Not only will Cipla India help improve our strategic positioning in South Africa, but it will also allow us to compete more effectively and grow sustainably across the African continent. Ultimately, patients across South Africa and the rest of the continent will benefit from increased access to a wider range of affordable medicines.

Key dates of the deal are:

- On 27 February 2013, Cipla India made a firm intention announcement to acquire 100% of CMSA's share capital at R10,00 per share;
- On 15 April 2013, the circular was posted to shareholders; and
- On 15 May 2013, the Scheme meeting of shareholders will be held where shareholders will consider and approve the transaction.

By the time this report is posted to shareholders, the Scheme meeting should have been held, but at the time of signature of this report, we do not have clarity on the outcome of the voting by shareholders and can therefore not comment on it. The board unanimously supports this transaction and believe that it will strengthen our relationship with Cipla India.

GOVERNANCE

I confirm that the board and I are committed to serving the needs of all our stakeholders in an honest and transparent manner. We uphold the principles outlined by King III and are committed to sustainable and integrated reporting.

As mentioned previously, creating shareholder value was one of our key objectives for the 2012 year. I believe this has been achieved when looking at the offer to shareholders from Cipla India which would allow investors to realise a fair return on their investment. The share price performance for the year, closing at R8,98 compared to 2011's closing price of R6,35 per share, represents an increase of 41%.

EMPOWERMENT

At CMSA we are committed to promoting BBBEE and continue to strive to improve our involvement in empowering all South Africans.

Although we are not satisfied with our current BBBEE rating being a Level 5 for the CMSA group, we have taken various steps in ensuring we actively look at areas where we are deficient, increasing involvement in relevant social projects and investing in the education and development of previously disadvantaged individuals. We were pleased to achieve a Level 2 rating at the CMSA company level which houses our manufacturing division and I am confident that with the correct approach we will be able to improve on our previous scorecard at group level.

We thank our BEE partners, Sweet Sensation for their continued support of our company.

FOCUS FOR THE FUTURE

We continue to strive for sustainable growth in all aspects of our business, while delivering meaningful returns for our investors and shareholders. This will be achieved through an integrated approach as we strengthen our portfolio by continued organic growth, as evidenced year after year by growth in excess of the market and our major competitors. We continue to build and strengthen our relationship with Cipla India, which is probably at its strongest ever, and aim to ensure that our goals are aligned. Although delays at the MCC continued to hamper our ability to launch new products, we continue to work closely with the MCC to improve the number of products that are registered. Expansion into Africa remains one of our key focus areas.

CONCLUSION

I would like to thank the board, the executives and the management team for their contributions, constant dedication and support. I am confident that we have built a solid base in 2012 and 2013 will outshine every aspect of 2012. Last, but not the least, I would to thank the entire CMSA team, including our shareholders, customers, suppliers and partners.

Sbu Luthuli
Chairman
13 May 2013

Grow sales from buy-out opportunities more than
three-fold

5,2%
market share

Closing share price of
R8,98
per share, represents an increase of
41%

Chief Executive Officer's report

Fastest growing

of the top 10 pharmaceutical companies in South Africa

SEP increase of only

2,1%

Animal business grew by

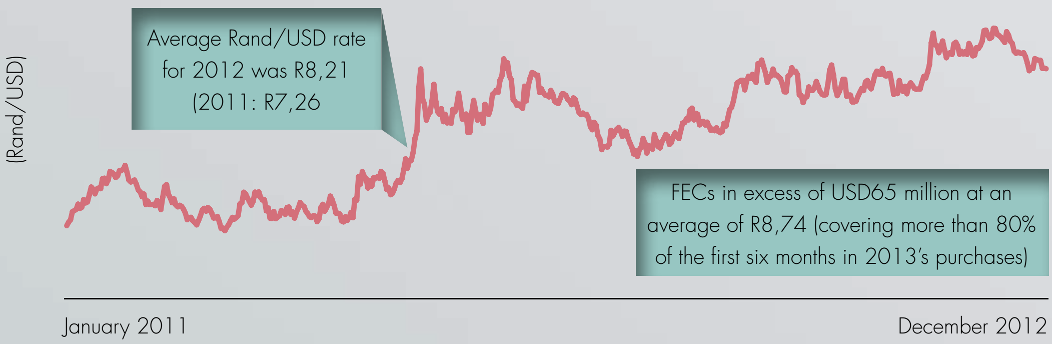
33%

OVERVIEW

2012 was another challenging year that saw significant movements in the exchange rate and an SEP increase of only 2,1%. Like the rest of the industry, we continue to face challenges with the registration of new products at the MCC, many of which are potentially first to market opportunities. Despite these restrictions on our growth prospects, we are satisfied that we have continued to maintain a leadership position and grow sales across various product lines and therapeutic categories. Our ability to build enduring brands is reflected in the fact that our leading brands like Lexamil and Venlor (central nervous system); Asthavent (respiratory); and Carloc (cardiovascular) have all maintained leadership positions in the market despite significant and robust competition and the entry of new players with aggressive pricing in the South African pharmaceutical market.

Analysis of foreign exchange gains (losses)

Exchange rate movement



New product registrations in South Africa

	31 DECEMBER 2012
Dossiers registered during the past year	50
Dossiers pending registration at MCC	242
Dossiers received and submitted during the past year	52
Dossiers received – to be submitted over the next six months	14
Dossiers expected to be registered over the next six months	10 to 20

Evolution Index of

107,7

(highest of the top 10 pharmaceutical companies in South Africa)

THE SOUTH AFRICAN PHARMACEUTICAL MARKET

The South African pharmaceutical market continues to grow and presents significant opportunities for the future. Unlike the mature markets of the west, generic utilisation is still fairly low at around 58% compared to 82% in the US *(Generic Pharmaceutical Association of America and IMS)* and around 70% in some European markets *(European Generics Association and IMS)*. This, combined with the significant patent expirations that will occur in the next few years, will continue to see robust growth in generic usage and opportunities for our company. We will continue to leverage off Cipla India's pipeline and platform technologies and look forward to many first-to-market opportunities in the future.

Despite the challenges noted above, Cipla Medpro has continued to grow on the back of a strong sales and marketing team, reliable supply and excellent channel relationships.

We are pleased that our other divisions continue to show steady growth with sales of R27,0 million (2011: R23,4 million) for our small animal business (Cipla Vet) and R106,3 million (2011: R77,0 million) for our large animal business (Cipla Agrimed).

Our Oncology division, with a broad portfolio of products, is gaining traction and we have now launched a total of 17 products to the market (plus another four products to be launched shortly). We are excited about the growth in our tender business. Please refer to the Cipla Medpro Operational review for more details.

Cipla Medpro Operational review, refer to pages 14 and 15.

OPERATIONAL REVIEW: CIPLA MEDPRO

BASED ON RANDS	YEAR TO DATE DECEMBER 2012 Rm	GROWTH %	YEAR TO DATE DECEMBER 2012 MARKET SHARE %	MARKET POSITION	NUMBER OF COMPETITORS (INCLUDING CIPLA MEDPRO)
ODIMUNE	80,3	–	22,8	3	3
LEXAMIL	76,7	11,2	49,6	1	7
VENLOR	76,6	11,3	71,8	1	6
COXFLAM	51,7	(1,6)	62,9	1	11
CARLOC	47,3	13,8	70,3	1	6
LANSOLOC	46,1	(3,9)	51,1	1	8
ASTHAVENT	43,4	3,4	53,4	1	6
DIDIVIR	41,2	(14,8)	41,9	1	6
BUDEFLAM	38,3	17,7	40,7	2	7
EPITEC	38,2	20,5	39,8	2	8

Source: IMS, December 2012

Chief Executive Officer's report continued

Cipla Medpro operational review, refer to pages 14 and 15.

CMM revenue grew by 46%

Chairman's report, refer to page 45.

OUR MANUFACTURING FACILITY

CMM revenues grew by 46% from R197,9 million in 2011 to R288,9 million in 2012, before inter-company eliminations. We continue to contract manufacture for third parties and although opportunities to perform more third-party manufacturing continue to present themselves, we are selective in our approach so that priority is afforded to the recently awarded ARV tender products and Cipla Medpro private sector products.

Please refer to the Cipla Medpro operational review for more details.

CIPLA INDIA TRANSACTION

My personal conviction relating to the proposed transaction is that the underlying strategic rationale for the transaction is sound and the price being offered is very attractive. It presents an opportunity for existing shareholders to realise a good return on their investment which is just reward for their continued support of the company over time and specifically during the turbulent period of the last 10 months. At the same time it provides Cipla India with an opportunity to take the existing relationship to the next level and occupy a position in the value chain closer to the end consumer, whilst it will open new and exciting career opportunities for Cipla Medpro employees.

As mentioned in the Chairman's report, the board unanimously supports the transaction.

ACKNOWLEDGEMENTS

We have seen a return in confidence from the investment community over the past few months as they took comfort from our continued strong performance, strong leadership provided by senior executives and their teams, the appointments of Dr Skhumbuzo Ngozwana and Mark Sardi as Deputy CEOs and the promotion of Mark Daly to the role of CFO (previously Financial Director at Cipla Medpro Manufacturing and Company Secretary of Cipla Medpro). When the Department of Health announced in November 2012, that our group was awarded the biggest percentage of Government's massive HIV tender (24% of the tender or R1,448 billion over two years) it was welcome news and proof that our team had pulled together to secure the single biggest contract won by the group to date.

I would like to thank the senior management team for their dedication and support - they took a step forward to lead by an example and with integrity when it mattered most, which is the acid test of strong leadership. Each and every member of the Cipla group have reason to be and should be proud of the potential transaction with Cipla India, as it is in the first instance an investment into the employees of our company, who ultimately represent the value of the business.

I would like to thank my fellow board members for this opportunity and their continuous support. In particular I would like to thank our Chairman, Sbu Luthuli, for his steadfast commitment and sage counsel throughout this difficult period. His role in leading the board and directing the company cannot be overemphasised.

Johan du Preez
Acting CEO

13 May 2013

Chief Financial Officer's report

Revenue grew by
30%

Gross profit up
11%

Normalised EBITDA up
7%

Normalised HEPS and EPS
remained flat

OVERVIEW

Subsequent to the release of our 2011 annual results on SENS on 15 March 2012 and before finalisation of our 2011 IAR, the Reckitt Benckiser (SA) Proprietary Limited (RBSA) matter was settled and we were required to restate our 2011 results, which were then released on SENS on 29 June 2012. During the audit of our 2012 annual results, three issues have come to light that have resulted in prior period restatements. As a result, the comparative information included throughout this report, and the base used for the analysis has been restated accordingly. The restatements relate to a change in application of the accounting policy relating to intangible assets, a VAT receivable and VAT payable that needed to be raised (Rnil effect on retained income) and an adjustment relating to inventory which was overstated in 2011. We will refer throughout to the 2011 results and these are the "restated" results which take into account the RBSA settlement, intangible asset impact (amortisation charge and impairment, where applicable), VAT impact as well as the effect on inventory.

The restatements have not negatively impacted on our free cash flows

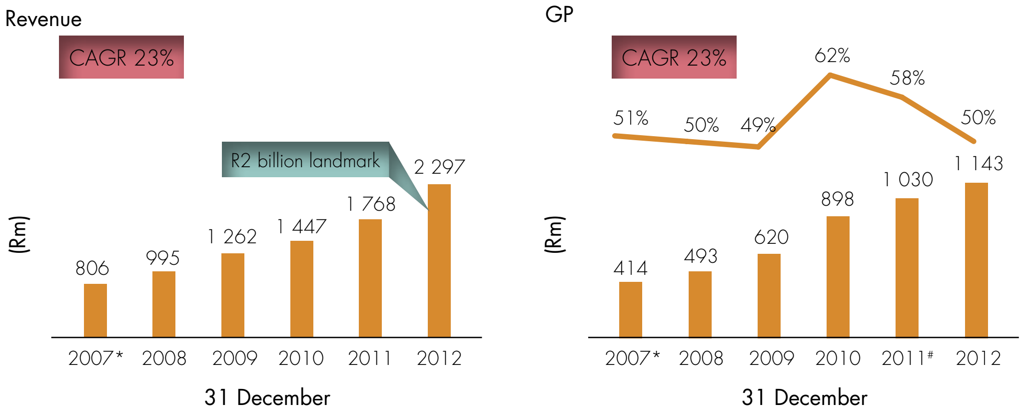
Prior period restatement, refer to note 30 on pages 141 and 142.

IMPACT OF RESTATEMENTS OF 2011 STATEMENT OF COMPREHENSIVE INCOME

	RESTATED YEAR ENDED 31 DECEMBER 2011 R'000	IMPACT OF RESTATEMENT ON RETAINED INCOME R'000	AUDITED YEAR ENDED 31 DECEMBER 2011 R'000
Revenue	1 767 561	–	1 767 561
Gross profit (GP)	1 029 862	(25 654)	1 055 516
Other income	121 264	–	121 264
Other operating expenses	(766 818)	(41 113)	(725 705)
Results from operating activities (PBIT)	384 308	(66 767)	451 075
Finance income	15 586	–	15 586
Finance costs	(58 212)	–	(58 212)
Profit before income tax (PBT)	341 682	(66 767)	408 449
Tax expense	(102 768)	18 694	(121 462)
Profit for the year (PAT)	238 914	(48 073)	286 987

Chief Financial Officer's report continued

Group revenue and GP analysis



* *Continuing operations*

\# *Restated (refer to note 30 of the annual financial statements for details of the restatements).*

If the provision for interest was added back, normalised HEPS and EPS would have increased by **7%**

HEPS AND EPS

Earnings per share (EPS) has decreased from 52,3 cents to 36,6 cents based on profit attributable to equity holders of the parent of R161,4 million (2011: R233,9 million). Headline earnings per share (HEPS) has decreased from 55,3 cents to 37,6 cents mainly as a result of the inclusion of the non-recurring settlement income in 2011 of R68,8 million (2012: Rnil), the gains on the mark to market valuation of FECs in 2011 of R109,2 million (2012: losses of R47,8 million) and the impact of the RBSA settlement in 2011 of R109,9 million (2012: Rnil). These calculations are based on 441,1 million (2011: 446,9 million) weighted average number of shares in issue for the 12 months of 2012 (before the effects of dilution are taken into account). Headline earnings of R166,0 million (2011: R247,2 million) were achieved after adjusting for the impairment of intangible assets of R4,7 million (2011: R13,1 million), the gain on disposals of property, plant and equipment in 2011 of R0,1 million (2012: one thousand Rand) and the loss on the deemed disposal of a joint venture in 2011 of R0,3 million (2012: Rnil), all net of tax.

Gross margins came under pressure as a result of the change in product mix and impact of the exchange rate

In order to arrive at our normalised HEPS and EPS of 46,8 cents (2011: 46,9 cents), the following adjustments (before tax) were made:

- Added back the finance cost portion of the RBSA provision of R4,1 million (2011: deducted the finance income portion of R7,4 million) and in 2011 added back the RBSA settlement costs of R117,3 million and related legal costs of R15,9 million (2012: Rnil);
- Added back the net effect of interest rate swap entries (fair value adjustments and swap settlements) of R0,3 million in 2011 (2012: seventeen thousand Rand);
- Added back the losses on the mark to market valuation of FECs of R47,8 million (2011: deducted gains of R109,2 million);
- Added back impairment on intangible assets of R5,4 million (2011: R18,1 million);
- Added back due diligence costs related to the Cipla India transaction of R2,9 million (2011: Rnil); and
- In 2011, deducted the non-recurring settlement income of R68,8 million (2012: Rnil).

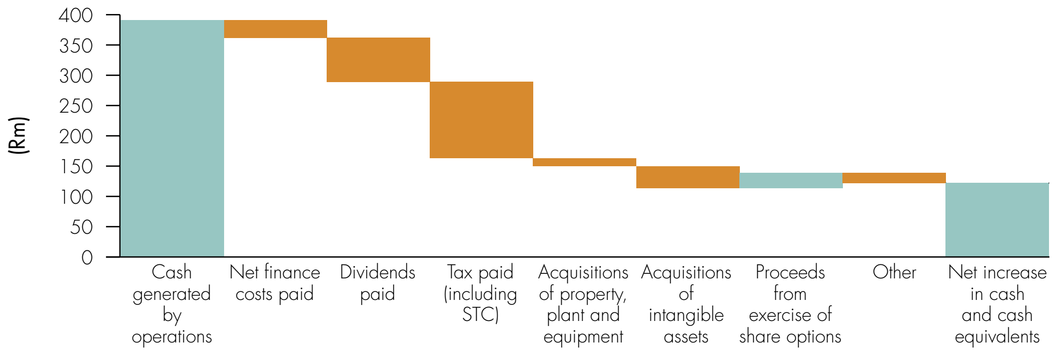
SEGMENTAL ANALYSIS

	SALES 2012 R'000	SALES 2011 R'000	GROWTH %	GP-MARGIN 31 DECEMBER 2012 %	GP-MARGIN 31 DECEMBER 2011* %
SEP•	1 729 994	1 258 717	37,4	48,8	58,7
OTC•	410 680	391 955	4,8	55,4	60,0
Other operating segments	156 550	116 889	33,9	45,8	47,8
CMSA group	**2 297 224**	**1 767 561**	**30,0**	**49,8**	**58,3**

* *Restated (refer to note 30 of the annual financial statements for details of the restatements).*

• *If the effects of tender business are excluded, SEP private market sales growth was 15% and OTC private market sales growth was 14%.*

Cash flows for 2012



After taking the above adjustments into account, normalised HEPS and EPS have decreased slightly with 0,2% compared to the 2011 results.

FINANCIAL PERFORMANCE

Revenue improved by 30,0% to R2 297,2 million (2011: R1 767,6 million), breaking through the R2 billion landmark with strong sales in the second half of the year (June 2012: R1 079,8 million). The SEP increase of 2,1% was granted with effect from 26 March 2012 and the increase for 2013 of 5,8% with effect from 18 March 2013. The revenue growth was achieved mainly through increased supply of ARVs to the State (increased by more than 100%), private market growth of approximately 13% and growth in the other operating segments of approximately 34%. As a result of the product mix changing based on the significant growth in ARVs supplied to the State and the weakening Rand, gross margins came under pressure. The GP increased by R113,0 million to R1 142,9 million (2011: R1 029,9 million) with the GP margin reducing to 49,8% (2011: 58,3%) – approximately 5% of this reduction is attributable to the weakening exchange rate (that devalued 13% from 2011) and 3% relates to change in product mix with increased supply to the State.

Other income has decreased from 2011 mainly as a result of the non-recurring settlement income of R68,8 million included in other income in 2011 (2012: Rnil) and the net effect of foreign exchange movements and gains on mark to market valuation of FECs of R49,3 million (2012: R5,9 million).

Other expenses have increased by 8,5% from R766,8 million to R831,8 million, including:

- Losses on the mark to market valuation of FECs of R47,8 million (2011: R109,2 million gains included in other income);
- Advertising and marketing costs of R226,7 million (2011: R204,1 million);
- Transport and freight costs of R34,0 million (2011: R26,2 million);
- Amortisation charges of R22,5 million (2011: R24,4 million);
- Impairment of intangible assets of R5,4 million (2011: R18,1 million); and
- Depreciation of R21,9 million (2011: R18,5 million).

Operating expenses have been a key focus area for management over the last six months of 2012 and strict measures and corrective actions have been put in place to ensure we start widening the gap between sales growth and expenses, to ensure a sustainable and profitable future. We have covered more than 80% of the purchases for the first six months of 2013 with FECs at an average rate of approximately R8,74/USD currency.

INTANGIBLE ASSETS

A detailed exercise was undertaken with regard to the intangible assets which resulted in the following:

- Reassessment of the original purchase price allocation that was performed when CMSA (previously Enaleni) acquired 100% of the share capital of Cipla Medpro in December 2005; and
- Reassessment of the useful lives.

Breaking through the **R2 billion** landmark

GP margin

50%

Chief Financial Officer's report continued

THE USEFUL LIVES CAN BE SUMMARISED AS FOLLOWS:		
	USEFUL LIFE	PERIOD
Dossiers and registrations	Indefinite and finite	Finite: 2 to 56 years
Trademarks	Indefinite and finite	Finite: 2 to 56 years
Goodwill	Indefinite	n/a
Brands	Indefinite	n/a

THE AMORTISATION AND IMPAIRMENT OF INTANGIBLE ASSETS (EXCLUDING COMPUTER SOFTWARE) ARE AS FOLLOWS:			
	2012 R'000	2011 R'000	2006 to 2010 R'000
Amortisation	20 224	22 971	102 288
Impairment	5 426	18 142	2 677

Increase in cash and cash equivalents of

R121,9m

FINANCIAL POSITION AND CASH FLOW ANALYSIS

At 31 December 2012, there was a favourable net cash balance of R31,4 million when compared to an overdrawn position of R90,5 million at 31 December 2011. Cash generated from operations increased from R112,0 million to R163,1 million while cash outflows from investing activities reduced from R107,0 million to R47,7 million as a result of less investment in property, plant and equipment and intangible assets. Cash flows from financing activities resulted in an inflow in 2012 of R6,4 million, mainly due to the inflow of R24,8 million from the exercise of share options (2011: outflow of R70,6 million – which was mainly due to the share buyback and redemption of preference shares that took place in 2011).

No final dividend will be declared for the 2012 year as a result of the Cipla India transaction.

RATIO ANALYSIS FOR THE PERIOD UNDER REVIEW		
	31 DECEMBER 2012	RESTATED# 31 DECEMBER 2011
Debtors days*	57 days	59 days
Inventory days	130 days	168 days
Creditors days*	132 days	148 days
Gearing/debt: equity ratio	12,7%	20,9%
Current ratio	1,5 times	1,4 times
Solvency ratio	2,9 times	3,0 times

\# *Refer to note 30 of the annual financial statements for details of the restatements.*

* *This excludes the VAT receivable and payable raised due to the restatements.*

CONCLUSION

The prior period restatements referred to earlier, although unfortunate, do not negatively impact the valuation of the business or the free cash flows. The adjustments relating to inventory were once-off in nature and had no impact on the 2012 results and while the amortisation will now be an annual charge, it will be added back when calculating the free cash flows. These restatements, therefore, have had no impact on the Cipla India transaction – both in terms of the material adverse event condition or the offer price of R10 per share. Adequate measures have been implemented in the affected areas to ensure adherence to all applicable accounting standards and to limit the possibility of reoccurrence.

The challenges for the year ahead relate to expense control and working capital management, while the exchange rate will continue to have an impact on business. We will continue to follow our policy of covering approximately 80% of our imports for the following six-month period and expect a further reduction in our gross profit margin of approximately 2% to 4% based on the current exchange rate and increased business with the State.

I would like to thank my finance teams (Durban and Cape Town) for their support and dedication during the last year, which was a difficult one. I look forward to building on the team we have in place and working with Cipla India should shareholders and the regulators approve the transaction.

Mark Daly
CFO

13 May 2013

Preferred partner in medicine

P

In 2011 we said

- Client satisfaction; excellent service; effective, safe, quality product, world-class medicines at affordable prices
- Improve number of registrations submitted to and registered by MCC
- Comply with all relevant laws and regulations

Performance in 2012

- Awarded 24% of ARV tender
- Registered 50 dossiers (2011: 20)
- Contracted a third party to ensure that we comply with all laws and regulations

Plans for 2013

- Continue to focus on tender business, as well as to improve our market share in the South African pharmaceutical market and in so doing, ensure that we remain a preferred supplier
- Continue to submit registrations in order to launch first-to-market products
- As part of our risk management process, ensure that we comply with any relevant laws and regulations applicable to our business

STAKEHOLDER ENGAGEMENT AND COMMUNICATION

One of the focus areas for CMSA, in order to build on our strategy of being the preferred partner, we remain committed to regular, relevant and consistent communication with all our stakeholders, including the communities in which we operate, our customers, suppliers, unions, shareholders, regulatory bodies and employees.

We are dedicated to the quality of life of all patients and health-consciences customers using our products. Patients and healthcare providers have open lines of communication with dedicated employees, including healthcare practitioners, equipped to address their questions, concerns or medicinal-related queries.

Preferred partner in medicine continued

STAKEHOLDER	CORPORATE BANKERS AND FUNDERS	CUSTOMERS	GOVERNMENT, REGULATORS AND PHARMACEUTICAL INDUSTRY
Engagement and communication method	The CFO works closely with the corporate bankers regarding the group's performance, its finance requirements in the short and long term, and foreign exchange dealings.	A large national sales force details many of the customer groups. Numerous advertising and marketing initiatives are undertaken within specified pharmaceutical industry parameters. Representatives and marketing staff regularly attend industry conferences and congresses. Regulatory department staff and other departments continue to engage with the Department of Health (DoH) and other key bodies like the Pharmaceutical Economic Evaluations Unit, the Industry Task Group and the Marketing Code Authority to ensure conformance to regulations, to resolve issues around pricing and marketing codes timeously. The tender unit and the hospital team regularly liaise with government depots and hospitals to ensure seamless service delivery and that supply issues are dealt with speedily. Customer care call lines and a customer care email address are available and advertised on product packaging; Cipla Medpro medical department staff with significant expertise deal with product and ailment queries from consumers and medical professionals. Relevant corporate or product-related news is communicated via press releases and group websites. CME functions are arranged and facilitated for medical practitioners/pharmacists in order to promote industry learning and continuing education among practitioners.	We are ably represented on pharmaceutical and industry bodies such as NAPM and the Industry Task Group. With the momentum on Regulatory Harmonisation in the SADC region, we have assumed membership of the Southern African Generics Medicines Association and are represented on the Scientific Committee dealing with harmonisation issues. Regular discussions with government departments, including DoH, DTI and DST with regard to issues such as pharmaceutical regulation, designation of sectors, tenders and preference for locally produced pharmaceuticals. Ongoing correspondence with the MCC. Site inspections and correspondence by regulatory bodies.
Reasons for engaging	Ensure sufficient funding.	Ensure that customer needs are met. Creating trust in our products and company. Ensure customer retention. Increase our market share.	Ensure compliance with relevant laws and regulations. Ensure good communication lines and to understand what is best practise. Be up to date of what is happening in the industry.
Key points of engagement	Reasonable rates and contractual obligations. FECs.	Competitive pricing. Special deals/packages. Product range.	Compliance. Regulation. What is expected of us.

STAKEHOLDER	SUPPLIERS	PARTNERS
Engagement and communication method	Skilled procurement departments are in place to negotiate and work closely with suppliers regarding raw materials and packaging materials on hand. Supplier audits are conducted periodically. BEE status of suppliers is ascertained in line with CMSA's BEE policy.	Senior staff works closely with Cipla India and other third party suppliers. Site visits in South Africa and India are regularly arranged. Best practice, advice and knowledge are shared freely. Dedicated technology transfer teams work closely with all partners to facilitate smooth introduction of new products into the manufacturing facility.
Reasons for engaging	Ensure stable relationships. Understand what the market expects.	To solidify key relationships. Ensure mutual agreements.
Key points of engagement	Product availability. Quality of products. Transformation and BEE scorecards. Compliance with laws and regulations.	Terms of agreement.

STAKEHOLDER	EMPLOYEES AND UNIONS	SHAREHOLDERS, INVESTORS AND HEALTHCARE ANALYSTS
Engagement and communication method	Regular, routine meetings across all divisions and regions. Notice boards visibly placed in all offices and departments. Company-wide SMSs are distributed regularly and a staff newsletter is circulated to disperse relevant work, policy, procedure or corporate information, as well as the social aspects within the work environment. Executive and middle management strategy meetings are held regularly. Staff attend regular training workshops. An annual sales meeting is held in Cape Town at the beginning of each year to deliver new strategies, goals, targets and objectives for each division to the sales force, executives and support staff. The HR Forum serves as an interactive meeting between representatives from all departments and management. Employees within the bargaining unit have the opportunity to join a union of their choice. Currently we do not have a recognised union on site, despite employees contributing to two different unions at CMM. Whistle-blowing hotline.	Biannual roadshows at the release of the annual and interim results. The presentations are also available via simultaneous webcast go to www.ciplamedsa.co.za Results are published in English and Afrikaans media, uploaded onto the CMSA website: www.ciplamedsa.co.za and booklets containing the results are distributed. Continuous discussions and communication with the CEO and CFO for disclosable information, when the company is not in a closed period. The company operates two websites containing investor-related information, which are constantly updated with the latest information available. SENS announcements pertaining to corporate activity An IAR is prepared and distributed as well as uploaded onto the CMSA website: www.ciplamedsa.co.za An email address designated for investor related queries. Our executives interact with the media and are frequently asked to give expert commentary or opinions on various developments affecting the pharmaceutical industry.
Reasons for engaging	Ensuring that the group strategies and values are communicated throughout the company. Development of leadership and improve performance of staff. Attract, retain and motivate staff. Addressing aspects including, but not limited to employment equity, skills development planning and overall improvement initiatives. Promoting an open line of communication on all levels of employment.	Keeping shareholders, investors and media informed. Promote a transparent reporting process. Attract and retain investors.
Key points of engagement	Set targets. Performance management. Remuneration and benefits. Training and skills development.	Operational functioning of the company. Challenges and prospects for the company. Strategies: financial and non-financial. Financial performance.

Preferred partner in medicine continued

PRODUCT RESPONSIBILITY

Manufacturing facilities

Manufacturing facilities utilised by the group are all cGMP compliant and meet the regulatory and legislative requirements that control the marketing, manufacture and distribution of pharmaceutical products.

The development of our products is performed in state-of-the-art laboratories with absolute focus on quality, efficacy and safety. Once our products have met our stringent control criteria, they are ready for submission for registration to the relevant authorities. These stringent requirements need to be met continuously to maintain cGMP approval of international regulatory authorities. Therefore these manufacturing facilities always consider and address continuous improvement in line with global quality innovations.

These manufacturing facilities are registered with relevant regulatory authorities. All raw materials and packaging components used in our products are from vendors that have been pre-approved and meet our stringent quality criteria. These materials are received and stored in warehouses that comply with the requirements of the regulatory agencies. Our Quality Assurance department has entered into, and is busy finalising a Technical Quality Agreement (TQA) that define the key principles and individual responsibilities to be applied by the suppliers and any of their authorised contract manufacturers and/or other subcontractors for the manufacturing of specified products for Cipla Medpro. The TQAs are meant to address the GMP requirements with respect to all aspects of pharmaceutical manufacturing resulting in a finished pharmaceutical product.

Our own manufacturing facilities have been designed to ensure that the products are manufactured with minimal exposure to our employees in order to safeguard their health and safety. We have a very comprehensive quality management system that controls every aspect of the manufacturing facilities. We have stringent standard operating procedures, validated batch manufacturing and packing processes and a quality control system that ensures compliance to our approved specifications and regulations. In-process checks are performed throughout the life cycle of every batch of product that is manufactured in the facilities. Each batch is tested and approved by QC before it is released for sale into the marketplace.

Operating in a highly regulated environment and ensuring quality standards and product integrity are maintained in all environments and circumstances, necessitate dedicated personnel and investment in their development. CMSA has teams of highly qualified and experienced professionals in every area of the business and attends to the specific development needs of every team and professional perpetually.

Staying abreast of global regulatory development trends is a firm-standing goal. These are taken into account in determining and revising the regulatory strategy in accordance with the growth objectives of the company. Since provision of access to affordable medicines is a proven achievement and ongoing strategy of CMSA, diverse and developing markets are top priorities. Any regulatory linked trade barriers evident in these markets are addressed in concerted efforts with knowledgeable partners and/or advisors.

CMSA has demonstrated a positive success rate and highly valuable knowledge in terms of patents related to various areas of medicine design.

Development of package inserts and patient information leaflets

Expeditious registration of new medicines, and especially first-to-market generic medicines, is of the utmost importance and remains an ongoing challenge in the South African regulatory environment. Following registration, it becomes the responsibility of the registration holder to ensure that all products contain the latest prescribing information, especially in terms of safety restrictions. One of the various means through which CMSA is endeavouring to address these challenges, is with the help of a dedicated team of healthcare professionals who takes responsibility for the development and maintenance of package inserts and patient information leaflets. The package insert provides the necessary prescribing information to doctors and other healthcare professionals, while patient information leaflets contain the same information in laymen's terms. Complementary medicines, including nutritional supplements, that are available without a doctor's prescription, only require patient information leaflets. CMSA tirelessly strives to keep abreast of not only the latest MCC requirements in terms of package inserts and patient information leaflets, but also to ensure that the latest international information is timeously incorporated. In this manner CMSA assists healthcare professionals who prescribe our products to remain well-informed. Furthermore, from the beginning of 2013, it has become a priority to ensure that all medicine packs contain a patient information leaflet in addition to a package insert to ensure that consumers are knowledgeable concerning the Cipla products they are using.

Investors' pick

In 2011 we said

- Quality, transparent reporting
- Increase our market share and grow faster than the market
- Grow revenue
- Improve return on investment
- Improve our share price
- Expand into Africa

Performance in 2012

- On track
- Market share remained steady, but we grew faster than the market, at 15,3% and market 7,1%
- Revenue grew by 30%
- Did not happen – but on normalised remained flat
- Share price grew by 40%
- In progress – sales grew

Plans for 2013

- Continue to improve
- Aim to retain our number one positions and grow on the ones we're not number one
- Continue this in 2013
- Target is to grow in 2013, on an actual and normalised basis
- Successfully complete the Cipla India transaction at R10 per share
- In progress – together with Cipla India

FINANCIAL

Revenue increased by 30% to
R2,3 billion

HEPS decreased by 32% to
37,6 cents per share

Normalised EBITDA increased by
7%

NON-FINANCIAL

Level 2
BBBEE scorecard (company level)

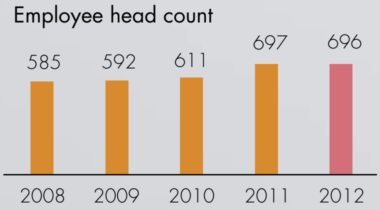
Level 5
BBBEE scorecard (group level)

Awarded 24%
of ARV tender

Share price improved by
41% to R8,98

696
employees

Employee head count



Investors' pick continued

DISTRIBUTION OF OUR VALUE

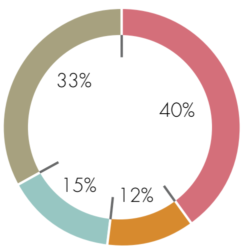
To our employees
We distributed R274,3 million (2011: R229,8 million) to our employees through salaries, short and long-term incentives and contributions to medical aids and pension funds.

To government
Our income tax and STC amounted to R72,0 million (2011: R148,4 million). Further to this we also contributed R28,3 million (R22,6 million) to government through customs and excise duties and R78,0 million (2011: R53,7 million) through VAT.

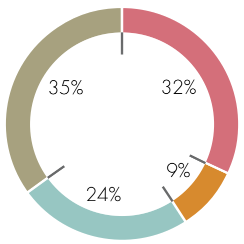
To capital providers
We distributed R85,8 million (2011: R63,2 million) to our providers of capital, of which we paid R23,9 million (2011: R22,5 million) to our debt funders.

Reinvested in the group
Value reinvested relates to depreciation, amortisation, impairment losses on intangible assets and deferred tax effects of R230,8 million (2011: R254,8 million). We also invested R4,5 million (2011: R33,1 million) in the upgrade of our manufacturing facility.

R691,2 million value distributed in 2012



R718,9 million value distributed in 2011



- Employees
- Capital providers
- Government
- Reinvested in the group

VALUE ADDED STATEMENT for the years ended 31 December

	Note	GROUP 2012 R'000	GROUP* 2011 R'000
Revenue		2 297 224	1 767 561
Other operating income		15 422	121 264
Less: purchased materials and services		(1 625 785)	(1 185 496)
Value added from operations		686 861	703 329
Finance income		4 380	15 586
Total value created		691 241	718 915
Value distribution			
Employees (including directors)		274 314	229 831
Providers of capital		85 809	63 238
Finance costs		78 814	58 212
Non-controlling interests		6 995	5 026
Monetary exchanges with government	1	100 321	171 026
Reinvested in the group		230 797	254 820
Depreciation and amortisation		52 255	48 468
Impairment losses on intangible assets		5 426	18 142
Deferred taxation		11 747	(45 678)
Retained in the group		161 369	233 888
Total value distribution		691 241	718 915
Value added statistics			
Number of full-time employees at year end		696	697
Revenue per employee		3 301	2 536
Value added per employee		987	1 009
Value created per employee		993	1 031
[1]Monetary exchanges with government			
Current taxes (including STC)		71 999	148 446
Customs and excise duties		28 322	22 580
Gross contribution to central and local governments		100 321	171 026
Additional collections on behalf of government			
Employees' taxes		82 155	70 735
Net VAT paid		78 022	53 682
		160 177	124 417

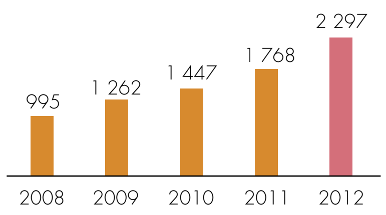
* *Refer to note 30 of the annual financial statements for details of the restatements.*

FIVE-YEAR REVIEW

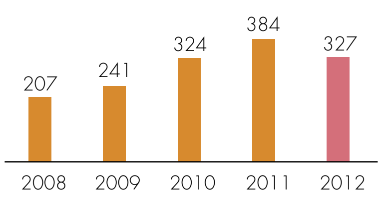
	Compound growth %	GROUP 2012 Audited R'000	GROUP 2011 Restated* R'000	GROUP 2010 Restated* R'000	GROUP 2009 Restated* R'000	GROUP 2008 Restated* R'000
Summarised statement of comprehensive income						
Revenue	23	**2 297 224**	1 767 561	1 446 979	1 262 058	994 892
GP	23	**1 142 936**	1 029 862	898 087	620 358	493 339
PBIT	12	**326 544**	384 308	323 593	241 286	207 429
Net finance costs	21	**(74 434)**	(42 626)	(57 755)	(22 873)	(34 873)
PBT	10	**252 110**	341 682	265 838	218 413	172 556
PAT	10	**168 364**	238 914	182 088	147 620	115 588
Non-controlling interest	50	**6 995**	5 026	3 900	2 182	1 375
EBITDA	14	**378 799**	432 776	344 826	261 377	227 520
Summarised statement of financial position						
Non-current assets		**1 920 769**	1 925 787	1 833 442	1 765 466	1 638 544
Current assets		**1 092 157**	850 750	668 000	454 424	473 199
Total equity	10	**1 966 158**	1 843 481	1 709 791	1 530 604	1 362 527
Non-current liabilities		**302 042**	325 344	314 428	348 779	345 024
Current liabilities		**744 726**	607 712	477 223	350 792	416 346
Summarised statement of cash flows						
Cash generated by operations	14	**390 922**	342 687	314 457	125 886	234 603
Income tax paid	13	**(125 113)**	(132 968)	(94 514)	(80 663)	(76 504)
Net cash flows from operating activities	3	**163 110**	112 008	150 940	10 162	142 503
Net cash flows from investing activities		**(47 673)**	(107 021)	(98 226)	(118 574)	(170 380)
Net cash flows from financing activities		**6 424**	(70 609)	(17 419)	16 560	(100 063)
Net increase (decrease) in cash and cash equivalents		**121 861**	(65 622)	35 295	(91 852)	(127 940)
Cash and cash equivalents at end of the year		**31 391**	(90 470)	(24 848)	(60 143)	31 709
Performance per share (cents)						
Basic EPS	9	**36,6**	52,3	40,3	33,0	26,0
Basic HEPS	10	**37,6**	55,3	40,3	33,3	25,8
Dividend per share		**8,5**	14,0	11,0	–	–

* *The restated figures incorporate the restatements in each financial year, as explained in note 30 of the annual financial statements.*

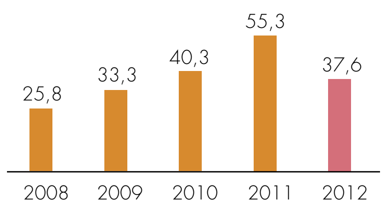
Revenue (Rm)



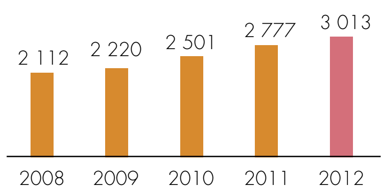
PBIT (Rm)



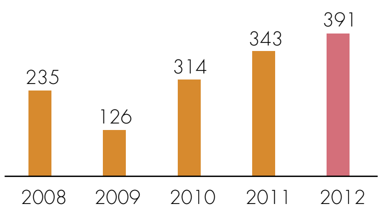
HEPS (cents)



Total assets (Rm)



Cash generated by operations (Rm)



Promotion of an integrated, sustainable and responsible business

P

In 2011 we said

- Improve our carbon footprint
- Commit towards transformation in South Africa
- Improve our transformation statistics at executive and senior management level
- Develop and maintain a safe and risk-free working environment
- Maintain active involvement in local communities

Performance in 2012

- On track
- Equity candidates considered for all vacancies in 2012
- Constantly enforced throughout the business
- Involved in various CSI projects
- Constantly enforced throughout the business
- Involved in various CSI projects

Plans for 2013

- Continue to improve
- Stay committed towards transformation
- Continue this in 2013
- Continue this in 2013
- Continue this in 2013
- Active involvement in the Cipla Foundation, refer to pages 70 and 71 as well as our existing other projects

Cipla Foundation, refer to pages 70 and 71.

ENVIRONMENTAL, HEALTH AND SAFETY (EHS)

The focus of EHS in CMSA is to critically evaluate all EHS factors affecting the company and the global environment, with the primary objective being the derivation of actions towards mitigation of these risks.

During April 2012, CMM conducted an audit of its EHS legal register and some deficiencies and areas for improvement have been identified. Action plans have been developed to address these matters.

This section mostly focuses on CMM's impact on the environment, due to the nature of the manufacturing environment.

ENVIRONMENTAL STATISTICS					
INDICATOR	UNIT OF MEASURE	2012	Kg CO_2 EQUIVALENCE	2011	Kg CO_2 EQUIVALENCE
Water usage	kilolitres	61 506	–	60 606	–
Electricity	kWh	16 364 757	16 855 700	18 146 904	18 691 311
Travel by flights		116	31 194	86	19 522
Waste disposal	kg	156 940	–	207 000	–
General waste	kg	103 676	–	137 000	–
Hazardous waste	kg	51 010	–	69 000	–
Biohazardous waste	kg	2 254	–	1 000	–
Recycling	kg	23 891	–	11 876	–

Water usage

The water consumption of 61 506 kilolitres, with monthly average consumption of approximately 5 126 kilolitres recorded at the factory for 2012, was 1,5 % higher than the 2011 recorded water consumption of 60 606 kilolitres. Water is used primarily on site in the purified water generation plant, where incoming water is treated via the reverse osmosis process to produce purified water, as required by pharmaceutical manufacturing standards for manufacturing and cleaning of equipment. CMM is in the process of finalising options to optimise the efficiency and water storage capacity of the purified water generation plant.

The recorded water consumption for the first half of 2012 was 39 055 kilolitres compared to the second half water consumption of 22 451 kilolitres. The water consumption for 2011 showed a reverse pattern where 27 944 kilolitres was consumed in the first half whilst 32 622 kilolitres was consumed in the second half of the year. This water consumption patterns mirror CMM's ARV production schedule for both 2011 and 2012 where there was a slow gradual increase in the ARV production as tender orders were fulfilled throughout 2011. The peak consumption from the second half of 2011 continued into the first half of 2012. The gradual decrease of water consumption in 2012 was as a result of reduced confirmed ARV orders as the 2011/2012 ARV tender was approaching its end.

Electricity usage

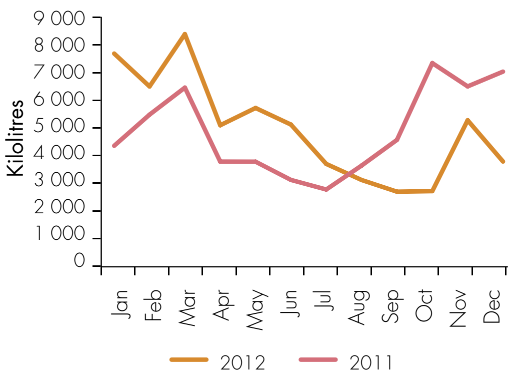
The electricity consumption of 16 364 757 kWh, with monthly average consumption of approximately 1 363 730 kWh recorded at the factory for 2012, was lower than the 2011 recorded electricity consumption of 18 106 904 kWh. This was largely due to the introduction of the following energy saving initiatives:

- Shutting down surplus non-essential equipment;
- Installation of more energy-efficient systems for controlling the plant temperature and humidity; and
- Optimising equipment operation through installation of variable speed drives (VSDs) for critical motors.

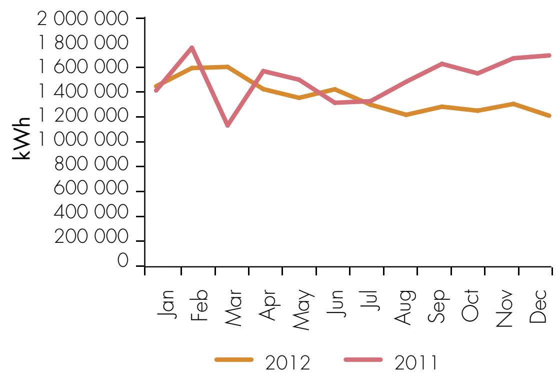
CMM expected to realise a benefit of 5% on the 2011 usage. The actual calculated benefit was approximately a 10% saving on the 2011 usage. CMM is currently evaluating other energy saving projects for 2013.

Reduction of **10%** in electricity consumption due to energy saving initiatives, despite revenue growth of **46%** at CMM

Comparison of water usage at CMM during 2011 and 2012



Comparison of electricity usage at CMM during 2011 and 2012



Promotion of an integrated, sustainable and responsible business continued

9,7%

reduction in CO_2

Waste disposal

In 2011 CMM started a process of implementing an integrated waste management system. The key pillars of this system are waste stream mapping, effective waste segregation, investigation into recycling opportunities and, where inevitable, ensuring responsible waste disposal.

This focused approach on waste management has resulted in approximately 50 000 kg less waste being disposed of at CMM. This represents a 24,2% reduction in overall waste disposal compared to 2011. This has been largely due to identifying specific waste streams within the factory and introducing recycling programmes for cardboard boxes, cardboard fibre drums, plastic bags, paper and metals.

Carbon footprint

With climate change and global warming increasingly becoming a serious concern the world over, corporate businesses are required to evaluate the impact of their business activities on the environment and to define their carbon footprint.

At CMM our carbon footprint has been assessed in terms of electricity usage, as indirect emissions (electricity supplied by Eskom via the site landlord) and from employees' flight travel. There is no direct emission of greenhouse gases from CMM.

For 2012, CMM's carbon footprint was calculated to be approximately 16 886 894 kg CO_2 equivalence compared to 18 710 833 kg CO_2 equivalence for 2011. This is an overall reduction of 9,7% on the 2011 reported kg CO_2 equivalence. The major driver for this was the reduced electricity consumption at CMM.

Health

In 2012 CMM identified fixed premises for the on-site clinic and refurbished it with consulting rooms and new equipment. CMM currently contracts-in occupational health services and employees have access to an occupational health nurse and an occupational health doctor once a week. A medical surveillance programme has been intensified and the files detailing medical history (including chronic conditions, allergies, past injuries, etc.) for every employee has been updated and kept current. This empowers CMM to respond better to emergency situations concerning our employees.

CMM, in line with continuous improvement, has also closed potential gaps in the system with regards to pre-employment and exit medicals.

CMM continues to carry out occupational hygiene surveys to ensure and maintain a work environment that is not harmful or detrimental to the health of our employees.

Safety

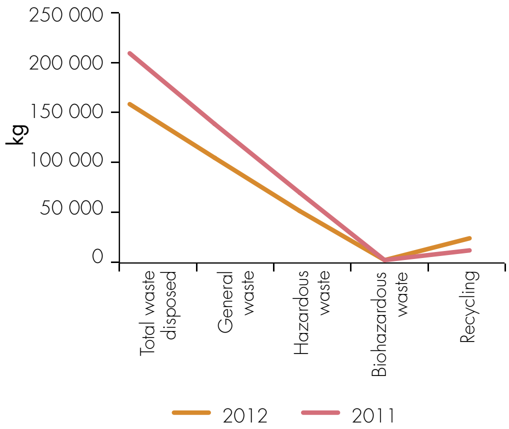
EHS awareness is an integral part of the operational activities at the factory. The EHS department, under the leadership of the EHS officer, has mobilised the respective departments into supporting the goals and objectives of the EHS programme. The monthly EHS committee meetings have been well attended by the elective representatives and management teams.

A new introduction on the agenda required the EHS representatives interactive present and lead discussions on various EHS related topics. This initiative has helped to develop an inclusive EHS culture in the factory.

TRANSFORMATION

CMSA remains committed to transformation and its responsibility as a corporate citizen in South Africa, to support economic transformation and to create equal opportunities for all in the workplace. The Social, Ethics and Transformation Committee, which held its first meeting in January 2012, has among its key responsibilities an oversight role over the company's contribution to social and economic development, including the development and implementation of transformation strategies and targets, and the monitoring of the group's progress against these objectives. This committee also monitors the company's contribution to developing the communities in which it operates.

Comparison of waste disposal at CMM during 2011 and 2012



The company strives to:

- Be an equal opportunity employer, giving preference to and aiming to increase, the number of employees from previously disadvantaged communities;
- Make meaningful and self-sustaining contributions, both tangible and intangible, to enhance the development of the communities in which it operates;
- Foster an awareness of cultural diversity; and
- Empower employees through incentive schemes and upliftment projects, such as numeracy and literacy training.

During the 2012 year, BBBEE ratings were conducted by SANAS approved economic empowerment rating agency, Empowerdex, verified in terms of the Department of Trade and Industry's Codes of Good Practice (Codes), at consolidated CMSA group level and for the first time at CMSA company level as well. A summary of the BBBEE scorecard at both levels are outlined in the table below.

The CMSA group's current Level 5 accreditation represents a slight reduction in the rating from a Level 4 contribution status in the previous scorecard, whilst CMSA company level a remarkable Level 2 status has been achieved.

Ownership

The black shareholder ownership remains encouraging at a score in excess of 17 points, with a slight improvement noted on black women ownership since the previous year.

The favourable ownership score is mostly attributable to the R270 million BEE transaction concluded in 2005 whereby CMSA partnered with the Sweet Sensation consortium, securing CMSA's position as a leading empowerment pharmaceutical company in South Africa. As part of that transaction, directors and staff were also afforded the opportunity to acquire eight million shares in the company through a management holding company, which is currently 51,04% black owned and 8,38% black-female owned. CMSA employees had also benefited through the company's AltX listing in 2005 and many still hold shares in CMSA in their own names. This resulted from share offerings made in terms of the broad-based employee share scheme and share incentive schemes established during 2005.

Management and control

At a CMSA group level, the score in this category has remained stable at 4,89 points (previous scorecard: 4,96 points). The score in this element is derived at from the composition of the CMSA board structure and the demographics of the positions occupied at executive and top management levels in the group. The black and black female representation at the top management stratum, as defined on a CMSA company level, is demographically favourable resulting in an additional 4,17 points which was not attainable at group level.

During the 2012 year, there have been significant changes in the board composition, all of which is noted in the table on page 64.

COMPARISON OF SCORES ACHIEVED IN 2012 AND 2011 (GROUP AND COMPANY)

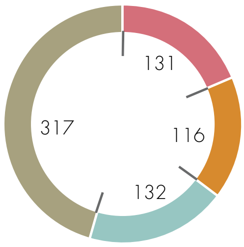
SCORECARD ELEMENT		TARGET SCORE	CMSA GROUP VERIFIED SCORE 2012	CMSA GROUP VERIFIED SCORE 2011	CMSA COMPANY[1] VERIFIED SCORE 2012
Ownership		20,00	17,97	17,01	17,97
Management and control		10,00	4,89	4,96	8,17
Employment equity		15,00	7,12	6,98	15,61
Skills development		15,00	4,17	9,24	10,44
Preferential procurement		20,00	17,71	16,09	19,90
Enterprise development		15,00	1,44	8,57	15,00
Socio-economic development		5,00	3,22	5,00	3,00
Overall score		**100,00**	**56,52**	**67,85**	**90,09**
BBBEE ANALYSIS:					
Rating			BBB	A	AAA
Contributor level			5	4	2
Procurement recognition level	(%)		80	100	125
Black ownership	(%)		37,61	37,57	37,61
Black women ownership	(%)		8,77	5,43	8,77
Value adding enterprise			Yes	Yes	Yes

1 *2012 was the first year in which a rating was performed at CMSA company level, hence no 2011 comparative is available.*

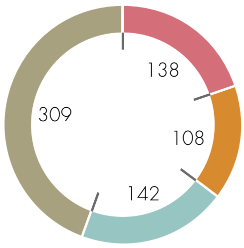
Promotion of an integrated, sustainable and responsible business continued

CVs of directors, refer to pages 22 and 23.

Demographics: December 2012



Demographics: December 2011



Asian Coloured
Indian White

The board's current membership constitutes five black directors, or a 71,4% (62,5% until August 2012) black representation before the adjusted recognition for gender as provided for in the Codes. Two of the board's directors are black-female, equivalent to 28,6% (25,0% until August 2012) of the total board membership. The group also scored bonus points for 62,5% of the board being independent non-executive directors at the time of the verification; currently the independent non-executive directors account for 57,1% of the board.

All board members are South African citizens and hold equal voting rights. For a brief curriculum vitae of each of the directors, please refer to pages 22 and 23 respectively.

Employment equity

The group has achieved a similar score compared to the 2011 year of 7,12 points (previous scorecard: 6,98 points) on the employment equity element. The employment equity scorecard was based on the 30 September 2011 submission to the Department of Labour (2011 scorecard: 30 September 2010 submission).

As at September 2011, on a CMSA company level the total permanent staff complement was 247 employees, of whom four members of top management were accounted for under the management and control element. Out of the remaining 243 employees, 95% are black as defined and 27% are black female. Bonus points were also earned for exceeding Economically Active Population (EAP) targets.

CMSA COMPANY LEVEL STATISTICS AT SEPTEMBER 2011	PERCENTAGE (%)
Black disabled as a percentage of all employees	2
Black senior management as a percentage of all senior management	83
Black middle management as a percentage of all middle management	100
Black junior management as a percentage of all junior management	90

On a group basis, with the exclusion of top management which features in the management and control element of the scorecard, black employee representation as a percentage of the total permanent workforce has remained stable at around 57% whilst black female employee representation has approximated 21%.

The group also continues to score well at senior management level, with a respectable score at the junior management level, however, we have earmarked the middle management occupational level and the published EAP targets as areas for improvement. This will be achieved through the implementation of programmes and training to help develop and up-skill our employees. Some of the challenges we face in meeting these targets include:

- Attrition rates at middle and junior management levels;
- Scarce skills requirements in the industry in which we operate; and
- Retention of black employees.

CMSA BOARD STRUCTURE

DIRECTOR	GENDER	RACE	TYPE OF DIRECTORSHIP	INDEPENDENT	TENURE (YEARS)	COMMENT
Chris Aucamp	Male	White	Former executive (CFO)	No	5,25	Resigned: November 2012
Bongani Caga	Male	African	Non-executive	No	5,5	
Mark Daly	Male	White	Executive (CFO)	No	0,5	Appointed: November 2012
Johan du Preez	Male	White	Executive (Acting CEO) (previously independent non-executive)	Yes/No	3,25	Appointed as Acting CEO August 2012
Sbu Luthuli	Male	African	Non-executive (Chairman)	Yes	8,5	
Nthabiseng Mokone	Female	African	Non-executive	Yes	5,5	
Mpho Mosweu	Female	African	Non-executive	Yes	6,5	
Jerome Smith	Male	White	Former executive (CEO)	No	6,0	Resigned: October 2012
Sandile Zungu	Male	African	Non-executive	Yes	3,25	

However, some of the initiatives in place to address and improve these targets include:

- Succession planning;
- Talent management;
- Training and development;
- On-line recruitment; and
- Employer branding.

Our group's permanent staff complement also includes 11 (December 2011: nine) disabled employees, of which seven (December 2011: five) are black people.

SKILLS DEVELOPMENT

A score of 4,17 points (previous scorecard: 9,24 points) has been achieved in the skills development category at group level. The decrease can be attributed mostly to the reduction in Pharmacist Assistant learnerships and ABET (adult-based) training during the 2011 year. This was exacerbated by the delay in our training service provider obtaining an updated accreditation from the Pharmacy Council. This has since been obtained and the company has signed agreements with learners for the 2012 year.

The group strives to contribute significantly to the ongoing development of its major resource, its employees, and we expect that our scoring in this category will improve next year through the continuous in-house cGMP training typical of the pharmaceutical industry, financial study assistance granted to staff, learnership programmes, and the continuous professional development of our employees.

Refer to the Employer of Choice section within the Sustainability report, on pages 72 to 75, for details of the various skills development initiatives currently in place at CMSA.

Preferential procurement

Historically, the group has scored well on the procurement element due to a group-wide focus to procure qualifying goods and services from black-owned entities. Supplies of non-discretionary imports are excluded from the calculations.

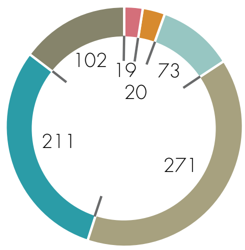
On both a group and company basis, with the majority of our qualifying suppliers being value-adding suppliers, and based on their favourable procurement recognition levels, we continue to score the maximum 12 points within the sub-category "total BEE procurement as a percentage of total measured procurement spend". We also scored maximum points on our BEE procurement from Qualifying Small Entities (QSEs) and Exempted Micro Enterprises (EMEs). Many of our suppliers are more than 50% black owned or more than 30% black-female owned which also sustains our scoring in this element.

The benefit to our customers is that they are able to recognise between 80% to 125% of their spend on the value of goods procured from the CMSA group. In addition, the CMSA group has been classified as a value-adding supplier, which benefits our customers when calculating their procurement scores.

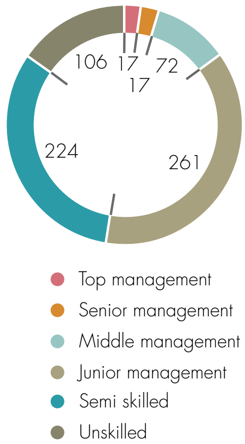
The above illustrates the group's ongoing support of BEE-compliant suppliers and, in particular, BEE procurement from QSEs and EMEs, thereby assisting black businesses to further their chances of success in business.

Employer of Choice, refer to pages 72 to 75.

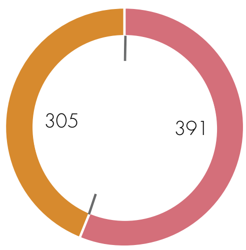
Occupational levels: December 2012



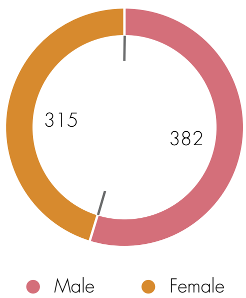
Occupational levels: December 2011



Gender: December 2012



Gender: December 2011



CMSA GROUP EMPLOYEE RECRUITMENT STATISTICS						
	2012			2011		
AGE GROUP	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL
Less than 30	48	37	85	28	23	51
30 to 50	38	12	50	46	28	74
Greater than 50	5	0	5	2	5	7
Total	**91**	**49**	**140**	**76**	**56**	**132**
CMSA GROUP EMPLOYEE TERMINATION STATISTICS						
	2012			2011		
AGE GROUP	MALE	FEMALE	TOTAL	MALE	FEMALE	TOTAL
Less than 30	22	22	44	7	9	16
30 to 50	32	28	60	18	19	37
Greater than 50	7	4	11	9	2	11
Total	**61**	**54**	**115**	**34**	**30**	**64**

Promotion of an integrated, sustainable and responsible business continued

Enterprise development

Enterprise development points are based on qualifying contributions to enterprise development initiatives as a percentage of net profit after tax, with the target level being spend of 3% of net profit after tax. The group has acknowledged that we require significant improvement in this area and has investigated various initiatives and enterprises with which to partner in order to improve our contributions in this category. On a company basis, an indicative profit margin as defined in the Codes was utilised to calculate the score in this category, due to the company's historical loss-making position. The company has partnered with a small business for the collection of waste paper as one of its enterprise development initiatives.

Socio-economic development

Socio-economic development initiatives, refer to pages 67 to 71.

The group has supported a number of socio-economic development initiatives during the year, and these efforts are explained in detail on pages 67 to 71 within the Sustainability report.

FUTURE DEVELOPMENTS

The Department of Trade and Industry in 2012, published a proposed set of revised BBBEE Codes for public comment. The impact could be quite substantial and could see companies' scores dropping multiple levels. However, indications are that further changes are expected and that it will still take time for the new Codes to be gazetted before it can be used for scorecard and verification purposes. As such, CMSA is monitoring this process in anticipation of the revised codes and has already begun considering the effects of the proposed changes on the BEE scorecard.

CORPORATE SOCIAL INVESTMENT

Corporate social investment (CSI) is of integral importance to CMSA. Our strategy remains focused on bringing about meaningful transformation to the benefit of all. Our people are passionate about ensuring sustainable development and to make a positive impact on our respective societies. The social needs facing our country are substantial and it remains our moral duty to make a difference by supporting projects that benefit historically disadvantaged sectors of our society.

It therefore makes sense for CMSA to align our corporate social investment spend with our core business objectives and imperatives, thus allowing CSI to enter spheres in which true partnerships with beneficiaries, government and non-governmental organisations can bring about long-term sustainable development to the benefit of all.

It is against this background, and guided by the key social development needs highlighted by government, that CMSA has selected its CSI projects.

We actively support CSI initiatives that:

- Help conserve our environment;
- Showcase our heritage;
- Encourage education and training; and
- Support social development (disabilities, HIV/AIDS, women empowerment, etc.).

We also support our employees who are involved in community volunteer work and encourage all employees to experience the personal rewards of giving their time and talents.

www.ciplamedpro.co.za/csi/cipla-projects/

During the year the CMSA CSI activities included the following:

Quarry Heights Primary School

In March 2012, our Chairman, Sbu Luthuli, led a team of enthusiastic CMSA employees to participate in our initiative to highlight the urgent need at Quarry Heights Primary School. A function was hosted at the school to create an awareness of the challenges facing the school including transportation for the teachers, meals and bags to students, and sport equipment. Attendees included the Chairman and the CEO of the Jacob G Zuma RDP Education Trust, the General Manager: Rural and Inclusive Education, the Councillor of the local ward, and trustees of the Jacob G Zuma RDP Education Trust. Our own executives, Herman Grobler and Nazreen Gamieldien participated in the handing out of prizes, gifts and meals to the 650 students who currently attend the school.

One of the main challenges is trying to accommodate all 650 students in eight prefab mobile unit classrooms. Currently, garden sheds serve as the principal's office and a staff room, a container serves as a kitchen, and a rundown shelter is used by the security guard. There are approximately 108 children per class with 20 teachers of whom only 18 are fully qualified. There is no electricity at the school and the sanitation is very poor.

Our initiative with the Jacob G Zuma RDP Education Trust has touched the hearts of each and every employee at CMSA and we are pleased to be associated with the Trust in creating awareness and providing some relief to this deserving no-fees school which provides education for Grades 0 to 7 learners.

Southlands Secondary School

CMM, hosted 72 Grade 11 and Grade 12 learners from Southlands Secondary School in May 2012. The learners were welcomed on site by the General Manager, Suvy Rajh and were given the opportunity to tour the plant.

Southlands Secondary School provides quality education to the Chatsworth, Lamontville and Umlazi areas, and has served the community for 44 years, providing excellent service to the community by helping to build an educated nation. The school has an enrolment of 1 180 learners, with minimal school fees applying as the community is beset with a multitude of social challenges. Despite the financial constraints the school remains committed, dedicated and passionate about providing a high level of education for its learners.

The Grade 12 learners were provided with a complete induction in terms of human resources, safety, and good manufacturing practices. In addition, the department specialists provided overviews of their respective functionalities, allowing learners to understand the myriad of opportunities that exist in the workplace.

To support this initiative and in keeping with our focus on education, our local HR team have provided information sessions at the annual career day for Grade 12 learners held in May 2012. This was successfully hosted by Southlands Secondary School, with four other secondary schools in the Durban and surrounding areas attending the career day.

In addition, the Durban HR team hosted a Grade 12 parent meeting during June 2012 to provide parents with a comprehensive understanding of the number of career opportunities that exist and which are not being considered or utilised currently. The aim of this was to reduce the number of unemployed learners in the community.

Promotion of an integrated, sustainable and responsible business continued

Jacob G Zuma RDP Education Trust

In December 2012, CMSA once again was one of the participants at the Jacob G Zuma RDP Education Trust Christmas party held at Nkandla, President Zuma's home town in KwaZulu-Natal. Ten identified students benefited from bicycles to enable them to attend school daily. The function also recognised the Trust student bursary donors who had recently qualified.

Durban High School

The CMM HR team has committed to providing specialist human resources and recruitment skills at Durban High School, which is one of Durban's oldest schools. The school has a student learnership compliment of 1 100, of which more than 60% are black students.

During the year, we have provided specialist HR expertise on more than 35 issues, both in terms of consulting, telephonic advice and on-site attendance.

Rosewood Primary Outreach School

On 9 November 2012 the distribution centre team, under the direction of the Managing Director, Joseph Ludorf, held their fourth and final outreach of the year. Employees took it upon themselves, in collaboration with the school principal and staff, to feed 545 children from a very needy community. Each child was given hampers which included bread and jam, a goody bag with fruit, sweets and crisps. All of these goodies were funded by the distribution centre staff themselves.

Durban University of Technology

With approximately 23 000 students, the Durban University of Technology (DUT) is the first choice for higher education in KwaZulu-Natal. As a university of technology, it prioritises the quality of teaching and learning by ensuring its academic staff and students complete the highest possible qualification.

DUT, a member of the International Association of Universities, is a multi-campus university of technology at the cutting edge of higher education, technological training and research. The university aspires to be a preferred university for developing leadership in technology and productive citizenship, and to making knowledge useful.

To support this, CMM's HR manager serves as the Chairman of the HR Forum at the DUT. This aims to ensure that the education included in the current education syllabus is of such a nature to enable newly graduated students the opportunity to enter the working community and be productive.

City of Tshwane healthcare workers

Asthma training for the clinics, school nurses and pharmacists in the Pretoria area was arranged with the district coordinators for the non-communicable diseases. More than 75 people attended, and the disease and treatment and the practical use of all devices was encouraged.

Mandela Day

On Mandela Day, CMSA together with the MEC of Health, visited Amazing Grace, an orphanage in Eikenhof (South of Gauteng). The orphanage has 70 kids at any given time ranging from age five months to 21 years old.

Activities included painting of the orphanage, reading and playing games with some of the children. Gifts, blankets and food were also provided to the children and the orphanage. This project has highlighted the need within our community and relationships were formed with relevant stakeholders including the MEC of Health.

Our brand of "Making it better" was demonstrated to its full extent.

The second project on this auspicious day was spending 67 minutes at the Midrand SPCA together with our regulatory department staff who participated and donated some CMSA medication and blankets for the animals.

HIV/AIDS Day for MEDUNSA students

In May 2012, Cipla sponsored the HIV/AIDS Day at Medunsa, with 60 students participating. Seven guest speakers provided information that increased awareness and knowledge of this pandemic. Further training opportunities, especially on counselling, was proposed for next year.

Asthma training

Asthma training was provided for 45 pharmacists, interns and pharmacy assistants at the Steve Biko Hospital.

Asthma training was provided by CMSA representatives for 35 staff members of the Tshwane home-based care division. Further training will be organised for them on cancer and diabetes during 2013.

Pharmacy week

With September being pharmacy month, the first week was dedicated to pharmacy as a profession and the growth thereof. The Pharmacy Week launch was held at Attlyn Mall for the city of Tshwane where T-shirts were handed out to all participants. The executive mayor of Tshwane was represented by members from the Health and Social Department and health promotion was the order of the day for the community of Atteridgeville and surrounding areas including Pretoria West and Lotus Gardens.

CMSA representatives provided health talks on Asthma as a disease, and conducted PEK testing and assessments for those attendees who were prone to the disease. Asthma information leaflets were also handed out to community members and pharmacy students.

Pharmacy week meetings were attended every Wednesday in September, with CMSA sponsoring the T-shirts for the day. CMSA representatives conducted peak flow meter tests as an assessment of lung function for the diagnosis of Asthma.

International World Aids Day

- AIDS Day presentations by CMSA representatives were held at a school in Winterveldt.
- CMSA representatives sponsored the KZN AIDS Day held in Zululand, Edumbe district with the MEC, the Mayor, the Queen Mother, who is the Provincial Health Ambassador, and the Director for Communicable and Non-Communicable Diseases in attendance.

Our corporate social initiatives are renowned for their ability to make a difference. Our partnerships with major stakeholders such as the Jacob G Zuma RDP Education Trust will ensure that the children of destitute and disadvantaged backgrounds will receive the benefit of education, either in the form of bursaries for tertiary education, or in-service training, apprenticeships and internships, thus improving the economic situation of these students.

CMSA is proud to be able to participate in any way possible to "make it better" and promises to continue in its many endeavours to improve the lives of the disadvantaged.

Promotion of an integrated, sustainable and responsible business continued

THE CIPLA FOUNDATION

In their ongoing commitment to social investment, Cipla Medpro has launched the Cipla Foundation which is a registered NPO and operates as the umbrella for various fundraising projects and initiatives.

CIPLA MILES FOR SMILES

In the developing nations around the world, one out of every 700 children is born with a facial deformity each year. Apart from a lack of financial resources or access to corrective surgery, these children face a myriad of problems such as difficulty eating, ear disease, dental problems as well as problematic speech development. The Cipla Miles for Smiles project was launched in 2006 as a non-profit organisation to assist Operation Smile in raising awareness about and funds for corrective surgery for children born with cleft lips and/or cleft palates. Cipla Miles for Smiles has a fundamental aim: to inspire and challenge individuals to go out and make a difference in the lives of those around them; by challenging themselves to achieve the impossible and by doing so making a difference. David Grier, managing trustee of the Cipla Foundation and founder of Cipla Miles for Smiles, and his support team, together with the dedicated Cipla Miles for Smiles ambassadors and patrons have sponsored over 2 000 corrective surgical operations, which have been facilitated by Operation Smile South Africa. CMSA believes that all children deserve to live their lives with dignity. For those suffering from cleft lip, cleft palate or other facial deformities, dignity begins with a smile.

PENINSULA SCHOOL FEEDING ASSOCIATION

Cipla Medpro has been actively involved in fundraising for the Peninsula School Feeding Association since 2008. The association operates under the motto that you can't teach a hungry child. It was established in South Africa to raise funds to alleviate malnutrition and hunger within schools in the Western Cape. The 2012 Cipla Medpro fundraising dinner raised an astounding R1 million. The funds will feed 2 700 children across 12 schools.

MIMU (MOBILE INFORMATION MEDICAL UNIT)

Many rural communities are in desperate need of health care and medical facilities. MIMU is an initiative dedicated to creating and improving medical and dental healthcare in rural communities. The MIMU unit is a complete, portable, contained system developed from brand new shipping containers and is furnished with state-of-the-art tools and equipment. The unit aims to provide access to basic medicine, medical diagnostics, internet and cellular connectivity, educational information and banking services primarily to rural communities. The unit can, however, also be deployed to informal communities as well as disaster areas. The project will be partnering with other NPOs who can make use of and help manage the infrastructure that MIMU can provide. This project can also supply crucial back up for the already overloaded medical clinics in rural areas. Currently the project is still in its pilot phase and we hope to deploy the first test unit by August 2013 to test all logistics and systems before embarking on a larger scale.

AJUGA (IGNITE HOPE)

Ajuga is the latest CSI initiative operating under the Cipla Medpro brand. The Ajuga product was established to alleviate the shack fire crises in South Africa, by providing a fire-resistant structure to help communities. Currently the structures are being deployed as crèches in informal settlements, but can have alternative uses depending on the need of the community involved. The name Ajuga is derived from the name of the Ajuga Reptans fire resistant plant species, commonly known as carpet bugleweed that is native to Africa, Europe and Asia. It is a groundcover plant that is moist-leafed and low growing with watery sap to reduce fire hazards and can act as a firebreak. The Ajuga structure consists of a patented steel structure and fire retardant panels that feature a sandwich construction with an outer layer of fire resistant virgin and recycled plastic, an inner core of a Vermiculite mix and an inner skin of Chromadeck steel that has been fire tested to 1 000°C. The structure is pre-assembled and delivered in a crate made from the unit's steel floor. The house is assembled in approximately a day. Services such as water and electricity can be installed. The structure is also fitted with standard windows and doors. Ajuga aims to build relationships with communities, corporate South Africa and individuals to show that we care and live our slogan "we'll make it better". We will work with NPOs and community leaders in informal settlements to identify vulnerable crèches that are in need of being replaced. We encourage companies and the nation at large to ignite hope in these communities by sponsoring crèches to address this growing issue. Earlier in February 2013, the Cipla Foundation sponsored the first two Ajuga structures that replaced crèches in the informal settlement of Du Noon in Cape Town. This forms part of a phase where logistics (including working with NPOs and the community) will be tested and finalised to ensure a smooth rollout process in the future. Currently we import the main wall component for the units. However, there is a plan to have a local manufacturing facility up and running within the next five months, to contribute to growing the local economy, and increase the production levels of these structures. For more information on Ajuga, to get involved in this project, or to apply for an Ajuga crèche, please visit: www.ajuga.co.za

Employer of choice

In 2011 we said

- Become the employer of choice in the pharmaceutical sector
- Recruit and retain skilled staff
- Promote continued professional development
- Sustain internal training of employees

Performance in 2012

- Recruited 140 employees
- Skilled staff increased by 16 employees
- Evident in our training courses completed
- All employees are internally trained

Plans for 2013

- Continue to strive to be the employer of choice
- Stay committed retaining skilled staff
- Continue this in 2013
- Continue this in 2013

CMSA has embraced an affirmative approach towards becoming an employer of choice. Our emphasis on employees as a key cornerstone to the business objectives being attained, has continued to pay dividends, with improvements seen in employee retention, individual productivity and employee feedback. Key focus areas include:

- Keeping our employees committed and engaged by supporting training, career development and ensuring effective performance;
- Enhancing our performance-based culture by increasing efficiency and delivery against key deliverables, ensuring maintenance and improvement of our operational results;
- Transformation and succession at senior and executive levels by identifying and using opportunities to develop and promote black successors;
- Succession planning remains a key HR process within the group, demonstrating significant improvements;
- Ensuring that our people and our processes/systems are geared to capitalise on opportunities as they arise; and
- Effective management of our industrial and employee relations in a tougher and more competitive market by ensuring that employees remain committed and focused on achieving the company's overall objectives.

REMUNERATION AND REWARD

Our meaningful participation in the Deloitte surveys for salary and benefits for the executive and pharmaceutical sector, ensures that the company aligns itself and stays abreast of remuneration and benefits best practice.

EMPLOYEE EQUITY

The company remains dedicated to growing the comparative representation of African, Coloured and Indian employees within the group, and to methodically eliminate any obstacles to their progression.

2012 saw a modest but positive improvement on the top management, senior management and professional levels despite a difficult and often competitive marketplace.

Internal succession plans played a huge role and the benefits thereof are already visible. In support of this, identified employees have been granted opportunities to further their studies, thereby providing them with the knowledge and competence to take on management/ leadership positions as required.

All vacancies that arose in 2012 were examined for opportunities to consider equity candidates.

DEVELOPING EMPLOYEE SKILLS

The year saw a significant increase in the number of learnerships, in-service experiential training programmes, workplace placements and bursaries at CMSA. All training initiatives have been implemented to enhance the individual competencies and productivity of employees. These programmes are continuously evaluated for relevance and effectiveness, thus cementing a culture of continuous training and development.

The Human Resources and Training and Development departments are responsible for the planning and delivery of learning and development across the group, as well as maintaining support systems to track and manage all learning.

During the year, we concentrated on increased engagement with business units to ensure training initiatives remain valuable to the achievement of business goals. In spite of tough economic conditions, the overall training spend (including employees, learnerships and bursaries) for the financial year has increased.

At CMM, a total of 1 644 (2011:1 584) in-house training sessions were facilitated by the HR and training departments, with 10 397 (2011:11 307) employees participating. In addition, eight learnership programmes were run with 158 employees (2011: two learnerships) attending at all levels within the company. These learnerships focused on key skills plan priorities which include Pharmacists Assistant Learner Basic and Post Basic, Trade tests of fitters, workplace experiential training, internships, workplace transformation programmes, critical and scares skills and foundational learning opportunities. In addition, CMM hosted seven Engineering apprentices providing site experiential training to enable them to achieve their trade test qualification. Of critical importance is the fact that training is extended to all contractors and sub-contractors prior to being allowed onto the manufacturing site, thereby increasing the quality and safety of all on site.

At our head office, which includes our distribution centres and satellite offices, a total number of 133 (2011: 65) in-house training sessions was facilitated with 1 179 (2011: 1 791) participants attending. In addition, 20 external training sessions were coordinated with 86 participants attending. Two learnerships were implemented in 2012 (2011: one learnership), targeting Adult Basic Educational Training and the Basic Pharmacist Assistant course.

Late in 2011 a new initiative introduced at CMM provided technical experience training for a cross functional team of employees, providing an enlightening, interactive and relevant well-rounded manufacturing understanding and experience for employees. This has proven to be a huge value add to the company and has the additional benefit of ensuring continuous professional development.

Employee demographics graphs, refer to page 64.

Employer of choice continued

Twenty two (2011: nine) technical training sessions were held in 2012 with 412 (2011: 251) employees gaining from this opportunity across 11 specialist areas, including HR, Finance and Internal Audit, Manufacturing, Packaging, Warehouse, Supply Chain, Quality Assurance, Quality Management Systems, Risk Management and Regulatory Affairs. This has resulted in increased sharing of knowledge and overall skills base at CMM.

Our most notable training achievement was the Recognition of Prior Learning initiative which ensured that an Engineer Artisan Aide was recognised for his 15 years of experience and competence and qualified as an Engineering Fitter.

CMSA has proactively managed relations with the Chemical Industries Training Authority to ensure that maximum benefit is derived from this legislative requirement and that appropriate and relevant use is made of this funding opportunity.

CMSA prides itself on its training and development initiatives and ensures that all training conducted and initiatives implemented are effectively monitored and reported on.

RECRUITMENT AND TALENT MANAGEMENT

Our values are undoubtedly what make CMSA stand out amongst its competitors and it is with this passion that we facilitate our recruitment process, ensuring that only the best candidates are selected to continue with our great legacy. It is also imperative that recruitment is aligned to specific job requirements and competencies. Aligned with our online careers page, www.ciplamedpro.co.za/careers/ accredited recruitment employment service providers assist the selection process.

An extensive induction programme, specifically tailored to each job requirement, is embarked upon for all new employees. These programmes run over a period of approximately five to 10 days, dependent on the nature of the job, and ensure that the employee is well versed in the core values, goals and regulatory standards of CMSA before they embark on their specific job function.

Qualified training managers/facilitators assist in the enablement of all Standard Operating Procedures (SOP's) as well as policies and procedures pertaining to each job requirement.

Assessments, both theory and practical, are incorporated into each SOP with the intention of measuring the competency level of the employee while guaranteeing the optimum understanding of the job.

Part of CMSA's commitment to give back to the community has been the employment of newly qualified tertiary graduates. Through this endeavour, the graduates are able to practically put to use the knowledge gained over their academic years while being mentored and supervised by experts in their field of practice. This has allowed CMSA to focus on building greater awareness at various institutions including universities and schools positioning CMSA as an employer of choice.

The introduction of our careers page and e-recruitment tool in 2011 has enabled CMSA to tap into a wide selection of potential candidates that we may leverage off. Vacancies are also posted internally on all communication boards for employees who do not have electronic access. All interviews are conducted whilst complying with the company's equity plans in mind.

CMM has taken positive steps to ensure a pipeline of candidates in respect of succession and advancement. This takes the form of retention agreements and short-term incentive programmes aimed at key positions

EMPLOYEE WELLNESS

During the year, we focused on creating improved awareness around wellness. This included the rollout of our employee assistance programme introduced last year and health campaigns throughout the group.

The common chronic medical conditions remained Asthma, Hypertension, Cardiovascular Disease, and Diabetes Mellitus. Although still within national norms, it is of concern that the percentage of employees diagnosed with these conditions increased across all conditions. We will continue to create awareness through our educational campaigns about health awareness to promote early diagnosis and effective management of medical conditions.

In addition, we have focused on actively communicating wellness issues to employees through poster campaigns and employee wellness sessions.

The company will continue to deliver on key objectives set out in 2012 by expanding on the functionality of the on-site clinic at the manufacturing facility, which will include prescription of generic company specific chronic medication by the practising doctor.

CMSA has proactively managed identified health issues by increasing the number of medical evaluations during the year:

- 377 medicals were conducted;
- 46 primary care visits were documented and 69 employees were assessed for chronic ailments;
- The HR department continues to work closely with the on-site clinic and ICAS to improve reporting and management of medical surveillance, using early identification of health concerns to ensure a healthier workforce by:
  - a workforce which proactively manages their health and associated safety;
  - reporting that provides a holistic view of the wellness of our employees to ensure proactive management; and
  - employees are being encouraged to know their status.

EMPLOYEE RELATIONS

At CMSA, we firmly believe that good cooperation and strong employee relations lead to greater employee engagement, stronger performance and higher employee retention.

To this end CMSA, though our human resources department, is responsible for ensuring compliance with legislation and company requirements. Through this focus, we ensure that we act as a responsible employer and that there is a strong, trust-based relationship between our people, their representatives, where applicable, and management.

Collaboration arenas for employees and management are established via HR forums. We believe in involving our people and their appropriate representatives, where applicable, in the development of our group.

To date, whilst some employees are affiliated to unions, no union enjoys recognition in terms of organisational rights at CMSA. The company has also elected not to affiliate to a bargaining council at this time.

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of Cipla Medpro South Africa Limited, comprising the statements of financial position at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flow for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with the International Financial Reporting Standards and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The directors have made an assessment of the ability of the company and its subsidiaries to continue as going concerns and have no reason to believe the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the applicable financial reporting framework.

MW Daly (CFO) is responsible for these consolidated and separate financial statements and has been involved in the preparation thereof in conjunction with E van der Merwe, both of whom are qualified Chartered Accountants (South Africa).

Approval of the consolidated and separate annual financial statements

The consolidated and separate annual financial statements of Cipla Medpro South Africa Limited, as identified in the first paragraph, were approved by the board of directors on 13 May 2013 and signed by:

PCS Luthuli
Chairman

JvD du Preez
Acting Chief Executive Officer

Cape Town
13 May 2013

Company Secretary's certificate

I, Rochelle Manilall, Company Secretary of Cipla Medpro South Africa Limited, certify that, to the best of my knowledge and belief, all returns as are required of a public company have, in terms of the Companies Act, in respect of the year ended 31 December 2012, been lodged with the Companies and Intellectual Property Commission and that all such returns are true, correct and up to date.

R Manilall
Company Secretary

Durban
13 May 2013

Directors' report

The directors have pleasure in presenting their report for the year ended 31 December 2012. This report does not from part of the consolidated nor the separate audited annual financial statements of Cipla Medpro South Africa Limited for the year ended 31 December 2012.

This year was, yet again, characterised by difficult economic conditions and this is evident in our decreased profit margins, but nevertheless there are still numerous aspects to be proud of, including:

- The proposed Cipla India transaction;
- Being the fastest growing pharmaceutical company, by value, of the top 10 pharmaceutical companies in South Africa;
- The increase in revenue; and
- The award of 24% of the ARV-tender,

to name but a few.

There were other, non-economic conditions that had to be overcome in 2012, such as:

- The changes to the board;
- The change of auditors; and
- The prior period restatements.

With the suspension and subsequent resignation of our former CEO, as well as the resignation of the former CFO, came various challenges, but we are confident and excited about the future, as we now feel that these challenges are all dealt with and we are well on our way to ensure good corporate governance throughout our business.

During the year under review, three forensic investigations were initiated to unpack the various allegations levelled against the former CEO for mismanagement. Whilst most of the findings have been dealt with and corrective steps taken, some findings are still under consideration by the board at the date of this report.

Nature of business
CMSA is one of the leading pharmaceutical companies in South Africa. The group engages in the manufacture, marketing and supply of pharmaceutical, veterinary and nutriceutical products.

Financial results and review of operations
The financial results of the group for the year ended 31 December 2012 are set out in the attached annual financial statements.

The review of operations for the year is fully covered in the Chairman's, CEO's and CFO's reports, as set out on pages 44 to 52.

Prior period restatements
During our 2012 audit, the following prior period restatements were identified and corrected retrospectively in 2012:

- *Intangible assets*
  In the past, the incorrect application of the accounting policy relating to intangible assets was applied, whereby the group viewed all intangible assets, except computer software, as one cash-generating unit. This cash-generating unit was assessed to have had an indefinite useful life and was tested annually for impairment, or whenever there was an indication that the cash-generating unit might be impaired. Each intangible asset should, however, be viewed on an individual basis.

  This was corrected and each asset is now firstly assessed to having either a finite or indefinite useful life. If the intangible asset is considered to have a finite useful life, amortisation is then calculated over its useful life. For intangible assets that are determined to have an indefinite useful life, these assets are then tested for impairment annually, or whenever there is an indication that the asset might be impaired. The impact of the correct application of the accounting policy resulted in amortisation charges in both 2012 and prior years, as well as impairment losses.

- *Inventory*
  In 2011 closing inventory was reflected at the incorrect cost, due to inventory being accounted for at the average spot rate per month, instead of being accounted for at the transaction date spot rates. There was also an amount on the statement of financial position that should have been released to cost of sales and this has now been corrected in 2011's restated results.

- *VAT*
  There was an administrative non-compliance issue resulting from certain year end inter-company journal entries on which no VAT was raised. As all the VAT inputs and outputs were claimed in the main trading entity, Medpro Pharmaceutica, there has been no loss to SARS. The journal entries are processed to book some of the entries to the other subsidiaries where the intellectual property is owned, but VAT was not raised on these inter-company transactions. If the correct VAT invoices had been raised and processed, the correct input and output VAT would have been claimed and paid by the respective subsidiaries in the same period, so there would be no loss to SARS from a timing or Rand point of view. In order to rectify this admin oversight we have appointed PricewaterhouseCoopers (PWC) and they assisted with the notification to SARS' on our behalf via SARS Voluntary Disclosure Programme (VDP). The total VAT due to SARS has been paid timeously, by Medpro, on behalf of the group (but unfortunately there are no group relief provisions in the VAT Act). As a result of this, we have raised a VAT receivable of R116 million and a VAT payable of R116 million (at a consolidated level) and this has been done via the applicable subsidiaries in the applicable

Directors' report continued

financial years, as required, hence the prior period restatements to the balance sheets in this regard. Based on the administrative nature of the non-compliance; the fact that we have notified SARS via the VDP; and previous precedent; our advisors expect that our exposure will be limited to a maximum of R14,3 million and this has been provided for in the 2012 results.

- *Share-based payments*
  The CMSA Share Option Scheme that was approved by shareholders in November 2010, issued options to employees of various subsidiary companies in 2011. In 2011 the full share-based payment was accounted for in CMSA's separate financial statements, instead of in each of the relevant subsidiary companies. This does not have any impact on the group results, but the separate financial statements of CMSA had to be restated to correctly reflect only the share-based payments relating to employees of CMSA.

Refer to note 30 for details on the impact these prior period restatements had on the group and company's results.

Changes in ownership interest

The following acquisitions and changes in ownerships occurred during the year:

NAME OF ENTITY	DATE OF ACQUISITION/ CHANGE	PERCENTAGE ACQUIRED	PERCENTAGE SHAREHOLDING	ACCOUNTING TREATMENT
Cape to Cairo Exports Proprietary Limited*	12 June 2012	100% interest	100	Consolidate
Cipla Nutrition Proprietary Limited	18 June 2012	5% interest	80	Consolidate

* *Dormant company*

Subsidiary companies

Details of the subsidiary companies are set out in notes 5 and 22 of the financial statements.

Joint ventures

Details of the joint ventures are set out in notes 22 and 28 of the financial statements.

Capital expenditure

To date R379 million (2011: R374 million) has been spent on the upgrade and continuous improvements to our manufacturing facility, situated in Durban, KwaZulu-Natal. CMM became one of the first PIC/S-compliant facilities in South Africa, matching the highest standards for pharmaceutical manufacturers in the world. We continuously ensure that we keep up to date with all the relevant requirements.

Dividends

It is the company's policy to maintain a dividend cover of between four and five times. In 2011 this policy was complied with when the results are analysed on a normalised basis. It was decided however, that no final dividend would be declared for the 2012 financial year, due to the Cipla India transaction. Refer to section 6.10.3 of the circular released on 15 April 2013, for further details in this regard.

- *Interim*
  The company declared an interim dividend of 8,5 cents (2011: 6,5 cents) per share, based on the results of the first six-month period of 2011.

  The board was satisfied that the remaining capital, after the payment of the interim dividend, was sufficient to support the current operations and to facilitate future development of the group. The board was also satisfied that the solvency and liquidity test, as set out in section 4 of the Companies Act, was passed immediately after the distribution was completed, in particular that it was satisfied that:

  – The assets of the group, as fairly valued, was equal or exceeded the liabilities, as fairly valued, immediately after the distribution; and

  – The group will be able to pay its debts as they became due in the ordinary course of business for a period of 12 months after the date of the distribution.

- *Final*
  No final dividend in respect of the year ended 31 December 2012 was declared (2011: a final dividend of 7,5 cents per share was declared on 5 April 2012).

The total dividend for the year amounted to 8,5 cents (2011: 14,0 cents) per ordinary share equating to a dividend cover of 4,2 times for the 2011 financial year (2012: at the interim stage, the dividend cover, when based on normalised results, was 4,2 times).

Share capital

The authorised share capital of the company comprises 500 000 000 ordinary shares of 0,1 cent each and the issued share capital of the company was R446 562 (consisting of 446 561 759 ordinary shares of 0,1 cent each) as at 31 December 2012 (2011: R446 562 consisting of 446 561 759 ordinary shares of 0,1 cent each).

On 9 April 2013, 28 925 ordinary shares were issued to the CMSA Share Option Trust and the issued share captial of the company as at the date of this report is R446 591 (consisting of 446 590 684 ordinary shares of 0,1 cent each).

At the AGM of the company held on 2 August 2012, the requisite majority of CMSA Limited shareholders approved an ordinary resolution placing the control of the authorised, but unissued, share capital of the company under the authority of the directors, limited to 5% of the issued share capital.

The following shareholder owns more than 5% of the issued share capital of the company:

- Sweet Sensation is the owner of 82 000 000 ordinary shares in the company, equivalent to 18,4% of the issued share capital.

Further details of the authorised and issued share capital of the company are given in note 12 of the annual financial statements.

DIRECTORS

Directors' interests in the issued shares of the company

The total direct and indirect interests declared by the directors in the issued share capital of the company were as follows:

	Beneficial direct '000	Beneficial indirect '000	Non-beneficial indirect '000	Total '000	Percentage held
31 December 2012					
MW Daly	–	200	–	200	0,05
MB Caga	–	180	–	180	0,04
PCS Luthuli	789	1 998	–	2 787	0,62
	789	2 378	–	3 167	0,71
31 December 2011					
C Aucamp[1]	–	750	–	750	0,17
MB Caga	–	180	–	180	0,04
PCS Luthuli	789	1 998	–	2 787	0,62
JS Smith[1]	–	16 822	–	16 822	3,77
	789	19 750	–	20 539	4,60

1 *JS Smith was suspended as CEO on 15 August 2012 and subsequently resigned on 8 October 2012, and C Aucamp resigned as CFO on 26 November 2012.*

ND Mokone has a direct, beneficial holding of 10 shares (2011: 10 shares) in the company.

There has been no change in the directors' shareholdings subsequent to the 2012 year end and to the date of signature of this report.

At the date of approval of the annual financial statements, the directors of the company were as follows:

Executive directors

JvD du Preez (Acting CEO) – appointed 16 August 2012

MW Daly (CFO) – appointed 26 November 2012

Non-executive directors

PCS Luthuli (Chairman)

MB Caga

ND Mokone

MT Mosweu

SMD Zungu

Executive directors no longer have fixed term contracts. Refer to the Remuneration Committee report for further details on their contracts. The conditions of employment for the former CEO and CFO include restraint of trade provisions for which no payment was made.

Refer to note 23 for detailed disclosure of directors' remuneration and benefits for the year.

The directors of the company have not had any material beneficial interest whether direct or indirect in transactions that were effected by the company during the current and immediately preceding financial year and which remain in any respect outstanding or unperformed, except as disclosed in note 22 of the annual financial statements.

Directors' report continued

Special resolutions

At the AGM held on 2 August 2012, shareholders approved, via special resolution, for the company and/or its subsidiaries:

- The adoption of the revised MOI;
- The authority of the board, pursuant to the provisions of section 45 of the Companies Act, and subject to the provisions thereof, to provide such direct or indirect 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 may authorise; and
- By way of a general approval to acquire the issued ordinary shares of CMSA, upon such terms and conditions and in such amounts as the directors of CMSA may from time to time determine, but subject to the MOI of CMSA, the provisions of the Companies Act and the JSE Listings Requirements, and the provisos as listed in the notice of the AGM dated 20 June 2012 included in the 2011 IAR.

Going concern

The directors consider that the company and its subsidiaries have adequate resources to continue operating for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the consolidated and separate annual financial statements. The directors are satisfied that the group is in a sound financial position and has access to adequate borrowing facilities to meet its foreseeable cash requirements.

Auditors

On 18 December 2012, our previous external auditors, Mazars, resigned and KPMG Inc. was appointed as external auditors.

Company Secretary

In December 2012, R Manilall was appointed as Company Secretary.

The business and postal addresses of the Company Secretary, which are also the registered addresses of the company, are as reflected below:

Registered office:	Postal address
1474 South Coast Road	PO Box 32003
Mobeni	Mobeni
4052	4060

Subsequent events

On 9 April 2013, the company issued 28 925 number of ordinary shares to the CMSA Share Option Trust. The issued share capital of the company is now 446 590 684.

On 27 February 2013, Cipla India made a firm intention announcement to acquire 100% of CMSA's share capital at R10,00 per share. Subsequent to this, the circular was sent to shareholders on 15 April 2013, with the Scheme meeting scheduled for 15 May 2013, at which date the outcome of the transaction will be decided.

Except for the two matters mentioned above, which do not have any financial impact on the 2012 financial results, the directors are not aware of any matter or circumstance which is material to the financial affairs of the company and its subsidiaries, which has occurred between 31 December 2012 and the date of approval of the annual financial statements, that has not been otherwise dealt with in the consolidated and separate annual financial statements.

PCS Luthuli	**JvD du Preez**
Chairman	*Acting Chief Executive Officer*

Cape Town
13 May 2013

Audit and Risk Committee report

AUDIT AND RISK COMMITTEE	
Composition	Three independent non-executive directors[1]
Appointment	Recommended by the Nomination Committee and appointed by the board. Ratified by shareholders at the AGM.
Chairman	Elected by the board, cannot be the Chairman of the board
Members	Mpho Mosweu (Chairman) Nthabiseng Mokone[1] Johan du Preez[2] Sandile Zungu[2]
Attendance by invitation	CEO, CFO, Company Secretary, Internal Auditors and External Auditors
Key responsibilities	Reviewing the effectiveness of internal control systems. Establishing the role of the risk management function, risk management policies and plans, and monitoring of its effectiveness. Monitoring of corporate governance processes. Overseeing integrated reporting. Recommending financial results for approval by the board. Nominating the registered external auditor for appointment by shareholders at the AGM, and evaluating their ongoing independence and performance. Approving external auditor fees and setting policies for utilising the external auditor for non-audit services. Monitoring and supervising the effective functioning and performance of the independent Internal Audit function.

1 *With effect from 1 January 2012, Nthabiseng Mokone replaced Sandile Zungu as a member of the Audit and Risk Committee, allowing Sandile to take on a role on the Nomination Committee. Nthabiseng's appointment was ratified by shareholders at the AGM held on 2 August 2012.*

2 *With effect from 6 December 2012, Sandile Zungu was appointed by the board as a third member of the Audit and Risk Committee to restore the committee's membership back to three independent non-executive directors. The membership comprised two members as from 16 August 2012, when Johan du Preez took on the role of Acting CEO of CMSA during the transitory period during which the company's former CEO had been suspended and has subsequently resigned; Johan is currently still serving as Acting CEO while the company searches for a permanent replacement.*

Sandile's appointment will be put forward for ratification by shareholders at the forthcoming AGM to be held on 20 June 2013.

ATTENDANCE AT AUDIT AND RISK COMMITTEE MEETINGS DURING 2012				
MEMBER	6 MAR	19 JUN	7 AUG	5 DEC
Mpho Mosweu	✔	✔	✔	✔
Nthabiseng Mokone	✔	✔	✔	✔
Johan du Preez	✔	✔	✔	n/a*
Sandile Zungu	n/a	n/a	n/a	n/a*

* *Attended as invitee.*

Audit and Risk Committee report continued

The membership, resources, responsibilities and authorities of the Audit and Risk Committee to perform its role effectively, are stipulated in its terms of reference, which may be amended by the board as and when required. The committee operates in accordance with its terms of reference which is approved annually by the board, and also carries out its duties as set out in section 94 of the Companies Act. An annual work plan is established for each year to ensure that all relevant matters are covered by the agendas of the meetings planned for that year.

The committee comprises persons with the adequate relevant knowledge and experience to perform its functions and members are required to keep up-to-date with developments affecting the required skill-set.

EXECUTION OF AUDIT AND RISK COMMITTEE FUNCTION

The Audit and Risk Committee has executed its duties and responsibilities during the year in accordance with its terms of reference and the Companies Act.

Annual financial statements

In respect of the annual financial statements, this committee:

- Reviewed the appropriateness of the annual 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 its subsidiaries as at 31 December 2012 and the results of operations and cash flows for the financial year then ended; and
- Considered accounting treatments, the appropriateness of accounting policies and the effectiveness of the group's disclosure procedures.

Going concern

The Audit and Risk Committee considered and agreed with the adoption of the going concern premise in the preparation of the financial statements.

External Audit and the external auditor

During the latter half of the 2012 year, the Audit and Risk Committee in conjunction with the board, and after due consideration of the facts and circumstances, and matters which arose in 2012, accepted the resignation of Mazars as the external auditors of the company. After an adjudication process, the Audit and Risk Committee has recommended the appointment of KPMG Inc. as the replacement external auditors of the company, for ratification by shareholders at the AGM. Shareholders will accordingly be requested to consider and vote on KPMG Inc.'s appointment at the forthcoming AGM.

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

- Recommended to the board the acceptance of the resignation of Mazars as the external auditor of the company;
- During December 2012, nominated for appointment as its external auditor, KPMG Inc., with Imraan Jeewa being the designated engagement partner;
- After due consideration, is of the opinion that KPMG Inc. is independent of the company in line with its declaration to the committee;
- Believes that the appointment of KPMG Inc. complies with the relevant provisions of the Companies Act, King III and the JSE Listings Requirements;
- During the 2012 year, determined both KPMG Inc.'s and Mazars' terms of engagement and approved their fees as disclosed in the notes to the annual financial statements;
- Determined the nature and extent of all non-audit services provided by KPMG Inc. and Mazars as per the guidelines set down in the terms of reference of the Audit and Risk Committee;
- Approved the material non-audit services provided by Mazars (none were provided by KPMG Inc. since their nomination for appointment);
- Assessed the effectiveness of the external auditors, by reviewing:
  - KPMG Inc.'s and Mazars' progress against, and fulfilment of, the agreed audit plan; and
  - the process followed by KPMG Inc. and Mazars 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;
  - KPMG Inc.'s overall audit planning memorandum for the year;
  - significant accounting and auditing issues that arose during the audit and the manner in which they were resolved;
  - key accounting and audit judgements, where applicable;
  - the quantum and nature of errors identified during the audit; and
  - recommendations made by KPMG Inc. and Mazars, management's responses to issues raised and the adequacy thereof.

EXTERNAL AUDIT FEES – MAZARS*		
FEE	R'000	%
Fees for audit services	1 798	60
Fees for non-audit services	1 182	40
Total fees	**2 980**	**100**

* *Mazars' fees relate to the 2011 year end audit, as well as the 2012 interim period and other services provided. All of these fees are included in profit or loss for 2012. Audit fees payable to KPMG Inc., for the 2012 year end audit will only be reflected in profit or loss in 2013, as they are only incurred after year end and are therefore not included in the table above.*

The Audit and Risk Committee on a quarterly basis reviews the schedule of fees for audit versus non-audit services performed to ensure that fees for non-audit services does not exceed 50% of the total fee for audit services, so as to impair the independence of the external auditor. The audit firm partner used for each project is also reviewed to ensure that there is no conflict and breach of independence requirements. During the 2012 year the solo threshold was exceeded. The committee condoned this breach in light of the circumstances as these non-audit fees were once-off in nature and incurred mostly in relation to the Cipla India transaction.

Internal financial controls and Internal Audit

The Audit and Risk Committee has:

- Evaluated the independence, effectiveness and performance of the Internal Audit function, established from both within the company and co-sourced with an external third party, i.e. RAFT Consulting, 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
- Reviewed significant issues raised by the internal audit process and the adequacy of the corrective action in response to significant internal audit findings, where applicable.

Based on the processes outlined above and the assessments obtained from management and the joint Internal Audit function, the Audit and Risk Committee believes that the internal financial controls are effective, but that there are improvements which are required particularly relating to those findings where the risk was previously accepted by management; some of which have already been addressed and resolved. Internal Audit will continue to update the audit findings register which contains a summary of both internal and external audit weaknesses in internal financial controls; and both management and the committee will use this as a tool for the ongoing monitoring of weaknesses in internal financial controls.

As an interim measure, effective from 18 December 2012, the committee approved that RAFT Consulting take over the Internal Audit function solely, as the Head of Internal Audit was appointed as the Company Secretary in December 2012. The Audit and Risk Committee in conjunction with management are currently evaluating a new co-sourced arrangement for the Internal Audit function, and are of the opinion that RAFT Consulting is currently adequately positioned to maintain the Internal Audit function in the short term, until a co-partner can be appointed.

Financial function

During the 2012 financial year, the committee considered, and was satisfied with, the experience, expertise and suitability of the former CFO, Chris Aucamp. In November 2012, Chris Aucamp resigned and Mark Daly was appointed as CFO. Mark's curriculum vitae can be found on page 22.

The committee is also satisfied that the group finance function is appropriately resourced and has the necessary expertise to perform its duties.

The Audit and Risk Committee is satisfied that all financial announcements and the annual financial statements have been prepared in accordance with the JSE Listings Requirements, IFRS, the Companies Act and the accounting policies of the group.

Compliance

The Audit and Risk Committee has considered the effectiveness of the system for the monitoring compliance with laws and regulations and for finding and investigating instances of non-compliance and is satisfied with the effectiveness thereof.

The Audit and Risk Committee met with internal auditors and external auditors without management being present and no material matters that required attention were raised in those meetings.

Following our review of the annual financial statements for the year ended 31 December 2012, we are of the opinion that, in all material respects, they comply with the relevant provisions of the Companies Act and IFRS, and fairly present the results of the operations, cash flows and the financial position of the company and its subsidiaries. This committee has therefore recommended the consolidated and separate annual financial statements of Cipla Medpro South Africa Limited for approval to the board of directors. Shareholders will accordingly be requested to consider and adopt the annual financial statements at the forthcoming AGM.

Audit and Risk Committee report continued

Risk management

The accountability to the board regarding the execution of the risk management process lies with the CFO, and not the CEO, as recommended by King III. Both the board and Audit and Risk Committee feel that this is appropriate given the experience and responsibility of the CFO (refer to the Risk Management section on pages 42 and 43 for further details).

Whistle-blowing

During April 2012, the group implemented an independently operated whistle-blowing hotline. All whistle-blowing arrangements are approved and monitored by this committee. All complaints raised via the hotline are sent from KPMG Services Proprietary Limited, the independent service provider, to our Company Secretary and CFO for review, investigation and escalation where necessary. Copies are sent to the external auditors, and every three months the independent service provider sends a report to the Chairman of the Audit and Risk Committee, as this committee is ultimately responsible for any investigations that may be required.

Employees, suppliers and other stakeholders are encouraged to report any unethical matters via the toll-free hotline, and have the option of reporting on an anonymous basis.

The Audit and Risk Committee is satisfied that all issues raised via the hotline or otherwise have been, or are in the process of being, adequately addressed.

Recommendation of the Integrated Annual Report for approval

The Audit and Risk Committee has reviewed and recommended the 2012 Integrated Annual Report for approval by the board of directors.

On behalf of the Audit and Risk Committee

Mpho Mosweu
Chairman

13 May 2013

Independent auditor's report

To the shareholders of Cipla Medpro South Africa Limited

Report on the financial statements

We have audited the consolidated and separate financial statements of Cipla Medpro South Africa Limited, which comprise the statements of financial position at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 86 to 143.

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 the requirements of 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.

Auditor's 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 judgement, 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 management, 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 Cipla Medpro South Africa Limited at 31 December 2012, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other matter

The supplementary schedules set out on pages 144 to 145 do not form part of the annual financial statements and are presented as additional information. We have not audited these schedules and accordingly we do not express an opinion on these schedules.

Other Reports Required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2012, we have read the Directors' report, the Audit and Risk Committee's report and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc.
Registered Auditor

Per: I Jeewa
Registered Auditor
Chartered Accountant (SA)
Director

8th Floor MSC House
1 Mediterranean Street
Cape Town
8001

13 May 2013

Statements of financial position

as at 31 December

	Notes	Audited GROUP 2012 R'000	Restated* GROUP 2011 R'000	Restated* GROUP 2010 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
ASSETS						
Non-current assets						
Property, plant and equipment	3	427 811	444 457	420 125	357 741	366 561
Intangible assets and goodwill	4	1 397 749	1 390 057	1 371 197	–	1 427
Investments in subsidiaries	5	–	–	–	831 185	831 185
Other investments	6	12	8	6	–	–
Loans receivable	7	1 596	3 191	–	1 596	3 191
Deferred tax assets	8	93 601	88 074	42 114	65 430	61 569
Non-current assets		1 920 769	1 925 787	1 833 442	1 255 952	1 263 933
Current assets						
Inventory	9	433 869	389 253	289 661	54 480	60 780
Current tax assets		38 273	1 312	742	–	–
Derivatives	10	–	39 845	–	–	–
Trade and other receivables	11	518 254	399 966	323 440	137 889	41 684
Amount due by subsidiary	5	–	–	–	68	–
Loans receivable	7	4 424	3 881	7 709	3 297	28 066
Cash and cash equivalents	26.4	97 337	16 493	46 448	182	174
Current assets		1 092 157	850 750	668 000	195 916	130 704
Total assets		3 012 926	2 776 537	2 501 442	1 451 868	1 394 637
EQUITY						
Share capital	12	446	446	454	446	446
Share premium	12	1 013 123	1 013 123	1 063 098	1 013 123	1 013 123
Treasury shares	12	(3 250)	(28 019)	(28 019)	–	–
Share-based payment reserve	12	4 184	1 455	–	285	94
Retained income (accumulated loss)		933 866	843 932	666 786	(317 461)	(219 918)
Total equity attributable to equity holders of the parent		1 948 369	1 830 937	1 702 319	696 393	793 745
Non-controlling interest	12	17 789	12 544	7 472	–	–
Total equity		1 966 158	1 843 481	1 709 791	696 393	793 745
LIABILITIES						
Non-current liabilities						
Derivatives		–	–	8 458	–	–
Loans and borrowings	13	263 873	279 128	302 970	12 873	28 128
Provisions	14	16 765	42 622	–	16 765	42 622
Accrued operating leases		4 130	3 594	3 000	1 467	2 054
Deferred tax liabilities	8	17 274	–	–	–	–
Non-current liabilities		302 042	325 344	314 428	31 105	72 804
Current liabilities						
Derivatives	10	7 964	1 174	66 159	–	–
Trade and other payables	15	607 647	430 509	315 362	24 336	41 349
Amounts due to subsidiaries	5	–	–	–	587 304	367 074
Loans and borrowings	13	16 549	21 456	17 354	16 456	16 319
Provisions	14	44 282	30 000	–	30 000	30 000
Accrued operating leases		2 143	520	–	328	188
Current tax liabilities		195	17 090	7 052	–	–
Bank overdrafts	26.4	65 946	106 963	71 296	65 946	73 158
Current liabilities		744 726	607 712	477 223	724 370	528 088
Total liabilities		1 046 768	933 056	791 651	755 475	600 892
Total equity and liabilities		3 012 926	2 776 537	2 501 442	1 451 868	1 394 637

* *Refer to note 30 for details of the restatements of prior years.*

Statements of comprehensive income

for the years ended 31 December

	Notes	Audited GROUP 2012 R'000	Restated* GROUP 2011 R'000	Audited COMPANY 2012 R'000	Restated* COMPANY 2011 R'000
Revenue	16	2 297 224	1 767 561	288 853	196 888
Cost of sales		(1 154 288)	(737 699)	(237 949)	(150 414)
Gross profit		1 142 936	1 029 862	50 904	46 474
Other income		15 422	121 264	27 310	21 893
Selling and distribution expenses		(546 486)	(365 803)	(12 603)	(11 424)
Administrative expenses		(153 180)	(137 826)	(58 744)	(56 869)
Other expenses		(132 148)	(263 189)	(25 450)	(136 617)
Results from operating activities	17	326 544	384 308	(18 583)	(136 543)
Net finance costs	18	(74 434)	(42 626)	(11 386)	(1 600)
Finance income		4 380	15 586	1 784	7 444
Finance costs		(78 814)	(58 212)	(13 170)	(9 044)
Profit (loss) before income tax		252 110	341 682	(29 969)	(138 143)
Tax (expense) income	19	(83 746)	(102 768)	3 861	33 391
Profit (loss) for the year		168 364	238 914	(26 108)	(104 752)
Profit (loss) attributable to:					
Equity holders of the parent		161 369	233 888	(26 108)	(104 752)
Non-controlling interest		6 995	5 026	–	–
Profit (loss) for the year		168 364	238 914	(26 108)	(104 752)
Other comprehensive income for the year (net of income tax)		–	–	–	–
Total comprehensive income (loss) for the year		168 364	238 914	(26 108)	(104 752)
Total comprehensive income (loss) attributable to:					
Equity holders of the parent		161 369	233 888	(26 108)	(104 752)
Non-controlling interest		6 995	5 026	–	–
Total comprehensive income (loss) for the year		168 364	238 914	(26 108)	(104 752)
Earnings per share					
Basic earnings per share (cents)	20	36,6	52,3		
Diluted earnings per share (cents)	20	36,4	52,1		

* *Refer to note 30 for details of the restatements in 2011.*

Statements of changes in equity

for the years ended 31 December

	Note	Share capital R'000	Share premium R'000	Treasury shares R'000	Share-based payment reserve R'000	Retained income (accu-mulated loss) R'000	Total R'000	Non-controlling interest R'000	Total equity R'000
		Attributable to equity holders of the parent							
GROUP									
Balance at 1 January 2011, as previously reported		454	1 063 098	(28 019)	26 091	715 772	1 777 396	7 472	1 784 868
Reclassification of share-based payment reserve		–	–	–	(26 091)	26 091	–	–	–
Impact of prior period restatements	30	–	–	–	–	(75 077)	(75 077)	–	(75 077)
Restated balance at 1 January 2011		454	1 063 098	(28 019)	–	666 786	1 702 319	7 472	1 709 791
Total comprehensive income for the year		–	–	–	–	233 888	233 888	5 026	238 914
Share buy-back	12	(8)	(49 975)	–	–	–	(49 983)	–	(49 983)
IFRS 2 Share-based Payments	12	–	–	–	1 455	–	1 455	–	1 455
Changes in ownership interest:									
– Cipla Agrimed Proprietary Limited		–	–	–	–	11	11	1 588	1 599
– Cipla Nutrition Proprietary Limited	27	–	–	–	–	–	–	(192)	(192)
Dividends paid	12	–	–	–	–	(56 753)	(56 753)	(1 350)	(58 103)
Restated balance at 1 January 2012		**446**	**1 013 123**	**(28 019)**	**1 455**	**843 932**	**1 830 937**	**12 544**	**1 843 481**
Total comprehensive income for the year		–	–	–	–	161 369	161 369	6 995	168 364
Shares issued from the CMSA Share Option Trust	12	–	–	24 769	–	–	24 769	–	24 769
IFRS 2 Share-based Payments	12	–	–	–	2 729	–	2 729	–	2 729
Dividends paid	12	–	–	–	–	(71 435)	(71 435)	(1 750)	(73 185)
Audited balance at 31 December 2012		**446**	**1 013 123**	**(3 250)**	**4 184**	**933 866**	**1 948 369**	**17 789**	**1 966 158**
COMPANY									
Balance at 1 January 2011		454	1 063 098	–	26 091	(84 504)	1 005 139	–	1 005 139
Reclassification of share-based payment reserve		–	–	–	(26 091)	26 091	–	–	–
Restated balance at 1 January 2011		454	1 063 098	–	–	(58 413)	1 005 139	–	1 005 139
Total comprehensive loss for the year		–	–	–	–	(104 752)	(104 752)	–	(104 752)
Share buy-back	12	(8)	(49 975)	–	–	–	(49 983)	–	(49 983)
IFRS 2 Share-based Payments	12	–	–	–	94	–	94	–	94
Dividends paid	12	–	–	–	–	(56 753)	(56 753)	–	(56 753)
Restated balance at 1 January 2012		**446**	**1 013 123**	**–**	**94**	**(219 918)**	**793 745**	**–**	**793 745**
Total comprehensive loss for the year		–	–	–	–	(26 108)	(26 108)	–	(26 108)
IFRS 2 Share-based Payments	12	–	–	–	191	–	191	–	191
Dividends paid	12	–	–	–	–	(71 435)	(71 435)	–	(71 435)
Audited balance at 31 December 2012		**446**	**1 013 123**	**–**	**285**	**(317 461)**	**696 393**	**–**	**696 393**

Statements of cash flow

for the years ended 31 December

	Notes	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Cash flows from operating activities					
Cash generated (utilised) by operations	26.1	390 922	342 686	(140 011)	(75 078)
Finance income received		4 358	4 080	1 784	66
Finance costs paid		(33 130)	(37 678)	(8 981)	(9 044)
Dividends paid		(73 185)	(58 103)	(71 435)	(56 753)
Income tax paid	26.2	(125 113)	(132 967)	–	–
STC paid	26.3	(742)	(6 010)	–	(5 328)
Net cash flows from operating activities		163 110	112 008	(218 643)	(146 137)
Cash flows from investing activities					
Acquisitions of property, plant and equipment	3	(13 134)	(48 444)	(5 097)	(36 544)
Acquisitions of intangible assets	4	(35 593)	(55 526)	–	–
Proceeds on disposals of property, plant and equipment		2	95	–	90
Decrease (increase) in loans receivable		1 052	(3 146)	26 296	(1 882)
Net cash flows from investing activities		(47 673)	(107 021)	21 199	(38 336)
Cash flows from financing activities					
Proceeds from the exercise of share options		24 769	–	–	–
Acquisitions of subsidiaries	27	–	(2 000)	–	–
Share buy-back	12	–	(49 983)	–	(49 983)
Redemption of preference shares	13	–	(34 500)	–	–
(Decrease) increase in loans payable		(18 345)	15 874	204 664	219 526
Net cash flows from financing activities		6 424	(70 609)	204 664	169 543
Net increase (decrease) in cash and cash equivalents		121 861	(65 622)	7 220	(14 930)
Cash and cash equivalents at beginning of the year		(90 470)	(24 848)	(72 984)	(58 054)
Cash and cash equivalents at end of the year	26.4	31 391	(90 470)	(65 764)	(72 984)

Notes to the annual financial statements

for the years ended 31 December

1. REPORTING ENTITY

Corporate information

Cipla Medpro South Africa Limited is listed on the main board of the JSE and is incorporated and domiciled in the Republic of South Africa. The consolidated financial statements of the company for the year ended 31 December 2012 comprise the company and its subsidiaries (together referred to as the "group" and individually as "group entities") and the group's interest in associates.

The group is primarily involved in the manufacture, marketing and supply of pharmaceutical products.

2. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements are prepared in accordance with IFRS, Financial Reporting Guides issued by the South African Institute of Chartered Accountants (SAICA) and the Companies Act (2008) of South Africa.

The consolidated financial statements were authorised for issue by the directors on 13 May 2013.

b) Basis of measurement

The consolidated financial statements are prepared in accordance with the going concern and the historical cost bases, except where otherwise indicated.

c) Functional and presentation currency

The consolidated financial statements are presented in South African Rands (ZAR), which is the company's functional currency, rounded to the nearest thousand, unless otherwise indicated.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant judgements and estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the amounts presented in these financial statements and related disclosures. Significant areas of estimation, uncertainty and critical judgements made in applying the group's accounting policies, that potentially have a significant effect on the amounts recognised in the financial statements, are as follows:

Trade receivables impairment (including loans receivable)

The group assesses its trade receivables and loans receivable for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment of trade receivables and loans receivable is calculated on an individual basis, based on payment history, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the individual receivable. Financial difficulties of the debtor, probability that the debtor will enter bankruptcy or defaults of payments are considered indicators of impairment.

Allowance for slow moving, damaged and obsolete inventory

An allowance for inventory is used to write down inventory to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items (refer to note 17 for the amount written down).

Options granted

The estimate of the fair value of services received from employees in return for share options granted is measured with reference to the fair value of the share options granted and is based on the binomial tree model.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption made may then impact our estimations and may require a material adjustment to the carrying value of tangible and intangible assets.

The group reviews and tests the carrying values of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill and indefinite life intangible assets are tested on an annual basis for impairment. Assets are grouped at the lowest level of which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows of each group of assets. Expected future cash flows used to determine the value in use of tangible and intangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of economic factors.

Property, plant and equipment
Property, plant and equipment are written off over their expected useful lives, after taking into consideration the assets' residual values at the end of their useful lives. The useful lives and residual values are estimated based on industry knowledge. The carrying value of property, plant and equipment is set out in note 3.

Intangible assets
Predicting the useful life of an intangible asset requires significant judgement. The diverse categories of intangible assets will have different useful lives, whilst a number of intangible assets may even be considered to have indefinite useful lives. The useful life associated with an asset that has no patent protection but that retains, and is expected to retain, a distinct identity could be considered to be indefinite and the asset would not be amortised.

The trademarks, registrations and dossiers that the group classified as having indefinite useful lives, are supported by the following factors:

- The group will continue to generate revenues from the continued use of its trademarks, registrations and dossiers for the foreseeable future;
- Typical product life cycles for the trademarks, registrations and dossiers acquired against public information on estimates of useful lives indicate that the intangibles have an indefinite period of foreseeable usage; and
- The stability and the strong demand of the industries in markets within which these products are marketed and sold.

The group also assesses goodwill to have an indefinite useful life.

Taxation
Judgement is required in determining the liability for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax liabilities in the period in which such determination is made.

The group recognises the net future benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the group to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been consistently applied by all group entities and to all periods presented in these consolidated financial statements, with the exception of new standards, amendments and interpretations adopted during the 2012 year (refer to note 29).

a) Basis of consolidation

(i) Accounting for business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the group. Control is the power to govern the financial and operating policies of an entity as to obtain benefits from its activities. In assessing control, the group takes into consideration potential voting rights that currently are exercisable.

Acquisitions on or after 1 January 2010
For acquisitions on or after 1 January 2010, the group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and the liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the group incurs in connection with the business combination are expensed as incurred.

Acquisitions between 1 January 2004 and 1 January 2010
For acquisitions between 1 January 2004 and 1 January 2010, goodwill represents the excess of the cost of the acquisition over the group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

Notes to the annual financial statements
for the years ended 31 December

3. SIGNIFICANT ACCOUNTING POLICIES continued

a) Basis of consolidation continued

(ii) Accounting for acquisitions of non-controlling interests

From 1 January 2010, the group has applied IAS 27 Consolidated and Separate Financial Statements (2008) in accounting for acquisitions of non-controlling interests.

Acquisitions of non-controlling interest are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Previously, goodwill was recognised on the acquisition method of non-controlling interest in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

(iii) Investments in subsidiaries

Subsidiaries are those entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the effective date that control commences until the date that control ceases.

The total comprehensive income of subsidiaries is attributed to the equity holders of the parent as well as to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the group's ownership interests in subsidiaries that do not result in the loss of control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the equity holders of the parent.

(iv) Special-purpose entities (SPEs)

The group has established an SPE for the purposes of holding share options on behalf of employees of the group. The group does not have a direct or indirect shareholding in this entity. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the group and the SPE's risks and rewards, the group concludes that it controls the SPE.

The SPE which is controlled by the group has been established under terms that impose strict limitations on the decision-making powers of the SPE's management and that result in the group receiving all of the benefits related to the SPE's operation and net assets.

(v) Investments in associates

Associates are those entities in which the group has significant influence, but no control, over the financial and operating policies. Significant influence is presumed to exist when the group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The cost of the investment includes transaction costs.

The group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the group's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the group, from the date that significant influence commences until the date that significant influence ceases. When the group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the group has an obligation or has made payments on behalf of the associate.

(vi) Interests in joint ventures

A joint venture is a contractual agreement whereby the group and other parties undertake an economic activity that is subject to joint control. The strategic, financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

The interests in jointly controlled entities are accounted for using the equity method. Such interests are carried at cost and adjusted for post-acquisition changes in the group's share of net assets of the jointly controlled entities, less any impairment losses. Profit or losses on transactions between the group and the joint ventures are eliminated to the extent of the group's interest therein.

When the group's share of losses exceeds its interest in a joint venture, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the group has an obligation or has made payments on behalf of the joint venture.

(vii) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Investments in subsidiaries

In the company's separate annual financial statements, investments in subsidiaries are measured at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- The fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the company; plus
- Any costs directly attributable to the purchase of the subsidiary.

c) Foreign currency

Transactions in foreign currencies are translated into ZAR at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into ZAR at the foreign exchange rate ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in ZAR at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the reporting date. Foreign exchange differences arising on translation are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured on the historical cost basis are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair values were determined.

d) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, loans receivable, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the group's contractual rights to the cash flows from the financial assets expire or if the group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statements of cash flow. Cash and cash equivalents are measured at amortised cost.

Accounting for finance income and expenses are discussed in accounting policy (o).

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale, as it is not the group's policy to actively trade in these investments.

Financial guarantees

Financial guarantees are initially measured at fair value and subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS18 Revenue.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost, using the effective interest method, less any impairment losses.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, and for any non-derivative financial assets, less any impairment losses. The discount rate used is the market rate of interest for a similar instrument of an issuer with a similar credit rating.

Notes to the annual financial statements
for the years ended 31 December

3. SIGNIFICANT ACCOUNTING POLICIES continued

d) Financial instruments continued

(ii) Derivative financial instruments

The group holds derivative financial instruments to economically hedge its foreign currency and interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and gains or losses are recognised in profit or loss. The group does not apply hedge accounting as per the requirements of IAS 39 Financial Instruments: Recognition and Measurement. Where these derivatives are held for a period beyond 12 months from the reporting date, the derivatives are classified as non-current, or separated into current and non-current portions, consistent with the classification of the underlying terms.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity and carried at original cost. Incremental costs directly attributable to the issue of new shares or options are recognised as a deduction from equity, net of any tax effects.

Treasury shares

When shares held in the group through subsidiary companies reduce the group's share capital, the equity instruments, held at cost ("treasury shares"), are presented as a deduction against the group's equity. No profit or loss is recognised in the statement of comprehensive income.

Dividend income on treasury shares are eliminated on consolidation.

Gains or losses on disposal of treasury shares are accounted for directly in equity.

Issued and weighted average number of shares are reduced by the number of treasury shares for EPS purposes.

Preference shares

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the company's option, and any dividends are discretionary. Discretionary dividends thereon are recognised as distributions within equity upon approval by the company's shareholders.

Preference shares are classified as a financial liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised in profit and loss as finance expense, as accrued.

e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Borrowing costs related to the acquisition or construction of qualifying assets are capitalised in accordance with the group's accounting policy on borrowing costs (refer to accounting policy (h)).

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use. Depreciation is recognised in profit or loss on a systematic basis over the estimated useful lives of each part of an item of property, plant and equipment to their estimated residual value. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The depreciation rates applicable to each category of property, plant and equipment are as follows:

Asset category	*Useful life*
Leasehold improvements	5 to 16 years
Plant and machinery	2 to 25 years Units of Production (UOP)
Motor vehicles	5 years
Furniture and equipment	
Office furniture	5 to 6 years
Laboratory equipment	3 years (UOP)
Computer equipment	2 to 3 years
Computer software	3 years
Burglar alarms	3 to 10 years
Library assets	3 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

f) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For the measurement of goodwill at initial recognition, see accounting policy (a).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in accordance with the group's policy on borrowing costs (refer to accounting policy (h)). Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Other intangible assets

The useful lives of all other intangible assets acquired by the group are assessed to determine if the useful life is finite or indefinite. Useful lives of intangible assets are reviewed at least at each reporting date and altered if estimates have changed significantly. Any change is accounted for by changing the amortisation charge for the current and future periods.

Intangible assets with finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

Intangible assets with indefinite useful lives and goodwill are measured at cost and are not amortised, but are tested for impairment at least annually or whenever any indication of impairment exists.

The estimated useful lives for current and comparative years are as follows:

Asset category	*Useful life*
Goodwill	Indefinite
Dossiers and registrations	Indefinite and finite (2 to 56 years)
Trademarks	Indefinite and finite (2 to 56 years)
Brands	Indefinite
Computer software	2 to 3 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the annual financial statements
for the years ended 31 December

3. SIGNIFICANT ACCOUNTING POLICIES continued

f) Intangible assets continued

(iv) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

g) Leased assets

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset (refer to accounting policy (e)).

Other leases are classified as operating leases whereby the leased assets are not recognised on the group's statement of financial position.

h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. All other borrowing costs are expensed in the period in which they are incurred.

i) Inventory

Inventories are measured at the lower of cost and net realisable value.

The cost of inventory is based on the weighted average cost method, and includes expenditure incurred in acquiring the inventory and bringing it to its existing location and condition. In the case of manufactured inventory and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Obsolete, redundant and slow-moving inventory is identified on a regular basis and written down to its estimated net realisable value.

j) Impairment

(i) Non-derivative financial assets

A financial asset not measured at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset, that can be estimated reliably. Objective evidence that financial assets are impaired includes significant financial difficulties of the debtor, indications that a debtor will enter bankruptcy, defaults of payments and national and industry-specific economic conditions.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses and reversals of impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

The carrying amounts of the group's non-financial assets, other than inventory (refer to accounting policy (i)) and deferred tax assets (refer to accounting policy (p)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value-in-use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

k) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the group pays fixed contributions to a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

(ii) Termination benefits

Termination benefits are recognised as an expense when the group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If the benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonuses or performance bonuses and leave pay if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(iv) Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except for when forfeiture is only due to share prices not achieving the threshold for vesting.

l) Provisions

A provision is recognised if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

m) Revenue

Sale of goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, and value added tax. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be estimated reliably.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

n) Leases

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are charged to profit or loss in the period in which they are incurred.

o) Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, interest rate swap refunds and changes in the fair value of interest rate swaps. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, impairment losses recognised on financial assets (other than trade receivables), interest rate swap settlements and changes in the fair value of interest rate swaps.

Borrowing costs that are not directly attributable to the acquisition, construction, or production of a qualifying asset, are recognised in profit or loss using the effective interest method.

Notes to the annual financial statements
for the years ended 31 December

3. SIGNIFICANT ACCOUNTING POLICIES continued

p) Tax

Income tax expense comprises current tax, deferred tax and STC. Income tax expense is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductable temporary differences to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

STC on dividends was accrued for in the period in which the dividend was declared, relating to dividends declared before 1 April 2012.

q) Earnings per share (EPS)

The group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding adjusted for the effects of all dilutive potential ordinary shares, which comprises share options granted to employees.

HEPS is calculated per the requirements of Circular 3/2012, issued by SAICA, using the same number of shares as the EPS and diluted EPS calculations.

r) Assets held-for-sale or held-for-distribution, and discontinued operations

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale or held-for-distribution if it is highly probable that they will be recovered primarily through sale or distribution rather than through continuing use. Immediately before classification as held-for-sale or held-for-distribution, the assets, or components of a disposal group, are remeasured in accordance with the group's other accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets which continue to be measured in accordance with the group's other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held-for-sale or held-for-distribution, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is represented as if the operation had been discontinued from the start of the comparative year.

s) Segment reporting

The group's principle format for segment reporting is based on business segments. This basis is indicative of the group's management and internal structure for financial reporting to the chief operating decision maker. Geographical segments are not presented as the group operates mainly in South Africa.

Intersegment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

t) Determination of fair values

A number of the group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

(ii) Intangible assets

The fair value of intangible assets acquired in a business combination is based on the discounted estimated future cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iv) Investments in equity securities

The fair value of financial assets at fair value through profit or loss is determined by reference to their quoted bid price at the reporting date.

(v) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Short-term receivables with no stated interest rate, are measured at the original invoice amount if the effect of discounting is immaterial. Fair value is determined at initial recognition and, for disclosure purposes, on each annual reporting date.

(vi) Derivatives

The fair value of FECs is based on market observable data, if available. If market observable data is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. These quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the reporting date.

(vii) Non-derivative financial liabilities

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The fair value of financial guarantees is the price that an independent party is willing to accept in order to assume the risk attached to the guarantee.

(viii) Share-based payment transactions

The fair value of employee share options is measured using a binomial tree model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, expected life of the instrument, expected dividends, and the risk-free interest rate.

u) Government grants

Government grants relating to assets are recognised as deferred income in the statement of financial position in the year that they become receivable. The deferred income is recognised as income in the statement of comprehensive income over the life of the underlying asset as the asset is depreciated.

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2. SEGMENT REPORTING

The principle reportable operating segments are business segments which is indicative of the group's management and internal structure for financial reporting to the chief operating decision maker (CODM). The CODM refers to the CEO and CFO, together with the executive committee.

Geographical segments have not been presented as the group operates mainly in South Africa. No single customer contributes to 10% or more of the total revenue.

Intersegment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Group financing (including finance income and finance costs), income taxes, as well as assets and liabilities are handled on a group level and are not allocated to operating segments.

Capital expenditure is handled on a group level and not managed on a segmental basis.

Business segments

The basis of segmentation is representative of the manner in which the CODM reviews the business and are the segments on which business decisions are based. The reporting segments are in accordance with IFRS 8 Operating Segments. Segmental information is reported to the CODM up to a profit before finance costs and income tax level.

The group comprises the following main business segments:

- SEP: Scheduled products (above schedule 2), both private and tender business;
- OTC: Non-scheduled products, as well as schedule 0, 1 and 2, which are available over the counter, both private and tender business; and
- Other operating segments: Small animal, large animal (including tender), agricultural, nutritional and other businesses.

	Audited 2012 R'000	Restated 2011 R'000
GROUP		
Segment revenue – external customers		
SEP	1 729 994	1 258 717
OTC	410 680	391 955
Other operating segments	156 550	116 889
	2 297 224	1 767 561
Segment result		
SEP#	254 850	390 647
OTC	40 770	84 802
Other operating segments	30 924	26 118
Unallocated item – legal settlement*	–	(117 259)
	326 544	384 308
Depreciation		
SEP	21 757	17 574
OTC	7 814	6 361
Other operating segments	209	168
	29 780	24 103
Amortisation		
SEP	16 423	17 606
OTC	5 899	6 372
Other operating segments	153	387
	22 475	24 365

The 2011 results include the settlement income, as it related to SEP products.

* *The unallocated item relates to the RBSA settlement.*

3. PROPERTY, PLANT AND EQUIPMENT

	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
GROUP 2012			
Leasehold improvements	157 249	(28 616)	128 633
Plant and machinery*	302 912	(33 568)	269 344
Motor vehicles*	2 744	(1 827)	917
Furniture and equipment*	57 364	(28 447)	28 917
	520 269	(92 458)	427 811

	Opening carrying value R'000	Acquisitions R'000	Transfers[1] R'000	Depreciation[2] R'000	Closing carrying value R'000
GROUP 2012					
Movement summary					
Leasehold improvements	133 074	2 796	2 053	(9 290)	128 633
Plant and machinery	280 082	2 881	(1 645)	(11 974)	269 344
Motor vehicles	1 304	13	–	(400)	917
Furniture and equipment	29 997	7 444	(408)	(8 116)	28 917
	444 457	13 134	–	(29 780)	427 811

	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
GROUP 2011			
Leasehold improvements	152 400	(19 326)	133 074
Plant and machinery	302 315	(22 233)	280 082
Motor vehicles	2 807	(1 503)	1 304
Furniture and equipment	50 483	(20 486)	29 997
	508 005	(63 548)	444 457

	Opening carrying value R'000	Acquisitions through business combinations[3] R'000	Other acquisitions R'000	Disposals R'000	Transfers[1] R'000	Depreciation[2] R'000	Closing carrying value R'000
GROUP 2011							
Movement summary							
Leasehold improvements	120 775	–	20 011	–	–	(7 712)	133 074
Plant and machinery	271 456	–	18 347	(18)	13	(9 716)	280 082
Motor vehicles	1 706	–	–	–	–	(402)	1 304
Furniture and equipment	26 188	14	10 086	(5)	(13)	(6 273)	29 997
	420 125	14	48 444	(23)	–	(24 103)	444 457

* *Certain items of property, plant and equipment have been scrapped during the year. The total cost of those assets was R869 737 (2011: Rnil).*

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3. PROPERTY, PLANT AND EQUIPMENT continued

	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
COMPANY 2012			
Leasehold improvements	130 488	(11 372)	119 116
Plant and machinery	245 050	(20 562)	224 488
Motor vehicles	64	(50)	14
Furniture and equipment	20 554	(6 431)	14 123
	396 156	(38 415)	357 741

	Opening carrying value R'000	Acquisitions R'000	Transfers[1] R'000	Depreciation[2] R'000	Closing carrying value R'000
COMPANY 2012					
Movement summary					
Leasehold improvements	120 089	1 304	2 053	(4 330)	119 116
Plant and machinery	231 256	2 760	(1 645)	(7 883)	224 488
Motor vehicles	27	–	–	(13)	14
Furniture and equipment	15 189	1 033	(408)	(1 691)	14 123
	366 561	5 097	–	(13 917)	357 741

	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
COMPANY 2011			
Leasehold improvements	127 131	(7 042)	120 089
Plant and machinery	243 935	(12 679)	231 256
Motor vehicles	64	(37)	27
Furniture and equipment	19 929	(4 740)	15 189
	391 059	(24 498)	366 561

	Opening carrying value R'000	Acquisitions R'000	Disposals R'000	Depreciation[2] R'000	Closing carrying value R'000
COMPANY 2011					
Movement summary					
Leasehold improvements	109 091	14 115	–	(3 117)	120 089
Plant and machinery	219 013	17 900	(18)	(5 639)	231 256
Motor vehicles	40	–	–	(13)	27
Furniture and equipment	11 821	4 529	–	(1 161)	15 189
	339 965	36 544	(18)	(9 930)	366 561

1 *Assets capitalised during the upgrade of the laboratory and previously accounted for under the capital work-in-progress category within plant and machinery have been transferred to their respective asset categories after the laboratory upgrade project was completed.*

2 *Depreciation is recognised on a systematic basis over the estimated useful lives of each item of property, plant and equipment. Further to this, and to better reflect the expected pattern of consumption of future economic benefits embodied within the asset, for certain items within the plant and machinery and leasehold improvements categories, an UOP basis incorporating capacity and remaining useful life has been applied to these assets housed within the manufacturing facility.*

3 *Refer to note 27 for further details on acquisitions through business combinations.*

3. PROPERTY, PLANT AND EQUIPMENT continued

Impairment tests for property, plant and equipment

The group reviews the carrying values of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. There were no such indications relating to items of property, plant and equipment and therefore no impairment losses recognised.

Manufacturing facility

During the year ended 31 December 2007, the company commenced an upgrade of its site and manufacturing facility. The initial scope of the upgrade was completed during the latter half of 2008. Since then, the company had identified and embarked on additional areas for upgrade and continuous improvement programmes. The investment in the upgrade and continuous improvements has been a total of R378 654 507 (2011: R374 210 408) to date.

Included in plant and machinery are costs capitalised as part of the cost of qualifying assets, such as directly attributable expenditure, including employee costs, that were incurred for employees working directly on the upgrade.

Employee benefits

Employee benefits that are incurred for employees working directly on the construction or acquisition of an asset are directly attributable costs and may be capitalised. The employees that have been included in the costs capitalised to the upgrade comprise those directly involved in the construction or acquisition of the assets and those in finance and administration positions who were indirectly involved in the construction or acquisition of the assets.

For the finance and administration staff, estimations and judgements were made in calculating the amount which qualifies for capitalisation. The estimations were predominately in respect of the amount of time each employee spent on a monthly basis on the acquisition and construction over and above the employee's normal finance or administrative duties.

On a departmental basis, management estimated the percentage of time dedicated by each department on the various phases of the upgrade during the year. The time spent by each department was then further stratified to individual employee level to isolate the percentage of time spent by each employee on the project, e.g. project manager –100% of time. These percentages were then applied to the total cost per employee to arrive at the amount capitalisable in terms of IAS 16 Property, Plant and Equipment.

Secured assets

As indicated within notes 13 (b) and 13 (c), the loan facilities of R100 000 000 and R151 000 000 respectively, are secured in part through a general notarial bond over the moveable assets of the group.

Secured leased assets

The group has a number of finance lease arrangements on plant and equipment as disclosed in note 13 (a).

The carrying value of secured leased assets can be summarised as follows:

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Carrying values of leased plant and equipment				
Plant and machinery	65 536	67 452	65 536	67 452
	65 536	67 452	65 536	67 452

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4. INTANGIBLE ASSETS

	Cost R'000	Accumulated amortisation R'000	Accumulated impairment R'000	Carrying value R'000
GROUP 2012 (Audited)				
Dossiers and registrations	390 314	(46 250)	(9 619)	334 445
Trademarks	475 936	(99 233)	(13 007)	363 696
Goodwill	699 342	–	(2 192)	697 150
Brands	1 427	–	(1 427)	–
Computer software	6 993	(4 535)	–	2 458
	1 574 012	(150 018)	(26 245)	1 397 749

	Opening carrying value R'000	Acquisitions R'000	Amortisation[1] R'000	Impairment R'000	Closing carrying value R'000
GROUP 2012 (Audited)					
Movement summary					
Dossiers and registrations	310 931	34 016	(8 695)	(1 807)	334 445
Trademarks	375 225	–	(11 529)	–	363 696
Goodwill	699 342	–	–	(2 192)	697 150
Brands	1 427	–	–	(1 427)	–
Computer software	3 132	1 577	(2 251)	–	2 458
	1 390 057	35 593	(22 475)	(5 426)	1 397 749

	Cost R'000	Accumulated amortisation R'000	Accumulated impairment R'000	Carrying value R'000
GROUP 2011 (Restated)				
Dossiers and registrations	356 298	(37 555)	(7 812)	310 931
Trademarks	475 936	(87 704)	(13 007)	375 225
Goodwill	699 342	–	–	699 342
Brands	1 427	–	–	1 427
Computer software#	5 416	(2 284)	–	3 132
	1 538 419	(127 543)	(20 819)	1 390 057

	Opening carrying value R'000	Acquisitions through business combinations[2] '000	Other acquisitions R'000	Amortisation[1] R'000	Impairment R'000	Closing carrying value R'000
GROUP 2011 (Restated)						
Movement summary						
Dossiers and registrations	268 639	3 649	52 132	(8 354)	(5 135)	310 931
Trademarks	402 849	–	–	(14 617)	(13 007)	375 225
Goodwill	697 150	2 192	–	–	–	699 342
Brands	1 427	–	–	–	–	1 427
Computer software	1 132	–	3 394	(1 394)	–	3 132
	1 371 197	5 841	55 526	(24 365)	(18 142)	1 390 057

\# *Certain items of computer software have been scrapped during the 2011 year, with a total cost of R636 182 (2012: Rnil).*

4. INTANGIBLE ASSETS continued

	Cost R'000	Accumulated amortisation R'000	Accumulated impairment R'000	Carrying value R'000
GROUP 2010 (Restated)				
Dossiers and registrations	300 517	(29 201)	(2 677)	268 639
Trademarks	475 936	(73 087)	–	402 849
Goodwill	697 150	–	–	697 150
Brands	1 427	–	–	1 427
Computer software	2 658	(1 526)	–	1 132
	1 477 688	(103 814)	(2 677)	1 371 197

	Opening carrying value R'000	Other acquisitions R'000	Amortisation[1] R'000	Impairment R'000	Closing carrying value R'000
GROUP 2010 (Restated)					
Movement summary					
Dossiers and registrations	231 763	46 168	(6 615)	(2 677)	268 639
Trademarks	417 466	–	(14 617)	–	402 849
Goodwill	697 150	–	–	–	697 150
Brands	1 427	–	–	–	1 427
Computer software	407	1 232	(507)	–	1 132
	1 348 213	47 400	(21 739)	(2 677)	1 371 197

	Cost R'000	Accumulated amortisation R'000	Accumulated impairment R'000	Carrying value R'000
COMPANY 2012				
Brands	**1 427**	**–**	**(1 427)**	**–**
	1 427	**–**	**(1 427)**	**–**

	Opening carrying value R'000	Amortisation R'000	Impairment R'000	Closing carrying value R'000
COMPANY 2012				
Movement summary				
Brands	**1 427**	**–**	**(1 427)**	**–**
	1 427	**–**	**(1 427)**	**–**

	Cost R'000	Accumulated amortisation R'000	Accumulated impairment R'000	Carrying value R'000
COMPANY 2011				
Brands	1 427	–	–	1 427
	1 427	–	–	1 427

	Opening carrying value R'000	Amortisation R'000	Impairment R'000	Closing carrying value R'000
COMPANY 2011				
Movement summary				
Brands	1 427	–	–	1 427
	1 427	–	–	1 427

1 *Amortisation charges are included in administrative expenses on the statement of comprehensive income, on a straight-line basis.*
2 *Refer to note 27 for further details on acquisitions through business combinations.*

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4. INTANGIBLE ASSETS continued

Secured assets

As indicated within notes 13 (b) and 13 (c), the loan facilities of R100 000 000 (2011: R100 000 000) and R151 000 000 (2011: R151 000 000) respectively are secured in part through intellectual property of the group. The carrying value of intellectual property held as security for these facilities amounts to R213 518 043 (2011: R186 547 103).

Assessment of the group's intangible assets

Predicting the useful life of an intangible asset requires significant judgement. The diverse categories of intangible assets will have different useful lives, whilst a number of intangible assets may even be considered to have indefinite useful lives. For example, the useful life of the right associated with an exclusive patent will be finite and will result in an amortisation charge being recognised in profit or loss over a fixed period of time. However, the useful life associated with an asset that has no patent protection but that retains, and is expected to retain, a distinct market identity could be considered to be indefinite and the asset would not be amortised.

As part of the year end procedures, CMSA has performed a detailed exercise with regard to the correct classification of categories of intangible assets as well as the correct estimation of useful lives. This resulted in the incorrect original purchase price allocation when CMSA (previously Enaleni Pharmaceuticals Limited) acquired 100% of the share capital of Cipla Medpro in December 2005 to be reassessed, as well as the reassessment of the useful lives of all other intangible assets, excluding computer software. CMSA now correctly applied the policy relating to intangible assets, whereby its dossiers and registrations, trademarks, goodwill and brands are estimated to have both finite and indefinite useful lives. This policy was incorrectly applied by the group in prior years, whereby all intangible assets, excluding computer software, were treated as one cash-generating unit, instead of assessing each individual asset on its own. This has now been corrected, retrospectively (refer to note 30 for the impact of these restatements).

Impairment tests for intangible assets

Detailed impairment testing is performed for goodwill and indefinite-life intangible assets at the end of the reporting period and for all other intangible assets whenever impairment indicators are present. An impairment loss is recognised if the carrying amount of the asset or its cash-generating-unit exceeds its recoverable amount. The recoverable amount is the greater of the value in use and an asset's fair value.

Our impairment review process is as follows:

Goodwill was assessed for impairment with reference to Cipla India's offer to purchase 100% of CMSA in 2012. With this as fair value, there was no indication of impairment of goodwill, except for the goodwill relating to the Cipla Nutrition business.

For indefinite-life intangible assets, such as brands, each year and whenever impairment indicators are present, we calculate the recoverable amount of the asset and record an impairment loss if the resulting net recoverable amount is less than the carrying value of the intangible asset. If the resulting recoverable amount exceeds the carrying value of the intangible asset, the intangible asset is not impaired.

Fair value is generally measured as the net present value of projected cash flows. In addition, a re-evaluation of the remaining useful life of the asset is performed to determine whether continuing to classify the asset as having an indefinite life is appropriate.

The value-in-use of dossiers, registrations and trademarks is determined by using the "Royalty Relief" methodology. The main reasons for using this methodology are that it was the valuation method used in 2005 when CMSA (previously Enaleni Pharmaceuticals Limited) acquired 100% of Cipla Medpro, it calculates values by reference to documented, third-party transactions and it can be done based on publicly available information. The process can be explained in the following steps:

- Obtain specific revenue data for each indefinite useful life intangible asset item, in order to estimate future revenue growth;
- Identify market demand and position each item in context of market competitors;
- Establish the notional royalty rate to be used;
- Calculate the notional future royalty income for each item, using the above information;
- Calculate the discount rate specific to the pharmaceutical industry, based on the royalty rate established above; and
- Discount the future royalty income to a net present value, being the value-in-use.

The valuations are based on information available as at the impairment review date and are based on the expectations and assumptions that have been deemed reasonable by management. Refer to the table below for significant estimates and assumptions intrinsic in the calculation of the fair value of the intangible assets.

Key assumptions applied in value-in-use calculations*

Growth in revenue	Determined from financial budgets and forecasts covering a three-year period. The growth rates used range between 10% and 20%, with a terminal growth of 5%
Royalty rate	Established at 11,14% for the purposes of performing the valuation (reasonable in relation to the valuation performed in 2005)
Discount rate	12% (reasonable in relation to the pharmaceutical industry, for a royalty rate as per above)
Tax rate	A tax rate of 28% is assumed

* *The key assumptions are consistent with external sources of information.*

For finite-life intangible assets, such as computer software, whenever impairment indicators are present, we perform detailed impairment testing as for goodwill and indefinite-life intangible assets (refer to the above).

		GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
5. INVESTMENTS IN SUBSIDIARIES					
Shares at cost less impairment losses		–	–	31 274	31 274
Amount due by subsidiary	– non-current	–	–	799 911	799 911
Investments in subsidiaries		–	–	831 185	831 185
Amount due by subsidiary	– current	–	–	68	–
Amounts due to subsidiaries	– current	–	–	(587 304)	(367 074)
Net investments in subsidiaries		–	–	243 949	464 111
Loans and receivables		–	–	799 979	799 911
Financial liabilities measured at amortised cost		–	–	(587 304)	(367 074)

Interests in subsidiary companies

All subsidiaries are incorporated in South Africa and are mainly engaged in the manufacturing, marketing and distribution of pharmaceutical products.

COMPANY	Date acquired	Issued share capital R	Effective group holding 2012 %	Effective group holding 2011 %	Investment 2012 R'000	Investment 2011 R'000	Amounts due by (due to) subsidiaries[1] 2012 R'000	Amounts due by (due to) subsidiaries[1] 2011 R'000
Direct holdings								
Cipla Medpro Manufacturing Proprietary Limited	02/12/08	100	100	100	–	–	–	–
Galilee Marketing Proprietary Limited	02/10/06	100	100	100	–	–	68	–
Inyanga Trading 386 Proprietary Limited	15/12/05	100	100	100	–	–	799 911	799 911
Xeragen Laboratories Proprietary Limited	01/09/05	100	100	100	31 274	31 274	(11 588)	(11 588)
Total direct holdings					31 274	31 274	788 391	788 323
Indirect holdings								
Cipla Medpro Holdings Proprietary Limited	16/01/06[2]	10	100	100	1 391 054	1 391 054	(575 716)	(355 486)
Total indirect holdings					1 391 054	1 391 054	(575 716)	(355 486)
Total holdings					1 422 328	1 422 328	212 675	432 837

1 *All amounts due by (to) subsidiaries are unsecured and interest-free. All loans are payable on demand. The loan to Inyanga Trading 386 Proprietary Limited was part of the cost of the investment in 2005, with no intention to demand repayment of this loan within the next 12 months.*

2 *Cipla Medpro Holdings Proprietary Limited was effectively purchased by Cipla Medpro South Africa Limited on 1 November 2005, with control passing to the company on 1 December 2005. On 16 January 2006, Cipla Medpro Holdings Proprietary Limited was purchased by Inyanga Trading 386 Proprietary Limited, both wholly owned subsidiaries of Cipla Medpro South Africa Limited (refer to note 22 for the list of subsidiaries of which Cipla Medpro Holdings Proprietary Limited is the holding company).*

Refer to note 27 which detail the group's acquisitions during the year.

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		GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
6. OTHER INVESTMENTS					
Non-current investments					
Financial assets designated at fair value through profit or loss on initial recognition		12	8	–	–
		12	8	–	–

The financial assets designated at fair value through profit or loss are listed equity securities that otherwise would have been classified as available-for-sale. The investment is managed and its performance evaluated on a fair value basis. The fair value is based on the market price as quoted on the London Stock Exchange at year end.

		GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
7. LOANS RECEIVABLE					
Non-current					
Aldabri 53 Proprietary Limited	(a)	883	1 766	883	1 766
Bioharmony Proprietary Limited	(a)	713	1 425	713	1 425
		1 596	3 191	1 596	3 191
Current					
CMSA Share Option Trust	(b)	–	–	3 250	28 019
Majestic Silver Trading 223 Proprietary Limited	(c)	47	47	47	47
Cipla Consult Proprietary Limited	(c)	2 638	3 834	–	–
JS Smith	(d)	1 289	–	–	–
JB van Staden	(e)	250	–	–	–
C Maclachlan	(f)	200	–	–	–
		4 424	3 881	3 297	28 066

(a) *These amounts owing relate to the disposal of these two operations in late 2007. 50% of the amounts owing have been provided for impairment. These loans are unsecured and interest-free. There are no fixed terms of repayment.*

(b) *The loan is in respect of shares issued by the company to the CMSA Share Option Trust which will be utilised to settle options granted. The loan is interest-free and payable on demand (refer to note 25 for further details relating to share options in issue).*

(c) *These loans are unsecured and interest-free. The loans are repayable on demand.*

(d) *This loan is due from JS Smith, the former CEO. The loan is unsecured and was interest free and is expected to be repaid within the next 12 months. The prior year balance due from JS Smith, of R1 413 956 was disclosed under trade and other receivables in 2011. It was not approved by the board.*

(e) *This loan was due from JB van Staden, a director of a subsidiary company. The loan was unsecured and interest-free. The loan was repaid in full on 7 February 2013. It was not approved by the board.*

(f) *This loan is due from C Maclachlan, a close family member of a director of Cipla Consult Proprietary Limited. The loan is unsecured and interest-free. The loan is repayable on demand and is expected to be repaid within the next 12 months. It was not approved by the board.*

Credit quality of loans receivable

Except for the provision of impairment of 50% of the loan balances in (a) above, management assesses the ability of the entities and individuals to repay these loans as high, as there has been no default on repayments in the past. Except for the provisions for impairment in (a), and although the loans in (d) and (f) are past due, but not impaired, none of the other loans are considered to be past due nor impaired.

	Audited GROUP 2012 R'000	Restated GROUP 2011 R'000	Restated GROUP 2010 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
8. DEFERRED TAX					
Deferred tax balance comprises:					
Property, plant and equipment	(56 537)	(43 791)	(35 487)	(53 302)	(39 530)
Intangible assets	5 656	26 530	20 040	266	–
Inventory	847	728	586	–	–
Operating leases	1 757	1 152	840	503	628
Employee benefit accruals	2 720	1 752	1 062	414	380
Impairment of trade and other receivables	1 715	16	16	335	–
Other	1 125	(867)	4 917	1 452	17
Tax losses carried forward	119 044	102 554	50 140	115 762	100 074
Deferred tax asset	76 327	88 074	42 114	65 430	61 569
Disclosed as follows in the statement of financial position:					
Deferred tax asset	93 601	88 074	42 114	65 430	61 569
Deferred tax liability	(17 274)	–	–	–	–
Balance at end of the year	76 327	88 074	42 114	65 430	61 569
Reconciliation of deferred tax balance					
Balance at beginning of the year	88 074	42 114	30 142	61 569	22 850
Property, plant and equipment	(12 746)	(8 304)	(9 484)	(13 772)	(9 330)
Intangible assets	(20 874)	6 562	3 181	266	–
Inventory	119	142	475	–	–
Operating leases	605	312	667	(125)	–
Employee benefit accruals	968	661	(122)	34	155
Impairment of trade and other receivables	1 699	–	(19)	335	–
Acquisition of subsidiary	–	283	–	–	–
Other	1 992	(5 784)	674	1 435	(4 150)
Tax losses carried forward	16 490	52 088	16 600	15 688	52 044
Balance at end of the year	76 327	88 074	42 114	65 430	61 569

Unrecognised deferred tax assets and liabilities

There were no unrecognised deferred tax assets or liabilities at the reporting date (2011: Rnil).

There were no adjustments to deferred tax in the current or prior year that were recognised directly in equity or other comprehensive income in either the group or the company.

Deferred tax assets and liabilities are recognised on the assumption that the assets and liabilities will either be recovered through use in the future or will be realised through sale. A capital gains tax rate of 18,7% (2011: 14,0%) was used to compute deferred tax for assets and liabilities which will be realised through sale, and a rate of 28% (2011: 28%) was used for deferred tax balances to be recovered through use.

The deferred tax asset relating to the company has been recognised, because it is considered probable that future taxable profits will be available against which the company can utilise the benefits therefrom. The following plans of action have been put in place to ensure this:

- The business plan for the facility requires the facility to operate at a profit, while meeting the demands of our customers and the environment within which the facility operates;
- Approved new equipment will increase our manufacturing capacity and allow for the introduction of new types of products into our facility;
- Our tender resources have been improved in order to improve our efficiency with regards to tender business; and
- We recognise the need to not only rely on tender business and our intention is to focus on more private market products, with higher margins, in the future. We have recently concluded a Quality Assurance audit with a prospective client, albeit at the initial stage; the client has expressed eagerness to manufacture its products at our facility.

Prior period restatements

Certain prior period adjustments were made, refer to note 30 for the details of these restatements.

Notes to the annual financial statements
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		Audited GROUP 2012 R'000	Restated GROUP 2011 R'000	Audited GROUP 2010 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
9.	INVENTORY					
	Raw materials	62 015	65 898	29 485	47 341	49 400
	Finished goods	367 961	313 779	258 154	3 246	1 804
	Work-in-progress	3 893	9 576	2 022	3 893	9 576
		433 869	389 253	289 661	54 480	60 780
	Allowance for the impairment of inventory	(19 918)	(8 941)	(3 860)	(4 068)	(2 307)

Cost of inventory recognised as an expense during the year is R1 154 287 651 (2011: R737 698 997).

Write-downs of R35 868 880 (2011: R9 308 328) on inventory relates mainly to inventory of the group that has expired.

Inventory that is considered to be obsolete is written off when it cannot be sold or has reached expiry date.

Refer to note 30 for details on the restatements of 2011's figures.

Secured assets

As indicated within notes 13 (b) and 13 (c), the loan facilities of R100 000 000 (2011: R100 000 000) and R151 000 000 (2011: R151 000 000) respectively are secured in part through a general notarial bond over moveable assets. The carrying value of the moveable assets held as security for these facilities amounts to R382 415 838 (2011: R331 075 466).

		GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
10. DERIVATIVES					
Derivatives used for economic hedging					
Forward exchange contracts		(7 964)	39 845	–	–
Fair value of interest rate swaps		–	(1 174)	–	–
		(7 964)	38 671	–	–
Financial assets at fair value through profit or loss:					
Forward exchange contracts					
The group uses FECs to economically hedge its foreign currency risk. The table below sets out the revaluation of open FECs at 31 December 2012:					
United States Dollar	(USD '000)	67 890	56 100	–	–
Average forward exchange rate	(ZAR/USD)	8,7399	7,5437	–	–
Forward ZAR value		593 993	423 200	–	–
Mark to market valuation		586 029	463 045	–	–
Recognised fair value (loss) gain		(7 964)	39 845	–	–
Dates of maturity					
2012: 31 January 2013 to 30 August 2013					
2011: 31 January 2012 to 28 September 2012					
Interest rate swaps					
Interest rate swaps were entered into with Nedbank Limited to economically hedge the interest rate exposure of the preference shares that were entered into by Inyanga Trading 386 Proprietary Limited with Nedbank Limited.					
The interest rate swaps are stated at fair value. On subsequent measurement, the losses on the interest rate swaps are recognised in profit and loss and disclosed within net finance costs. As at 31 December 2012 all interest rates swaps have reached their termination dates, as indicated below. At 31 December 2011 the fair value of the R100 000 000 interest rate swap liability was as follows:					
(i) R75 000 000 fixed at 7,35%, linked to the three-month JIBAR, effective 16 January 2006 and terminated on 17 January 2011		–	–	–	–
(ii) R125 000 000 fixed at 7,4%, linked to the three-month JIBAR, effective 16 January 2006 and terminated on 17 January 2011		–	–	–	–
(iii) R100 000 000 fixed at 9,18%, linked to the three-month JIBAR, effective 30 April 2007 and terminated on 30 April 2012		–	1 174	–	–
		–	1 174	–	–

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for the years ended 31 December

		Audited GROUP 2012 R'000	Restated GROUP 2011 R'000	Restated GROUP 2010 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
11.	**TRADE AND OTHER RECEIVABLES**					
	Trade receivables due from related parties	–	–	–	132 623	33 854
	Trade receivables due from external parties	388 219	293 118	252 829	3 065	4 415
	Other receivables[1]	123 851	99 100	65 362	53	452
	Prepayments	6 184	7 748	5 249	2 148	2 963
	Loans and receivables	518 254	399 966	323 440	137 889	41 684
	Allowance for impairment of trade and other receivables	(4 996)	(77)	(363)	–	–

1 *Prior year other receivables have been restated to correctly reflect the VAT receivable (refer to note 30 for details and the impact of these restatements).*

As indicated in notes 26.4, 13 (b) and 13 (c), trade receivables of R388 218 585 (2011: R293 117 708) have been ceded to the bank as security for banking and loan facilities granted.

Trade and other receivables are carried at amortised cost, with the fair value being approximated by such carrying values due to their short-term maturities.

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

	Audited GROUP 2012 R'000	Restated GROUP 2011 R'000	Restated GROUP 2010 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Wholesale customers – related parties	–	–	–	132 623	33 854
Wholesale customers – external parties	208 681	163 134	175 173	3 065	4 415
Retail customers	48 331	36 618	34 958	–	–
Tender customers	131 207	93 366	42 698	–	–
Other receivables	3 105	9 093	10 688	53	452
	391 324	302 211	263 517	135 741	38 721

Further details regarding the group's exposure to credit risk is disclosed in note 21.

	Audited GROUP 2012 R'000	Restated GROUP 2011 R'000	Restated GROUP 2010 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Reconciliation of allowance for impairment of trade and other receivables					
Balance at 1 January	(77)	(363)	(452)	–	–
Recognised during the year	(4 919)	–	(61)	–	–
Utilised during the year	–	–	77	–	–
Unused amounts reversed	–	286	73	–	–
Balance at 31 December	(4 996)	(77)	(363)	–	–
Ageing of trade and other receivables at reporting date:					
Neither past due nor impaired	366 799	264 593	210 172	50 505	34 397
Past due 0 to 31 days	20 266	12 284	10 456	24 732	3 838
Past due 31 to 120 days	7 527	12 914	12 782	60 504	486
More than 120 days past due	1 728	12 497	30 470	–	–
Allowance for impairment of trade and other receivables (more than 120 days past due)	(4 996)	(77)	(363)	–	–
Balance at 31 December	391 324	302 211	263 517	135 741	38 721

Based on past experience, the group believes that the impairment allowance for trade and other receivables is adequate based on the credit risk exposure and the Credit Guarantee Insurance Cover policy that is in place. The group believes that no impairment allowance is necessary in respect of trade and other receivables not past due or past due up to 30 days as these relate mainly to customers that have a good track record with the group.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
12. SHARE CAPITAL AND RESERVES				
Authorised share capital				
500 000 000 ordinary shares of 0,1 cent each	**500**	500	**500**	500
Issued share capital				
Opening balance – 446 461 759 (2011: 454 026 555) ordinary shares of 0,1 cents each	**446**	454	**446**	454
2011: 7 564 796 ordinary shares of 0,1 cents each bought back (2012: nil)	**–**	(8)	**–**	(8)
Closing balance – 446 461 759 (2011: 446 461 759) ordinary shares of 0,1 cents each	**446**	446	**446**	446

	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
Number of shares in issue				
Opening balance (fully paid)	**446 461 759**	454 026 555	**446 461 759**	454 026 555
Ordinary shares bought back	**–**	(7 564 796)	**–**	(7 564 796)
Closing balance (fully paid)	**446 461 759**	446 461 759	**446 461 759**	446 461 759

At 31 December 2012, 680 000 share options have vested and were reserved for issue, at an exercise price of 478 cents per share.

Share buy-back

The company bought back 7 564 796 ordinary shares of its shares in issue in 2011 (2012: nil) in terms of a general authority to repurchase shares approved by the shareholders at the last AGM. The repurchase represented approximately 1,7% of the company's issued share capital, at that stage, and took place over the period 16 November 2011 to 25 November 2011, at a price of between 649 cents and 660 cents per share, totalling R49 983 444.

Unissued shares

The unissued shares are under the control of the directors, in terms of a general authority. The directors are authorised to allot, issue or otherwise dispose of such shares as they deem fit. This authority is restricted to 5% of the ordinary shares in issue as at 31 December 2012 and will remain in place until the next AGM.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Share premium				
Opening balance	**1 013 123**	1 063 098	**1 013 123**	1 063 098
Ordinary shares bought back	**–**	(49 975)	**–**	(49 975)
Closing balance	**1 013 123**	1 013 123	**1 013 123**	1 013 123
Treasury shares				
Opening balance – 6 439 181 (2011: 6 439 181) shares	**(28 019)**	(28 019)	**–**	–
5 759 181 (2011: nil) shares issued from the CMSA Share Option Trust	**24 769**	–	**–**	–
Closing balance – 680 000 (2011: 6 359 181) shares	**(3 250)**	(28 019)	**–**	–
The treasury share reserve comprises the cost of the company's shares held by the group. At 31 December 2012, 680 000 (2011: 6 439 181) treasury shares were held in the CMSA Share Option Trust, which are available to be utilised for the exercise of share options. On 9 April 2013, the 680 000 share options were exercised.				
Share-based payment reserve				
Opening balance	**1 455**	–	**94**	–
IFRS 2 Share-based Payments	**2 729**	1 455	**191**	94
Closing balance	**4 184**	1 455	**285**	94

The share-based payment reserve comprises the accumulated IFRS 2 Share-based Payments with regards to share options issued in terms of the CMSA Share Option trust (refer to note 25 for further details on the share options).

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for the years ended 31 December

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
12. SHARE CAPITAL AND RESERVES continued				
Dividends				
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings.				
The following cash dividends were declared and paid to equity holders of the parent during the year:				
2012: 2011 final dividend of 7,5 cents per ordinary share paid (2011: 2010 final dividend of 6,0 cents per ordinary share paid)	(33 485)	(27 242)	(33 485)	(27 242)
2012 interim dividend of 8,5 cents per ordinary share paid (2011: 2011 interim dividend of 6,5 cents per ordinary share paid)	(37 950)	(29 511)	(37 950)	(29 511)
	(71 435)	(56 753)	(71 435)	(56 753)
Subsequent to the reporting dates the following final cash dividends were declared and paid to equity holders of the parent:				
2011: final dividend of 7,5 cents (2012: nil) per ordinary share paid	–	(33 485)	–	(33 485)
	–	(33 485)	–	(33 485)
The total cash dividend declared for the 2012 financial year is 8,5 cents (2011: 14 cents) per share, which at an interim stage complied with the company's policy of maintaining a dividend cover of between four and five times when the results are analysed on a normalised basis (2011: the dividend cover for the total cash dividend of 2011 was 4,2 times, when analysed on a normalised basis). No final dividend has been declared for 2012 (2011: final dividend of 7,5 cents per share was declared subsequent to 31 December 2011). No liability regarding the final dividend for 2011 was therefore recognised as at 31 December 2011 and there were no tax consequences.				
Non-controlling interest				
Opening balance	12 544	7 472	–	–
Total comprehensive income for the year	6 995	5 026	–	–
Changes in ownership interest:				
– Cipla Agrimed Proprietary Limited	–	1 588	–	–
– Cipla Nutrition Proprietary Limited	–	(192)	–	–
Dividends paid	(1 750)	(1 350)	–	–
Closing balance	17 789	12 544	–	–

During the current and the preceding year, the group allocated a 25% (2011: 25%) share of profits earned by Cipla Vet Proprietary Limited to non-controlling parties.

During the current and the preceding year, the group allocated a 35,75% (2011: 35,75%) share of profits earned by Cipla Agrimed Proprietary Limited to non-controlling parties.

During the current year the group acquired an additional 5% (2011: 25%) interest in Cipla Nutrition Proprietary Limited. Cipla Nutrition Proprietary Limited is a subsidiary and during the current year, the group allocated 20% (2011: nil – the acquisition of the additional 25% was made on 31 December 2011) of losses incurred by Cipla Nutrition Proprietary Limited to non-controlling parties.

		GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
13. LOANS AND BORROWINGS					
This note provides information about the contractual terms of the group's loans and borrowings. For more information about the group's exposure to interest-rate risk, refer to note 21.					
Non-current					
Held at amortised cost:					
Finance lease liabilities	(a)	12 873	28 128	12 873	28 128
Nedbank Limited	(b)	100 000	100 000	–	–
Nedbank Limited	(c)	151 000	151 000	–	–
		263 873	279 128	12 873	28 128
Current					
Finance lease liabilities	(a)	16 456	16 319	16 456	16 319
L'amar (France) Pharmatec Proprietary Limited	(d)	93	5 137	–	–
		16 549	21 456	16 456	16 319
Finance lease liabilities					
The future minimum lease payments under finance leases are as follows:					
Less than one year		18 207	18 302	18 207	18 302
Between two and five years		13 474	31 873	13 474	31 873
More than five years		–	–	–	–
Total future minimum lease payments		31 681	50 175	31 681	50 175
Interest		(2 352)	(5 728)	(2 352)	(5 728)
Present value of future minimum lease payments		29 329	44 447	29 329	44 447

(a) The liabilities held under finance lease arrangements are repayable over a period of five years at prime less 0,5%. The finance leases are secured by plant and machinery with a carrying value of R65 535 523 (2011: R67 452 425) as referred to in note 3. The liabilities are being repaid in fixed monthly instalments of R1 517 217 (2011: R1 525 175).

(b) This loan bears interest at rates linked to the JIBAR rate. The loan term has been extended from its initial due date, 30 September 2011, and the loan is repayable in full on 31 March 2017, with interest payable quarterly (2011: biannually). The loan is secured through guarantees and subordination of their claims against Cipla Medpro Holdings Proprietary Limited and its holding company, Inyanga Trading 386 Proprietary Limited, the pledge and cession of its shares in Cipla Medpro Holdings Proprietary Limited, a general notarial bond over the moveable assets of Cipla Medpro Holdings Proprietary Limited, the cession of trade receivables, cash balances, insurances and claims of Cipla Medpro Holdings Proprietary Limited and Inyanga Trading 386 Proprietary Limited, and the pledge and hypothecation of rights in intellectual property held by Cipla Medpro Holdings Propriety Limited.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Facility of R100 000 000				
Opening balance	100 000	100 000	–	–
Interest capitalised	10 045	10 076	–	–
Repayment of interest	(10 045)	(10 076)	–	–
Closing balance	100 000	100 000	–	–

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13. LOANS AND BORROWINGS continued

(c) This loan bears interest at rates linked to the JIBAR rate. The loan term has been extended from its initial due date, 31 December 2013, and the loan is repayable in full on 31 March 2017, with interest payable quarterly. The loan is secured through guarantees by Cipla Medpro Holdings Proprietary Limited, the cession of trade receivables, cash balances, insurances and a general notarial bond over all moveable assets of Cipla Medpro Holdings Proprietary Limited, as well as the hypothecation of trademarks and any other intellectual property held by Cipla Medpro Holdings Proprietary Limited.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Facility of R151 000 000				
Opening balance	151 000	125 000	–	–
Capital advanced	–	26 000	–	–
Interest capitalised	13 834	12 389	–	–
Repayment of interest	(13 834)	(12 389)	–	–
Closing balance	151 000	151 000	–	–

(d) The loan from L'amar (France) Pharmatec Proprietary Limited is unsecured and interest-free and there are no fixed terms of repayment.

(e) This financial liability related to a variable rate cumulative compulsory redeemable preference share investment entered into on 29 September 2006 between Inyanga Trading 386 Proprietary Limited and Depfin Investments Proprietary Limited, a subsidiary of Nedbank Limited. These preference shares have previously been accounted for as a financial liability as the group had an obligation to settle in cash both the redemption and servicing of the interest thereon. As at 31 December 2011, all preference shares were fully settled.

All classes of preference shares bore interest at rates linked to the prime rate, which were paid biannually in arrears.

This facility was secured via a put option to Cipla Medpro South Africa Limited of Inyanga Trading 386 Proprietary Limited's obligations under the agreement with Depfin Investments Proprietary Limited and by the cession of the company's shareholding in Inyanga Trading 386 Proprietary Limited and the subsidiaries of Cipla Medpro Holdings Proprietary Limited.

Refer to the table below, which sets out the issues and redemptions of the preference shares during the 2011 year.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Compulsory redeemable preference shares:				
Par value: 1 cent each				
Subscription price – R10 000 each				
Opening balance including accrued interest	–	35 032	–	–
Interest capitalised				
– C shares	–	1 005	–	–
Redemption of shares				
– C shares	–	(34 500)	–	–
Repayment of interest				
– C shares	–	(1 537)	–	–
Closing balance excluding accrued interest	–	–	–	–

	GROUP			COMPANY		
	RBSA[1] R'000	Interest on VAT[2] R'000	Total R'000	RBSA[1] R'000	Interest on VAT[2] R'000	Total R'000
14. PROVISIONS						
Balance at 1 January 2012	72 622	–	72 622	72 622	–	72 622
Provisions raised during the year	–	14 282	14 282	–	–	–
Payments made during the year	(30 000)	–	(30 000)	(30 000)	–	(30 000)
Finance portion	4 143	–	4 143	4 143	–	4 143
Balance at 31 December 2012	46 765	14 282	61 047	46 765	–	46 765
Non-current	16 765	–	16 765	16 765	–	16 765
Current	30 000	14 282	44 282	30 000	–	30 000
	46 765	14 282	61 047	46 765	–	46 765

1 *As reported in our 2011 IAR, further to the announcement dated 27 October 2010 in which shareholders were advised of arbitration proceedings between RBSA and CMSA in relation to a claim of approximately R300 million by RBSA (which was subsequently increased to approximately R332 million) and a counterclaim of approximately R280 million by the company arising from a manufacturing agreement entered into in 2003 and relating to the temporary closure in 2007 of its factory in Durban by the MCC ("the Claims"), whilst it was still named Enaleni Pharmaceuticals, shareholders are advised as follows:*

- *The arbitration proceedings (which commenced in Cape Town in April 2012, and which have run for some seven weeks), have been settled by agreement between the company and RBSA;*
- *The agreement was approved by CMSA's board after consultations with and on the recommendation of its external legal counsel;*
- *The salient terms of the agreement are:*
  - *the company will pay a settlement amount of R80 million to RBSA in full and final settlement of certain of RBSA's claims, such settlement amount to be paid in three tranches as follows:*
    - *R30 million by 3 July 2012*
    - *R30 million by 31 July 2013*
    - *R20 million by 30 January 2014*
  - *the company will abandon its counterclaims against RBSA (which includes receivables reflected in its books as due by RBSA, in the amount of R37 million), and RBSA will likewise abandon the remainder of the claims;*
- *As such, the settlement is a full and final settlement of the arbitration proceedings and all and any claims between the company and RBSA; and*
- *The amount to be paid represents compensation by the company to RBSA for the higher cost to RBSA of procuring alternative supplies of products the company would otherwise have supplied to it, had its manufacturing facility not temporarily closed for the reasons above, and whilst it underwent a necessary upgrade to international manufacturing requirements and standards.*

2 *The interest provision relates to the possible interest payable to SARS for the incorrect allocation of VAT receivables and payables in group companies in the past. VAT receivables and payables have been raised in the respective years, to correct the VAT in prior years, in each individual group company (refer to note 30 for the details and impact of these restatements). The provision is based on estimates made with regards to the interest that may be payable due to these incorrect allocations, based on the vatable income and expenses for the prior years. The group expects to settle this liability within the next 12 months. There is no expected reimbursement in respect of this provision.*

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	Audited GROUP 2012 R'000	Restated GROUP 2011 R'000	Restated GROUP 2010 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
15. TRADE AND OTHER PAYABLES					
Trade payables due to external parties	459 716	321 733	204 091	10 264	31 696
Other payables and accruals[1]	147 931	108 776	105 255	14 072	9 653
Interest payable on R100 000 000 loan facility	–	–	5 484	–	–
Interest payable on preference shares	–	–	532	–	–
	607 647	430 509	315 362	24 336	41 349

1 *Prior year other payables and accruals have been restated to correctly reflect the VAT payable (refer to note 30 for details and the impact of these restatements).*

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
16. REVENUE				
Sale of goods	2 270 442	1 744 304	288 853	196 888
Interest received (trading)	26 782	23 257	–	–
	2 297 224	1 767 561	288 853	196 888
17. RESULTS FROM OPERATING ACTIVITIES				
Results from operating activities is stated after:				
Income				
Gain on disposals of property, plant and equipment	(2)	(72)	–	(72)
Gain on FECs	–	(109 225)	–	–
Gain on foreign exchange	(5 935)	–	–	–
Fair value gain on listed investment	(4)	(2)	–	–
Non-recurring income	–	(68 750)	–	–
Expenditure				
Loss on deemed disposal of joint venture	–	385	–	–
Depreciation	29 780	24 103	13 917	9 930
Amortisation of intangible assets	22 475	24 365	–	–
Impairment losses on intangible assets	5 426	18 142	1 427	–
Loss on FECs	47 809	–	–	–
Loss on foreign exchange	598	59 952	598	7 106
Staff costs	274 314	229 831	43 370	45 410
– Defined contribution costs	16 875	14 017	4 842	4 644
– Directors' remuneration and benefits (refer to note 23 for detailed disclosure of remuneration and benefits paid to the company's directors)	42 162	32 322	4 664	2 067
– Other staff costs	215 277	183 492	33 864	38 699
Auditors' remuneration	2 980	1 545	310	363
– Audit fees	1 798	1 359	310	363
– Other	1 182	186	–	–
Lease rentals	40 858	33 040	3 975	4 234
– Premises	31 679	26 957	2 590	2 992
– Equipment	9 179	6 083	1 385	1 242
Impairment losses on loans receivable	1 595	–	1 595	–
Impairment losses on inventory	35 869	9 308	4 795	1 977
Impairment losses on trade and other receivables	4 919	–	–	–
Settlement costs	–	117 259	–	117 259
– Settlement amount	–	80 000	–	80 000
– Impairment of receivables	–	37 259	–	37 259

			GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
18.	**FINANCE COSTS AND FINANCE INCOME**					
	Interest expense on financial liabilities measured at amortised cost		23 879	23 470	–	–
	Fair value loss on interest rate swaps		17	–	–	–
	Interest rate swap settlements		–	4 345	–	–
	Interest expense on bank overdrafts		6 112	4 907	5 841	4 620
	Notional interest on extended credit terms	(a)	26 835	21 066	–	–
	Interest expense on finance leases		3 140	4 424	3 140	4 424
	Unwind of discount on RBSA provision	(b)	4 143	–	4 143	–
	Provision for interest on VAT	(c)	14 282	–	–	–
	Other interest paid		406	–	46	–
	Finance costs		78 814	58 212	13 170	9 044
	Dividend income		(1 512)	(7)	(1 512)	(7)
	Fair value gain on interest rate swaps		–	(4 063)	–	–
	Interest on bank balances		(2 846)	(4 073)	(272)	(59)
	Finance portion of RBSA provision	(b)	–	(7 378)	–	(7 378)
	Other interest received		(22)	(65)	–	–
	Finance income		(4 380)	(15 586)	(1 784)	(7 444)
	Net finance costs and income		74 434	42 626	11 386	1 600

(a) In terms of SAICA Circular 9/2006, where an entity purchases on deferred settlement terms, i.e. the arrangement effectively contains a financing element, that portion constituting the financing element is recognised as a finance cost over the period of financing.
The application of the Circular has the effect of decreasing cost of sales and increasing finance costs by R26 835 237 (2011: R21 065 688).

(b) This relates to the RBSA provision of R80 000 000 raised in 2011 (refer to note 14 for further details on the provision).

(c) This relates to interest expected to be paid on VAT submitted on a group level, instead of at an individual subsidiary company level (refer to note 30 for further details on this).

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	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
19. TAX EXPENSE (INCOME)				
Current tax expense				
Current period	71 334	142 489	–	–
Prior year over provision	(35)	–	–	–
	71 299	142 489	–	–
Deferred tax expense (income)				
Origination and reversal of temporary differences	16 404	6 482	(6)	13 397
Assessed loss created	(7 040)	(52 088)	(6 238)	(52 044)
Adjustment for prior periods	2 383	(72)	2 383	(72)
	11 747	(45 678)	(3 861)	(38 719)
STC*				
Current period	700	5 957	–	5 328
	700	5 957	–	5 328
Total tax expense (income)	83 746	102 768	(3 861)	(33 391)

	2012 %	2012 R'000	2011 %	2011 R'000
Reconciliation of effective tax rate				
GROUP				
Profit for the year		168 364		238 914
Tax expense		83 746		102 768
Profit before income tax		252 110		341 682
Tax using the company's domestic tax rate	28,00	70 591	28,00	95 672
Non-deductible expenses net of tax-exempt income	3,96	9 999	0,35	1 211
STC	0,27	700	1,74	5 957
Other	0,04	108	–	–
Current tax – prior period over provision	(0,01)	(35)	–	–
Deferred tax – prior period adjustments	0,95	2 383	(0,02)	(72)
	33,21	83 746	30,07	102 768
COMPANY				
Loss for the year		(26 108)		(104 752)
Tax income		(3 861)		(33 391)
Loss before income tax		(29 969)		(138 143)
Tax using the company's domestic tax rate	28,00	(8 391)	28,00	(38 680)
Non-deductible expenses net of tax-exempt income	(6,72)	2 014	(0,02)	33
STC	–	–	(3,86)	5 328
Other	(0,45)	133	–	–
Deferred tax – prior period adjustments	(7,95)	2 383	0,05	(72)
	12,88	(3 861)	24,17	(33 391)

* *STC relates to dividends declared and paid for before 1 April 2012, which were still subject to STC and not Dividend Withholding Tax.*

Unutilised tax losses of R119 043 972 (2011: R102 554 362) by the group and R115 762 304 (2011: R100 073 755) by the company are available for future use.

		GROUP 2012 R'000	GROUP 2011 R'000
20. EARNINGS PER SHARE			
Basic earnings per share			
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.			
Profit attributable to equity holders of the parent		161 369	233 888
Weighted average number of ordinary shares:			
Issued ordinary shares at 1 January		446 461 759	454 026 555
Effect of own shares held in the CMSA Share Option Trust (treasury shares) – included in opening balance		(6 439 181)	(6 439 181)
Effect of ordinary shares bought back		–	(642 490)
Effect of share options exercised during the year		1 055 011	–
Weighted average number of ordinary shares		441 077 589	446 944 884
Total basic earnings per share	(cents)	36,6	52,3
Diluted earnings per share			
Diluted basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential ordinary shares.			
Profit attributable to equity holders of the parent		161 369	233 888
Weighted average number of ordinary shares (diluted):			
Weighted average number of ordinary shares		441 077 589	446 944 884
Effect of share options in issue		2 214 468	2 319 011
Weighted average number of ordinary shares (diluted)		443 292 057	449 263 895
Total diluted earnings per share	(cents)	36,4	52,1

The average market value of the company's shares for the purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding.

		GROUP 2012 R'000 Gross	GROUP 2012 R'000 Net	GROUP 2011 R'000 Gross	GROUP 2011 R'000 Net
Headline earnings per share					
Headline earnings per share is calculated by dividing the headline earnings attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.					
Reconciliation of headline earnings:					
Profit attributable to ordinary equity holders of the parent			161 369		233 888
Less: Gain on disposals of property, plant and equipment		(2)	(1)	(72)	(62)
Add: Loss on deemed disposal of joint venture		–	–	385	277
Add: Impairment of intangible assets		5 426	4 654	18 142	13 063
Headline earnings			166 022		247 166
Total headline earnings per share	(cents)		37,6		55,3
Diluted headline earnings per share					
Diluted headline earnings per share is calculated by dividing the headline earnings attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential ordinary shares.					
Headline earnings			166 022		247 166
Total diluted headline earnings per share	(cents)		37,5		55,0

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21. FINANCIAL RISK MANAGEMENT

The group is exposed to the following risks:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital.

The board of directors has overall responsibility for the establishment and oversight of the group's risk management framework. The board has an Audit and Risk Committee, whose responsibility it is to develop and monitor the group's risk management policies.

The group's risk management policies are established to identify and analyse the risk faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities.

The group's Audit and Risk Committee oversees how management monitors compliance with the group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the group. The group's Audit and Risk Committee is assisted in its oversight role by a co-sourced internal audit function comprising an independent firm of internal auditors and in-house personnel. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee on a regular basis.

Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables due from customers.

Trade and other receivables

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. There is no geographical concentration of sales or a concentration of sales to a single customer.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the payment, delivery terms and conditions are offered. The group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the directors; these limits are reviewed regularly. Customers that fail to meet the group's benchmark creditworthiness may transact with the group only on a prepayment basis.

More than 80 percent of the group's customers have been transacting with the group for over five years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are a wholesale, retail or government customer, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the group's wholesale customers.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the group has a secured claim against the customer. The group does not require collateral in respect of trade and other receivables. Where appropriate, credit guarantee insurance cover is purchased.

The group establishes an allowance for impairment that represents its estimate of probable incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures. This loss allowance is determined based on historical data of payment statistics for similar debtors (refer to note 11 for further details).

Investments

The group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a good credit rating. In light of this strategy, management does not expect any counterparty to fail to meet its obligations.

Guarantees

The group's policy is to provide financial guarantees only to wholly owned subsidiaries (refer to note 26.4 for further details).

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
21. FINANCIAL RISK MANAGEMENT continued				
The maximum exposure to credit risk at the reporting date was:				
Financial assets at fair value through profit or loss – other investments (designated)	12	8	–	–
Financial assets at fair value through profit or loss – FECs (held for trading)	–	39 845	–	–
Loans and receivables – other	6 020	7 072	4 893	31 257
Loans and receivables – trade	391 324	302 211	135 741	38 721
Loans and receivables – subsidiaries	–	–	799 979	799 911
Loans and receivables – cash and cash equivalents	97 337	16 493	182	174
	494 693	365 629	940 795	870 063

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The group uses a standard costing system to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Refer to notes 13 and 26.4 for details of the lines of credit maintained by the group.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount R'000	Contractual cash flows R'000	Less than 12 months R'000	Between one to five years R'000	More than five years R'000
GROUP					
31 December 2012					
Non-derivative financial liabilities					
Secured bank loans	251 000	354 067	21 902	332 165	–
Other loans at amortised cost	93	93	93	–	–
Finance lease liabilities	29 329	31 681	18 207	13 474	–
Trade and other payables	480 536	480 536	480 536	–	–
Bank overdrafts	65 946	65 946	65 946	–	–
	826 904	932 323	586 684	345 639	–
Derivative financial liabilities					
FECs used for hedging outflow	7 964	593 993	593 993	–	–
	7 964	593 993	593 993	–	–
GROUP					
31 December 2011					
Non-derivative financial liabilities					
Secured bank loans	251 000	299 320	24 227	275 093	–
Other loans at amortised cost	5 137	5 137	5 137	–	–
Finance lease liabilities	44 447	50 175	18 302	31 873	–
Trade and other payables	334 102	334 102	334 102	–	–
Bank overdrafts	106 963	106 963	106 963	–	–
	741 649	759 697	488 731	306 966	–
Derivative financial liabilities					
Interest rate swaps used for hedging	1 174	1 191	1 191	–	–
	1 174	1 191	1 191	–	–

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	Carrying amount R'000	Contractual cash flows R'000	Less than 12 months R'000	Between one to five years R'000	More than five years R'000
21. FINANCIAL RISK MANAGEMENT continued					
COMPANY					
31 December 2012					
Non-derivative financial liabilities					
Finance lease liabilities	29 329	31 681	18 207	13 474	–
Amounts due to subsidiaries	587 304	587 304	587 304	–	–
Trade and other payables	21 455	21 455	21 455	–	–
Bank overdraft	65 946	65 946	65 946	–	–
	704 034	706 386	692 912	13 474	–
COMPANY					
31 December 2011					
Non-derivative financial liabilities					
Finance lease liabilities	44 447	50 175	18 302	31 873	–
Amounts due to subsidiaries	367 074	367 074	367 074	–	–
Trade and other payables	38 152	38 152	38 152	–	–
Bank overdraft	73 158	73 158	73 158	–	–
	522 831	582 559	496 686	31 873	–

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return.

The group buys and sells derivatives as part of its approved hedging strategy, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Audit and Risk Committee. Generally the group uses derivatives to economically hedge exposure to fluctuations in foreign exchange rates and interest rates and to manage volatility in profit or loss.

Currency risk

The group is exposed to currency risk mainly on purchases that are denominated in a currency other than the functional currency of the group's entities, i.e. ZAR. The currency giving rise to this risk is primarily USD.

The group hedges approximately 80% of its estimated foreign currency exposure in respect of forecast purchases over the following six months, and trade and other payables denominated in a foreign currency. The group also hedges approximately 80% of all trade payables denominated in a foreign currency. The group uses FECs to economically hedge its foreign currency risk, most with a maturity of less than one year from the reporting date. When necessary, FECs are rolled over at maturity.

Exposure to currency risk

The group's exposure to foreign currency risk, including a sensitivity of a 10% weakening of the ZAR against these foreign currencies are as follows:

	USD '000	EUR '000	AUD '000	ZAR '000	(Increase) decrease in profit before taxation ZAR '000
GROUP 2012					
Trade receivables – USD	161	–	–	1 364	(136)
Trade payables – USD	(52 315)	–	–	(443 108)	44 311
Trade payables – EUR	–	(143)	–	(1 596)	160
GROUP 2011					
Trade payables – USD	(36 689)	–	–	(295 713)	29 571
Trade payables – EUR	–	(201)	–	(2 094)	209
Trade payables – AUD	–	–	(1)	(8)	1

The above sensitivity analysis assumes that all other variables, in particular interest rates, remain constant. A 10% strengthening of the ZAR against these foreign currencies would have an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

21. FINANCIAL RISK MANAGEMENT continued

Refer to notes 10, 13 and 15 for the group's exposure to foreign currency risk relating to USD-denominated forward exchange contracts. At year end there were no open FECs to cover the group's exposure to EUR, GBP and AUD-denominated trade payables as these amounts were considered to be immaterial at year end.

The following significant ZAR spot rates applied at reporting date for the group:

	2012	2011
USD	8,47	8,06
EUR	11,16	10,42
AUD	n/a	8,28

Interest rate risk

From time to time, the group adopts a policy of ensuring that a portion of its exposure to changes in interest rates on borrowings is on a fixed rate-basis. This was achieved by entering into interest rate swaps that economically hedged against fluctuations in interest rates.

Profile

At the reporting date the interest rate profile of the group's interest-bearing financial instruments was:

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
Variable rate instruments				
Financial assets	97 337	56 338	182	174
Financial assets at fair value through profit or loss – FECs (held for trading)	–	39 845	–	–
Loans and receivables – cash and cash equivalents	97 337	16 493	182	174
Financial liabilities	(354 239)	(403 584)	(95 275)	(117 605)
Financial liabilities at fair value through profit or loss – FECs (held for trading)	(7 964)	–	–	–
– Interest rate swaps (held for trading)	–	(1 174)	–	–
Financial liabilities held at amortised cost – Loans and borrowings	(280 329)	(295 447)	(29 329)	(44 447)
Financial liabilities held at amortised cost – Bank overdrafts	(65 946)	(106 963)	(65 946)	(73 158)
	(256 902)	(347 246)	(95 093)	(117 431)

Interest rate sensitivity analysis

An increase of 100 basis points in interest rates at the respective reporting dates would have decreased equity and decreased profit by the amounts shown below for the financial liabilities listed. A 100 basis point decrease in interest rates at the respective reporting dates would have an equal but opposite effect on the financial instruments listed. This analysis assumes that all other variables remain constant.

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
(Increase) decrease in profit before taxation:				
Cash and cash equivalents	(285)	(407)	(27)	(6)
Compulsory redeemable preference shares	–	126	–	–
Facility of R100 000 000	996	1 010	–	–
Facility of R151 000 000	1 488	1 387	–	–
Finance lease liabilities	364	468	364	468
Bank overdrafts	611	491	585	462
	3 174	3 075	922	924

Refer to notes 13 and 26 for more details relating to these financial instruments.

The group has taken out FECs covering more than 80% of forecast purchases for the first half of 2013.

Equity price risk

The group is exposed to equity price risk from equity investments. The group does not actively trade in these investments.

Exposure to equity price risk

As indicated in note 6, the group has listed equity securities, which exposes it to share price risks. The risk exposure from this investment is minimal due to the investment portfolio comprising a multi-national company and due to the immaterial nature of the amount of the investment.

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21. FINANCIAL RISK MANAGEMENT continued

Capital management

The group manages its capital to ensure that the group will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt and equity balance. The group's overall strategy remains unchanged from the previous year.

The capital structure of the group consists of net debt (i.e. loans and borrowings offset by net cash and cash equivalents) and equity (i.e. issued share capital, reserves, retained income and non-controlling interests).

	GROUP 2012 R'000	GROUP 2011 R'000
Interest-bearing borrowings	280 329	295 447
Net cash and cash equivalents – (positive balance) overdrawn	(31 391)	90 470
Net debt	248 938	385 917
Total equity	1 966 158	1 843 481
Total capital	2 215 096	2 229 398

The group's strategy is to maintain a gearing ratio of between 15% and 25%. There are no externally imposed capital requirements

The gearing ratio determined as the proportion of net debt to equity, was 12,7% at year end (2011: 20,9%). The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

In 2010, the board approved a dividend policy where a dividend cover of between four and five times has been approved. In 2011 and until June 2012, this policy has been maintained and a cover of between four and five times has been complied with when the results are analysed on a normalised basis. A final dividend for 2012 has, however, not been declared, due to the terms of the Cipla India transaction (refer to the directors' report for more details on the Cipla India transaction). The group continues to use earnings to fund growth opportunities and to repay debt as well. In order to maintain the capital structure, the board may adjust the proposed dividend policy.

Fair values

All loans, receivables and financial liabilities not at fair value through profit or loss are measured at amortised cost. The carrying value of trade and other receivables, trade and other payables and finance lease liabilities approximate fair value as the effective interest method is used to determine the carrying values. The time value of money has been considered in determining the carrying values of trade receivables and payables. It is not viable to determine the fair value of inter-company receivables and payables with no fixed repayment or interest terms.

Fair value hierarchy of financial instruments at fair value through profit or loss

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

	GROUP 2012 R'000	GROUP 2011 R'000
Financial assets measured at fair value		
Listed shares (level 1)	12	8
Financial (liabilities) assets measured at fair value		
FECs (level 2)	(7 964)	39 845
Interest rate swaps (level 2)	–	(1 174)
	(7 964)	38 671

Categories of financial instruments and fair values

The group's financial instruments consist primarily of deposits with banks, loans receivable, trade and other receivables, trade and other payables, derivatives and loans and borrowings.

Categories of financial instruments and fair values versus carrying amounts

The fair values of the financial assets and liabilities approximate their carrying amounts. Refer to accounting policy (t) for a discussion of how fair values are determined. The fair values of financial assets and liabilities are as follows:

21. FINANCIAL RISK MANAGEMENT continued

	GROUP 2012 R'000	GROUP 2011 R'000
Financial assets		
Financial assets at fair value through profit or loss – Listed equity securities (designated)	12	8
Financial assets at fair value through profit or loss – FECs (held for trading)	–	39 845
Loans and receivables	494 681	325 776
Trade and other receivables	391 324	302 211
Long-term loans receivable	1 596	3 191
Short-term loans receivable	4 424	3 881
Cash and cash equivalents	97 337	16 493
Financial liabilities		
Financial liabilities at fair value through profit or loss (held for trading)	(7 964)	(1 174)
FECs	(7 964)	–
Interest rate swaps	–	(1 174)
Financial liabilities held at amortised cost	(826 904)	(741 649)
Secured bank loans	(251 000)	(251 000)
Other loans at amortised cost	(93)	(5 137)
Finance lease liabilities	(29 329)	(44 447)
Trade and other payables	(480 536)	(334 102)
Bank overdrafts	(65 946)	(106 963)

	COMPANY 2012 R'000	COMPANY 2011 R'000
Financial assets		
Loans and receivables	940 795	870 063
Trade and other receivables	135 741	38 721
Long-term loans receivable	801 507	803 102
Short-term loans receivable	3 365	28 066
Cash and cash equivalents	182	174
Financial liabilities		
Financial liabilities held at amortised cost	(704 034)	(522 831)
Finance lease liabilities	(29 329)	(44 447)
Amounts due to subsidiaries	(587 304)	(367 074)
Trade and other payables	(21 455)	(38 152)
Bank overdraft	(65 946)	(73 158)

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22. RELATED PARTIES

Cipla Medpro South Africa Limited is the ultimate holding company. Related party relationships exist between the holding company, fellow subsidiaries, joint ventures and with its directors and key management personnel.

Transactions with related parties, except where otherwise noted, are conducted on an arm's length basis and on the same payment terms as those transacted with third parties. None of the balances are secured. Intragroup balances and material unrealised gains and losses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

The group is controlled by Cipla Medpro South Africa Limited. The group's interests are as follows:

Direct interest
Cipla Medpro Manufacturing Proprietary Limited – 100%
Galilee Marketing Proprietary Limited – 100%
Inyanga Trading 386 Proprietary Limited – 100%
Xeragen Laboratories Proprietary Limited –100%

Indirect interest through 100% held subsidiary Inyanga Trading 386 Proprietary Limited
Cipla Medpro Holdings Proprietary Limited –100%

Indirect interest through 100% held subsidiary Cipla Medpro Holdings Proprietary Limited
Agropharm Proprietary Limited (effective holding) – 100%
Cape to Cairo Exports Proprietary Limited – 100% (2011: nil)
Cipla Agricare Proprietary Limited – 100%
Cipla Agrimed Proprietary Limited (effective holding) – 64,25%
Cipla Consult Proprietary Limited (joint venture) – 50%
Cipla Dibcare Proprietary Limited – 100%
Cipla Health Care Proprietary Limited – 100%
Cipla Life Sciences Proprietary Limited (effective holding) – 100%
Cipla-Medpro Proprietary Limited – 100%
Cipla-Medpro Distribution Centre Proprietary Limited – 100%
Cipla Medpro ARV Proprietary Limited – 100%
Cipla Medpro Botswana Proprietary Limited – 100%
Cipla Medpro Cardio Respiratory Proprietary Limited – 100%
Cipla Medpro Research and Development Proprietary Limited – 100%
Cipla Nutrition Proprietary Limited – 80% (2011 – 75%)
Cipla Personal Care Proprietary Limited – 100%
Cipla Vet Proprietary Limited – 75%
Gardian Cipla Proprietary Limited – 100%
Medpro Gen Proprietary Limited – 100%
Medpro Holdings Proprietary Limited – 100%
Medpro Pharmaceutica Proprietary Limited – 100%
Medpro Pharmaceutica Africa Proprietary Limited – 100%
Medpro-On-Line Proprietary Limited – 100%
Med Man Care Proprietary Limited – 100%
Propreven Proprietary Limited – 100%
Smith and Couzin Proprietary Limited – 100%

The group also includes the CMSA Share Option Trust.

		GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
22. RELATED PARTIES continued					
Transactions with subsidiaries					
a) Transactions with related parties					
The following transactions were carried out by Cipla Medpro South Africa Limited with related parties:					
(i) Revenue					
Cipla Medpro Holdings Proprietary Limited		–	–	(270 839)	(168 542)
(ii) Management fees received					
Cipla Medpro Holdings Proprietary Limited		–	–	(27 297)	(21 386)
(iii) Royalties paid					
L'amar (France) Pharmatec Proprietary Limited	(a)	5 321	3 965	–	–
(iv) Consulting fees paid					
Cipla Consult Proprietary Limited	(b)	600	600	–	–
b) Loans (to) from related parties					
Loans to subsidiaries					
Galilee Marketing Proprietary Limited		–	–	68	–
Inyanga Trading 386 Proprietary Limited		–	–	799 911	799 911
		–	–	799 979	799 911
Loans from subsidiaries					
Xeragen Laboratories Proprietary Limited		–	–	(11 588)	(11 588)
Cipla Medpro Holdings Proprietary Limited		–	–	(575 716)	(355 486)
		–	–	(587 304)	(367 074)
Loans to (from) other related parties					
CMSA Share Option Trust		–	–	3 250	28 019
L'amar (France) Pharmatec Proprietary Limited	(a)	(93)	(5 137)	–	–
Cipla Consult Proprietary Limited	(b)	2 638	3 834	–	–
JSSTD Properties Proprietary Limited	(c)	(12)	(306)	–	–
JS Smith	(d)	1 289	1 414	–	–
JB van Staden	(e)	250	–	–	–
C Maclachlan	(f)	200	–	–	–
Refer to notes 5, 7 and 13 for the terms and conditions attached to the above balances.					
c) Trade receivable due from related party					
Cipla Medpro Holdings Proprietary Limited		–	–	132 623	33 854
d) Issue of shares to the CMSA Share Option Trust					
On 9 April 2013, 28 925 shares were issued to the CMSA Share Option Trust.					
2012: no shares issued (2011: no shares issued)		–	–		

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22. RELATED PARTIES continued

Transactions with directors and key management personnel

a) Medpro Pharmaceutica Proprietary Limited has a loan due to L'amar (France) Pharmatec Proprietary Limited. The former CEO, JS Smith and former CFO, C Aucamp, as well as JB van Staden, a director of Medpro Pharmaceutica Proprietary Limited, hold immaterial interests in this company, as declared in terms of Section 75 of the Companies Act of South Africa (refer to note 13 for the terms of the loan).

During the year, Medpro Pharmaceutica Proprietary Limited incurred royalties due to L'amar (France) Pharmatec Proprietary Limited.

b) Medpro Pharmaceutica Proprietary Limited has a loan due from Cipla Consult Proprietary Limited. Cipla Consult Proprietary Limited is a jointly controlled entity of which Cipla Medpro Holdings Proprietary Limited shares control (refer to note 7 for the terms of the loan).

During the year, Medpro Pharmaceutica Proprietary Limited paid consulting fees to Cipla Consult Proprietary Limited.

(c) Medpro Pharmaceutica Proprietary Limited has a loan due to JSSTD Properties Proprietary Limited (2011: the loan due from JSSTD Properties Proprietary Limited was settled in full). The former CEO, JS Smith, is a director of JSSTD Properties Proprietary Limited. In the past, Medpro Pharmaceutica Proprietary Limited leased property from JSSTD Properties Proprietary Limited, but all properties are now leased from an independent third party, to which JSSTD Properties Proprietary Limited sold these properties during the course of 2010.

d) JS Smith, former CEO, has a loan due to Medpro Pharmaceutica Proprietary Limited. The loan remains unpaid at the date of issue of this report (refer to note 7 for details of the terms of this loan).

e) Medpro Pharmaceutica Proprietary Limited has a loan due from JB van Staden. JB van Staden is a director of Medpro Pharmaceutica Proprietary Limited. The loan was repaid in full on 7 February 2013 (refer to note 7 for the terms of the loan).

f) Medpro Pharmaceutica Proprietary Limited has a loan due from a close family member of a director of Cipla Consult Proprietary Limited. The loan remains unpaid on the date of issue of this report (refer to note 7 for the terms of the loan).

Compensation

In addition to their salaries, the group also provides non-cash benefits in the form of share options to directors and key personnel (refer to note 25 for details of share options granted to these employees).

23. DIRECTORS' REMUNERATION AND BENEFITS

	Directors' fees[1] R'000	Basic salary for management services R'000	Annual bonus[2] R'000	Other benefits R'000	Retirement and medical benefits[3] R'000	Total remuneration and benefits[4] R'000	IFRS 2 Share-based Payment expense[5] R'000	Total package R'000
31 December 2012								
Executive directors								
JS Smith[6]	–	9 666	–	1 273	148	11 087	–	11 087
JvD du Preez[6] (Acting CEO)	–	1 457	–	–	–	1 457	–	1 457
C Aucamp[7]	–	3 505	683	281	108	4 577	408	4 985
MW Daly[7] (CFO)	–	207	–	9	18	234	7	241
Total A	–	14 835	683	1 563	274	17 355	415	17 770
Non-executive directors								
PCS Luthuli (Chairman)	788	–	–	–	–	788	–	788
MB Caga	511	–	–	–	–	511	–	511
JvD du Preez[6] (Acting CEO)	348	–	–	–	–	348	–	348
ND Mokone	752	–	–	–	–	752	–	752
MT Mosweu	559	–	–	–	–	559	–	559
SMD Zungu	249	–	–	–	–	249	–	249
Total B	3 207	–	–	–	–	3 207	–	3 207
Total directors' emoluments paid (A + B)	3 207	14 835	683	1 563	274	20 562	415	20 977
Emoluments paid by:								
CMSA	3 207	1 457	–	–	–	4 664	–	4 664
Cipla Medpro	–	13 378	683	1 563	274	15 898	415	16 313
31 December 2011								
Executive directors								
JS Smith[6] (CEO)	–	10 061	2 838	1 725	163	14 787	–	14 787
C Aucamp[7] (CFO)	–	3 256	1 815	575	91	5 737	90	5 827
Total A	–	13 317	4 653	2 300	254	20 524	90	20 614
Non-executive directors								
PCS Luthuli (Chairman)	722	–	–	–	–	722	–	722
MB Caga	245	–	–	–	–	245	–	245
JvD du Preez[6]	432	–	–	–	–	432	–	432
ND Mokone	200	–	–	–	–	200	–	200
MT Mosweu	368	–	–	–	–	368	–	368
SMD Zungu	100	–	–	–	–	100	–	100
Total B	2 067	–	–	–	–	2 067	–	2 067
Total directors' remuneration and benefits (A + B)	2 067	13 317	4 653	2 300	254	22 591	90	22 681
Remuneration and benefits paid by:								
CMSA	2 067	–	–	–	–	2 067	–	2 067
Cipla Medpro	–	13 317	4 653	2 300	254	20 524	90	20 614

1 *Directors' fees include payments for attendance at board, Audit and Risk Committee, Remuneration Committee, Independent Board Committee, Nomination Committee and Social, Ethics and Transformation Committee meetings, as well as retainer fees for the Chairman of the board.*

2 *In 2012, both JS Smith and C Aucamp repaid their unauthorised bonuses received during 2011 and 2010. These amounts are included in other income in the statement of comprehensive income for 2012.*

3 *These payments relate to the employer contributions to the defined contribution pension plan, group life and disability cover and medical aid.*

4 *Total remuneration and benefits reflects the total cash payments and benefits paid to directors. The IFRS 2 Share-based Payment expense has been shown separately in the next column.*

5 *The IFRS 2 Share-based Payment expense refers to the amount recognised in the statement of comprehensive income in relation to share options that have been granted to the executive directors.*

6 *JS Smith resigned as CEO and director on 5 October 2012 and JvD du Preez was appointed as Acting CEO on 16 August 2012.*

7 *C Aucamp resigned as CFO and director on 26 November 2012 and MW Daly was appointed as CFO on that date.*

Refer to note 25, which provides further details of share options in issue to directors.

Notes to the annual financial statements

for the years ended 31 December

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
24. COMMITMENTS AND CONTINGENCIES				
Operating lease commitments (as lessee)				
The future minimum lease payments under non-cancellable operating leases are as follows:				
– Less than one year	24 948	23 020	2 794	3 101
– Between one and five years	46 366	54 288	6 329	10 078
– More than five years	–	1 631	–	–
	71 314	78 939	9 123	13 179

The group leases certain factory facilities and property, plant and equipment under operating leases. The leases typically run for a period of five to 10 years, with an option to renew the lease after that date.

In determining lease classification, the group evaluated whether both land and buildings were clearly operating leases or finance leases. Since land title does not pass, rentals paid to the landlord for the buildings are increased to market-related rates at regular intervals and the group does not participate in the residual value of the building, it was judged that substantially all the risks and rewards of the building are with the landlord. Based on these factors it was concluded that the leases are operating leases.

During the year ended 31 December 2012, R40 858 042 (2011: R33 039 542) was recognised (straight-line) as an expense in the statement of comprehensive income in respect of operating leases.

Capital commitments

At 31 December 2012, R378 654 507 (2011: R374 210 408) had been expended on the upgrade and continuous improvement of the CMM site and manufacturing facilities. Subsequent to year end, R8 564 443 (2011: R908 378) had been spent on the upgrade.

At year end Cipla Medpro South Africa Limited had approved purchases of plant and machinery of R37 431 079 (2011: R1 797 223), of which R23 109 000 (2011: R1 797 223) has been contracted for.

25. SHARE OPTIONS AND SHARE-BASED PAYMENTS

In May 2005, the company established a broad-based employee share plan that allowed the company to issue shares at par value to employees. In May 2005, 575 000 shares were issued to employees in terms of this broad-based scheme. This resulted in a cost of R575 000 being expensed to the statement of comprehensive income during the 2005 year.

In May 2005, the company also established a share incentive scheme that entitles directors and key management personnel to purchase shares in the company. Such share options were exercisable at either the market price of the shares at the date of grant, or at a price determined by the shareholders in a general meeting. In accordance with IFRS 2 Share-based Payments, an amount of R10 478 163 was recognised as the IFRS 2 expense during the 2010 year.

The fair value of services received from employees in return for share options granted are measured with reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the binomial tree model, which takes into account the share price on the date of the grant, the exercise price, expected volatility, option life, expected dividends and risk-free interest rate. All options are granted at the 30-day volume weighted average market price of CMSA's shares preceding the option grant date, unless otherwise authorised by the shareholders in a general meeting. All vested share options must be exercised, paid for and taken up within seven years of grant or approval date. Share options may be taken up in two tranches: 50% of share options vest two years after grant date and the balance of the options vest three years after grant date, with the exception of the share options granted since 2008 which vest one year after grant date and the share options granted in March 2010 which vested immediately.

A new share option scheme was approved by the shareholders at a general meeting held on 24 November 2010. In terms of the new scheme no further share options will be granted under neither of the two old schemes, detailed above. Once all the unexercised share options that have previously been granted in terms of the old schemes have vested, these schemes will be collapsed. The new scheme states that share options may be taken up in four tranches: 10% of the share options vest two years after grant date; 30% in the third year; 30% in the fourth year; and the final 30% in the fifth year. All vested options must be exercised, paid for in full and taken up within 18 months of its vesting date.

In terms of the new scheme, a maximum of 44 million shares were set aside for the purpose of the CMSA Employee Share Option Trust (representing approximately 10% of the shares currently in issue, of which each beneficiary could have been granted up to a maximum of 4,4 million shares (representing approximately 1% of the shares currently in issue).

In accordance with IFRS 2 Share-based Payments, an amount of R2 728 791 (2011: R1 454 924) was recognised as the IFRS 2 expense during the year, relating to the CMSA Employee Share Option Trust.

All options are granted in accordance with the rules of the respective schemes, which have been approved by the board of directors, the JSE and the shareholders.

Fair value

The group accounts for share option expenses in accordance with IFRS 2 Share-based Payments, which requires the fair value of share options granted to employees to be valued at the grant date and expensed through the statement of comprehensive income over the vesting period of the share options. The fair value of each option granted by CMSA has been estimated on the grant date using the binomial tree model. The assumptions used in determining the fair value of the options granted to directors and employees in each financial year are summarised overleaf.

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for the years ended 31 December

25. SHARE OPTIONS AND SHARE-BASED PAYMENTS continued

GROUP AND COMPANY Date of grant	Number of options granted '000	Number of options out-standing 2012 '000	Number of options out-standing 2011 '000	Expected life of options years	Fair value at grant date cents	Share price at grant date cents	Exercise price cents	Expected volatility[3] %	Expected dividend yield[4] %	Risk-free interest rate[5] %
December 2005[1]	4 480	–	35	2 – 5	257	331	300	25 – 27	–	7,17 – 7,34
April 2008	1 000	–	91	1 – 4	128	302	306	33	–	9,16
May 2008	2 928	–	405	1 – 4	124	290	296	33	–	9,67
June 2009[2]	3 711	–	1 882	1 – 4	177	385	354	38	–	8,43
November 2009	3 120	680	3 026	1 – 4	189	459	478	37	–	8,43
March 2010	1 000	–	1 000	1 – 4	225	582	531	37	1,9	8,00
March 2011	289	289	289	2 – 5	890	685	726	34 – 38	2,5 – 2,6	7,46 – 8,25
May 2011	4 700	3 800	4 400	2 – 5	835	663	680	32	1,9	7,18 – 8,16
August 2011	350	350	350	2 – 5	743	630	641	33 – 36	3,3 – 3,5	6,12 – 6,93
March 2012	617	617	–	2 – 5	754	643	648	33 – 35	3,3 – 3,7	6,65 – 7,41

1 *The share options were granted to employees in December 2005, but issued to the share incentive trust during the 2006 financial year.*

2 *The share options were approved by the board during April 2009.*

3 *The volatility of a company in the same industry was used as a proxy, commensurate with the grant date and expected life of the option.*

4 *The expected dividend yield is management's best estimate of the forward-looking dividend yield over the expected life of the option.*

5 *The risk-free interest rate is the implied yield currently available on zero-coupon ZAR swap interest rate curves, with a remaining term equal to the expected term of the option being valued (based on the option's contractual life and taking into account the effects of expected early exercise).*

		GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
Share options outstanding					
The movement in the number of share options outstanding can be reconciled as follows:					
Outstanding at beginning of the year[6]	('000)	11 478	6 439	11 478	6 439
Granted during the year[6]	('000)	617	5 339	617	5 339
Options cancelled during the year	('000)	(600)	(300)	(600)	(300)
Exercised during the year[6,7]	('000)	(5 759)	–	(5 759)	–
Outstanding at end of the year[6]	('000)	5 736	11 478	5 736	11 478
Exercisable at 31 December[6]	('000)	680	6 439	680	6 439
[6] The weighted average exercise price of share options for each of the above groups of options are as follows:					
Outstanding at beginning of the year	(cents)	542	435	542	435
Granted during the year	(cents)	648	681	648	681
Exercised during the year	(cents)	430	–	430	–
Outstanding at end of the year	(cents)	653	542	653	542
Exercisable at 31 December	(cents)	478	435	478	435

25. SHARE OPTIONS AND SHARE-BASED PAYMENTS continued

GROUP AND COMPANY	Number of options exercised 2012 '000	Weighted average exercise price 2012 cents	Number of options exercised 2011 '000	Weighted average exercise price 2011 cents
[7] The weighted average share price at the date of exercise of these share options was:				
Exercised during the year				
July	(35)	300	–	–
October	(5 724)	352	–	–
	(5 759)		–	

Share options granted to directors and key personnel

Shares under option offered to and accepted by executive directors and key personnel in terms of the CMSA Employee Share Option Trust amounted to 617 284 (2011: 289 256). At 31 December 2012, 2 587 010 (2011: 6 878 437) share options were still outstanding, calculated as follows:

GROUP AND COMPANY	Options outstanding at 31 December 2012 '000	Options outstanding at 31 December 2011 '000	Options granted during 2012 '000	Options granted during 2011 '000	Exercise price cents	Vesting date
Grantee						
MW Daly	150	150	–	150	680	May 2013 – May 2017#
	150	150	–	150		
Other key personnel*	2 737	–	–	–		
Other ex-key personnel	–	6 728	617	289		
Unallocated options	–	–	–	–		
Total	2 887	6 878	617	439		

\# *The options were granted in May 2011 and the first 10% vests in May 2013 and each year thereafter, a further 30% vests per year.*

* *On 9 April 2013, C Aucamp exercised 708 925 of his share options at an average exercise price of 935 cents per share. He forfeited 877 614 of his unvested share options, following his resignation as an employee of the group on 31 March 2013.*

Another 400 000 of the share options outstanding at 31 December 2012, relating to then key personnel, were forfeited subsequent to year-end, following the resignation of those employees.

On 26 April 2013, 300 000 share options were issued to two directors of Medpro Pharmaceutica Proprietary Limited, whom are considered to be key personnel.

Notes to the annual financial statements
for the years ended 31 December

	GROUP 2012 R'000	GROUP 2011 R'000	COMPANY 2012 R'000	COMPANY 2011 R'000
26. NOTES TO THE CASH FLOW STATEMENTS				
26.1 Cash generated (utilised) by operations				
Profit (loss) before taxation	252 110	341 682	(29 969)	(138 143)
Adjustments for:				
Depreciation	29 780	24 103	13 917	9 930
Amortisation	22 475	24 365	–	–
Impairment of intangible assets	5 426	18 142	1 427	–
Finance costs	78 814	58 212	13 170	9 044
Finance income	(4 380)	(15 586)	(1 784)	(7 444)
Gain on disposals of property, plant and equipment	(2)	(72)	–	(72)
Loss on deemed disposal of joint venture	–	385	–	–
Fair value adjustment of listed investments	(4)	(2)	–	–
Fair value adjustment of forward exchange contracts	47 809	(109 225)	–	–
IFRS 2 Share-based Payment expenses	2 729	1 455	191	94
Operating profit (loss) before working capital changes	434 757	343 459	(3 048)	(126 591)
(Increase) decrease in inventory	(44 616)	(99 592)	6 300	(37 766)
(Increase) decrease in trade and other receivables	(118 266)	(75 658)	(96 205)	6 860
Increase (decrease) in trade and other payables	149 047	94 477	(17 058)	2 419
(Decrease) increase in provisions	(30 000)	80 000	(30 000)	80 000
	390 922	342 686	(140 011)	(75 078)
26.2 Reconciliation of taxation paid				
Balance at beginning of year	(15 736)	(6 214)	–	–
Profit or loss charge	(71 299)	(142 489)	–	–
Balance at end of year	(38 078)	15 736	–	–
	(125 113)	(132 967)	–	–
26.3 Reconciliation of STC paid				
Balance at beginning of year	(42)	(95)	–	–
Profit or loss charge	(700)	(5 957)	–	(5 328)
Balance at end of year	–	42	–	–
	(742)	(6 010)	–	(5 328)
26.4 Cash and cash equivalents				
Bank balances	62 356	6 910	5	5
Call deposits	34 981	9 583	177	169
Cash and cash equivalents	97 337	16 493	182	174
Bank overdrafts used for cash management purposes	(65 946)	(106 963)	(65 946)	(73 158)
Cash and cash equivalents in the statements of cash flow	31 391	(90 470)	(65 764)	(72 984)

26. NOTES TO THE CASH FLOW STATEMENTS continued

26.4 Cash and cash equivalents continued

Cipla Medpro South Africa Limited has a multi-option facility comprising overdrafts and overnight loans for an amount of R80 million (2011: R80 million), letters of guarantee amounting to R490 000 (2011: R490 000), an asset based finance facility of R72,5 million (2011: R72,5 million) and a derivative facility of R30 million (2011: R30 million) held with Nedbank Limited. These are secured in part through:

- Cross deed of suretyship by Cipla Medpro Holdings Proprietary Limited, Cipla Medpro Manufacturing Proprietary Limited and Cipla Medpro South Africa Limited.

The banking facilities of Inyanga Trading 386 Proprietary Limited are secured as follows:

- Guarantee of the obligations of Cipla Medpro Holdings Proprietary Limited;
- Pledge and cession of Inyanga Trading 386 Proprietary Limited's shares;
- Pledge and cession of Inyanga Trading 386 Proprietary Limited's investment in and claims against Cipla Medpro Holdings Proprietary Limited; and
- Cession of Inyanga Trading 386 Proprietary Limited's trade debtors, deposits, cash, rights to insurances and government authorisations.

The R35 million (2011: R35 million) general banking facility comprising overdrafts, guarantees, customer foreign currencies (CFCs) and letters of credit from ABSA Bank Limited granted to Medpro Pharmaceutica Proprietary Limited, a subsidiary company of Cipla Medpro Holdings Proprietary Limited, is secured as follows:

- The cession of trade debtors and Credit Guarantee Insurance Cover policy;
- An unlimited deed of suretyship given by Cipla Medpro Holdings Proprietary Limited; and
- The cession of the loan account by Cipla Medpro Holdings Proprietary Limited in Medpro Pharmaceutica Proprietary Limited.

Nedbank Limited has a reversionary right to the cash balances of the group.

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27. CHANGES IN OWNERSHIP INTEREST

Refer to note 5, which details the group's investments in subsidiaries

Acquisitions of subsidiaries and joint ventures

In June 2012, the group acquired a 100% interest in Cape to Cairo Exports Proprietary Limited for R100, with the purchase consideration settled in cash. Cape to Cairo Exports Proprietary Limited is a wholly owned subsidiary of the group and is currently dormant.

In June 2011, the group acquired a 100% interest in Cipla Medpro Botswana Proprietary Limited, registered in Botswana, for R104, with the purchase consideration settled in cash. Cipla Medpro Botswana Proprietary Limited is a wholly owned subsidiary of the group.

During 2012, the group acquired an additional 5% interest (2011: an additional 25% interest) in Cipla Nutrition Proprietary Limited. This increased the group's shareholding in Cipla Nutrition Proprietary Limited to 80% (2011: 75%). The total purchase consideration of R5 (2012: R2 000 000) was settled in cash. The excess of the consideration paid in 2011 was recognised as goodwill in recognition of future economic benefits that the group will earn through the acquisition. The goodwill has been allocated to one cash-generating unit for impairment testing purposes. In 2012, the goodwill was assessed for impairment and was considered to be impaired (refer to note 4 for further details).

	2011 R'000
GROUP	
Net assets at acquisition date	
Plant and equipment	14
Intangible assets	3 649
Deferred tax	283
Trade and other receivables	54
Loan from group company	(4 633)
Trade and other payables	(136)
Net fair value at acquisition date	(769)
Less: Non-controlling interest	192
Less: Fair value of investment previously held as joint venture	385
Excess over purchase consideration	2 192
Net cash outflow	2 000

The goodwill was attributable mainly due to the synergies expected to be achieved from integrating Cipla Nutrition Proprietary Limited into the group's current operations.

The fair value of the trade and other receivables was approximated by the carrying value of R54 150, which comprised the gross contractual amounts. The full contractual amounts have been collected in 2012.

The deemed disposal of Cipla Nutrition Proprietary Limited, the joint venture, resulted in a loss of R384 696 being recognised in the administrative expenses in the statement of comprehensive income in 2011.

Cipla Nutrition Proprietary Limited contributed neither revenue, nor any profit or loss to the group's results for the year ended 31 December 2011. If the acquisition of the 25% in December 2011 had occurred on 1 January 2011, management estimated that Cipla Nutrition Proprietary Limited would have contributed no revenue and a loss of R466 017 for the 2011 year.

28. INTEREST IN JOINT VENTURE

The group's share of profit/loss in its equity accounted investee, Cipla Consult Proprietary Limited, for the year was Rnil (2011: Rnil). The group's share of the profit/loss is limited to the cost of investment in the joint venture, being R55, which was already accounted for in 2010. The group holds a 50% interest in the joint venture.

	GROUP 2012 R'000	GROUP 2011 R'000
Investment at cost	50	50
Equity accounted losses from joint venture to date	(50)	(50)
Group's share of profit (loss)	–	–

Cipla Consult Proprietary Limited is not a publicly listed company and consequently does not have a published price quotation. Cipla Consult Proprietary Limited has a December year end.

Below is a summary of the financial information of the equity-accounted investee:

	31 December 2012 R'000	31 December 2011 R'000
Non-current assets	566	1 109
Current assets	1 849	1 255
Total assets	2 415	2 364
Non-current liabilities	–	(21)
Current liabilities	(3 366)	(4 252)
Total liabilities	(3 366)	(4 273)
Net liabilities	**(951)**	(1 909)
Income	11 044	7 757
Expenses	(10 087)	(8 469)
Profit (loss)	**957**	(712)
Group's share of profit (loss)[1]	**–**	–

1 *As indicated above, the group's share of the profit (loss) of Cipla Consult Proprietary Limited is limited to the cost of the investment in the joint venture.*

Notes to the annual financial statements

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29. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

Standards, amendments and interpretations not yet adopted

A number of new standards, amendments an interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated and separate annual financial statements. Those which may be relevant to the group and company are set out below. The group and company do not plan to early adopt these standards. These will be adopted in the period they become mandatory unless otherwise indicated:

- **IFRS 9 Financial Instruments** (effective for annual periods beginning on or after 1 January 2016). This new standard deals with the classification and measurement of financial assets and liabilities, as follows:
  - Financial assets will be categorised as those subsequently measured at fair value or at amortised cost (where assets are held to collect contractual cash flows);
  - Financial assets may only be reclassified if the entity changes its business model for the management of financial assets (prospectively);
  - Investments in equity instruments may be measured at fair value through other comprehensive income, but such a decision may not be revoked subsequently; and
  - The classification and measurement of financial liabilities will remain mostly unchanged, with one exception: an entity choosing to measure a liability at fair value, will present the portion of the change in its fair value due to changes in the entity's own credit risk, in the other comprehensive section of the statement of comprehensive income, rather than profit or loss.

  The group does not plan to early adopt this standard. The adoption of this new standard is not expected to impact the results of the group, but will result in additional disclosure. This standard will be adopted retrospectively, subject to the transitional provisions.
- **IFRS 10 Consolidated Financial Statements** (effective for annual periods beginning on or after 1 January 2013). This new standard will supersede IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. It sets out the accounting requirements for the preparation of consolidated financial statements and provides a definition for control of an investee. It establishes control as the basis for determining which entities are consolidated. The principle of control is based upon the following three elements:
  - Power over the investee;
  - Exposure, or rights, to variable returns from involvement with the investee; and
  - The ability to use power over the investee to affect the amount of the investor's returns.

  The group does not plan to early adopt this standard. The adoption of this new standard is not expected to impact the results of the group, but will result in additional disclosure. This standard will be applied on a retrospective basis if there is a change in the control conclusion between IAS 27/SIC-12 and IFRS 10.
- **IFRS 11 Joint Arrangements** (effective for annual periods beginning on or after 1 January 2013). This new standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather that its legal form (as is currently the case). It addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.

  A joint arrangement can be either a joint venture or a joint operation. Joint ventures are to be equity accounted as and when the option of proportionate consolidation has been eliminated.

  A joint operation (an investor in a joint operation) will recognise its share of assets, liabilities, revenues and expenses and/or its share of those items, if any.

  The group does not plan to early adopt this standard. The adoption of this standard is not expected to impact the results of the group, but will result in additional disclosure.
- **IFRS 12 Disclosure of Interests in Other Entities** (effective for annual periods beginning on or after 1 January 2013). This new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including interests in subsidiaries, associates, special purpose vehicles and other off balance sheet vehicles, requires an entity to disclose information that enables users of the financial statements to evaluate:
  - The nature of, and risks associated with, its interests in other entities; and
  - The effects of those interests on its financial position, financial performance and cash flows.

  The group does not plan to early adopt this standard. The adoption of this standard is not expected to impact the results of the group, but will result in additional disclosure.
- **IFRS 13 Fair Value Measurement** (effective for annual periods beginning on or after 1 January 2013). This new standard sets out a single IFRS framework for measuring fair value, and requires disclosures about fair value measurements. It applies to all IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. It does require fair value measurements in addition to those already required or permitted by other IFRSs and is not intended to establish valuation standards or affect valuation practices outside financial reporting. It also explains how to measure fair value for financial reporting.

  The standard defines fair value as the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price).

  The standards also establishes a fair value hierarchy that categorises the inputs to the valuation techniques used to measure fair value into three levels.

  The group does not plan to early adopt this standard. The adoption of this standard is not expected to impact the results of the group, but will result in additional disclosure.

30. PRIOR PERIOD RESTATEMENTS

Intangible assets

Trademarks, dossiers and registrations were previously viewed as one cash-generating unit and assessed to have an indefinite useful life in the past. This was corrected by viewing each trademark, dossier and registration as a separate asset and assessing each asset's life individually. After correctly applying the accounting policy, these intangible assets had different useful lives, varying from two years, to indefinite. The accounting treatment for finite and indefinite useful life assets were treated as follows:

- For assets with finite useful lives, amortisation has been calculated and accordingly included in the group's profit or loss in the applicable financial year; and
- For assets with indefinite useful lives, those assets were assessed for impairment and an impairment loss, if applicable, was recognised in profit or loss in the relevant year.

Inventory

The closing balance of inventory in 2011 has been restated to correctly account for the inventory as follows:

- At the transaction date spot rates, instead of the average spot rates relevant to the entire reporting period; and
- The correct cost, as certain stock items that were sold had not been released to profit or loss in 2011.

During 2011, the average spot rates were incorrectly used to account for inventory, instead of the transaction date spot rates for each individual transaction.

VAT

VAT input and output have in the past been declared to SARS on a group basis, leading to the incorrect VAT receivables and payables being reported in the individual group companies. The VAT receivables and payables have been restated, as well as a provision raised for possible interest payable on this. The provision did not result in prior period restatements (refer to note 14 for details regarding the provision raised in 2012).

The tables below summarise the adjustments made to the group's statements of financial position at 1 January 2011 and 31 December 2011, and its statement of comprehensive income for the year ended 31 December 2011, as a result of the above three restatements. None of the restatements had any effect on the cash flows of the group.

	1 January 2011		
GROUP	As previously reported R'000	Adjustments R'000	As restated R'000
Statement of financial position			
Intangible assets	1 475 470	(104 273)	1 371 197
Net deferred tax asset	15 878	26 236	42 114
Trade and other receivables	264 775	58 665	323 440
Overall impact on total assets		(19 372)	
Trade and other payables	(256 697)	(58 665)	(315 362)
Current tax liability	(10 012)	2 960	(7 052)
Overall impact on total liabilities		(55 705)	
Retained earnings	(741 863)	75 077	(666 786)
Overall impact on total equity		75 077	

Notes to the annual financial statements
for the years ended 31 December

GROUP	31 December 2011 As previously reported R'000	Adjustments R'000	As restated R'000
30. PRIOR PERIOD RESTATEMENTS continued			
Statement of financial position			
Intangible assets	1 535 443	(145 386)	1 390 057
Net deferred tax asset	52 389	35 685	88 074
Inventory	414 907	(25 654)	389 253
Trade and other receivables	310 419	89 547	399 966
Overall impact on total assets		(45 808)	
Trade and other payables	(340 962)	(89 547)	(430 509)
Current tax liability	(29 295)	12 205	(17 090)
Overall impact on total liabilities		(77 342)	
Retained earnings	(968 537)	123 150	(845 387)
Overall impact on total equity		123 150	

GROUP	For the year ended 31 December 2011 As previously reported R'000	Adjustments R'000	As restated R'000
Statement of comprehensive income			
Cost of sales	712 045	25 654	737 699
Other expenses	222 076	41 113	263 189
Tax expense	121 462	(18 694)	102 768
Overall impact on profit and total comprehensive income attributable to equity holders of the parent		48 073	

IFRS 2 Share-based Payments

IFRS 2 Share-based Payments have been included in the results of the company in 2011, for the entire group, irrespective of what group company employed the individuals that received share options as per the new CMSA Share Option Trust. This had no impact on the group results for 2011, but the company's figures have been restated to correctly reflect this.

The table below summarises the adjustment made to the company's statement of comprehensive income for the year ended 31 December 2011, as a result of the IFRS 2 Share-based Payment restatement. This restatement did not have any effect on the statement of financial position nor the cash flows of the company.

COMPANY	For the year ended 31 December 2011 As previously reported R'000	Adjustments R'000	As restated R'000
Statement of comprehensive income			
Administrative expenses	58 230	(1 361)	56 869
Overall impact on loss and total comprehensive income		(1 361)	

31. SUBSEQUENT EVENTS

Issue of shares

On 9 April 2013, the company issued 28 925 ordinary shares to the CMSA Share Option Trust. The issued share capital of the company is now 446 590 684.

Cipla India transaction

On 27 February 2013, Cipla India made a firm intention announcement to acquire 100% of CMSA's share capital at R10,00 per share. Subsequent to this, the circular was sent to shareholders on 15 April 2013, with the Scheme meeting scheduled for 15 May 2013, at which date the outcome of the transaction will be decided.

Except for the two matters mentioned above, which do not have any financial impact on the 2012 financial results, the directors are not aware of any matter or circumstance which is material to the financial affairs of the company and the group, which has occurred between 31 December 2012 and the date of approval of the annual financial statements, that has not been otherwise dealt with in the consolidated and separate annual financial statements.

Analysis of shareholders[1]

Issued shares: 446 461 759 (2011: 446 461 759)

	Number of shareholders	Percentage of total shareholders	Number of shares	Percentage of total shareholding
2012				
Shareholder spread				
1 – 1 000 shares	1 724	22,28	974 109	0,22
1 001 – 10 000 shares	4 340	56,09	18 242 467	4,09
10 001 – 100 000 shares	1 369	17,69	40 874 714	9,16
100 001 – 1 000 000 shares	240	3,10	77 034 274	17,25
1000 001 shares and over	65	0,84	309 336 195	69,28
Total	7 738	100	446 461 759	100
Public/non-public shareholders				
Non-public shareholders	6	0,08	85 846 957	19,23
Strategic holdings (more than 10%)	1	0,02	82 000 000	18,37
Directors of the company[2]	4	0,05	3 166 957	0,71
CMSA Share Option Trust	1	0,01	680 000	0,15
Public shareholders	7 732	99,92	360 614 802	80,77
Total	7 738	100	446 461 759	100
Beneficial shareholders holding 3% or more				
Sweet Sensation 67 Proprietary Limited			82 000 000	18,37
Government Employees Pension Fund			19 810 353	4,44
Liberty Life Association of Africa Limited			19 374 781	4,34
African Pharma Investments Limited			17 892 857	4,01
JS Pharm Trust			13 821 954	3,10

1 *Representative of shareholders on the share register as at 31 December 2012. (Source: Thompsons Reuters)*

2 *The breakdown of directors' shareholdings can be found within the directors' report, on page 79.*

Share trading statistics
for the years ended 31 December

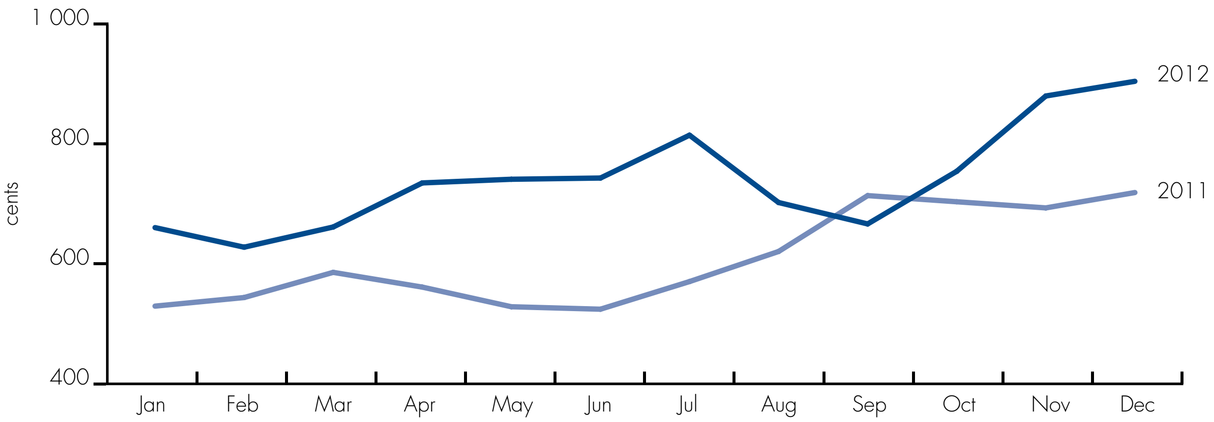
Issued shares: 446 461 759 (2011: 446 461 759)

2012 MONTHLY TRADING STATISTICS	High cents	Low cents	Close cents	Volume of shares	Value R	Number of transactions
January	669	610	659	15 155 343	9 942 629	2 271
February	700	620	627	30 629 649	203 925 941	4 693
March	677	623	660	50 921 148	330 087 703	5 389
April	738	654	732	14 498 384	99 959 820	2 219
May	805	725	738	17 818 359	133 961 209	3 205
June	755	695	740	18 052 147	130 783 495	3 623
July	820	730	810	24 847 095	193 474 518	4 604
August	915	660	700	61 461 873	468 954 092	7 832
September	915	630	665	30 348 476	205 258 839	5 071
October	915	658	751	23 713 645	168 701 692	3 955
November	915	742	874	46 092 013	380 863 494	5 931
December	920	850	898	21 819 663	194 648 326	2 763
				355 357 795	2 520 561 758	51 556

SHARE STATISTICS		2012	2011
High	(cents)	920	800
Low	(cents)	610	500
Year end	(cents)	898	635
Volume of shares traded		355 357 795	173 081 125
Volume as a percentage of the number of shares in issue	(%)	79,59	38,12
Value of shares traded	(R'000)	2 520 562	1 183 130
Number of transactions		51 556	29 018
Earnings yield at year end	(%)	9,0	8,2
Dividend yield at year end (2012 interim dividend annualised)	(%)	1,9	2,2
Price earnings ratio at year end	(times)	24,5	12,1
Market capitalisation at year end net of treasury shares	(R'000)	4 003 120	2 794 143
Market capitalisation to shareholders' equity at year end	(times)	2,0	1,5

(*Source: Computershare Investor Services Proprietary Limited*)

CLOSING SHARE PRICE (CENTS)



Notice of annual general meeting

CIPLA MEDPRO SOUTH AFRICA LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2002/018027/06)
(JSE code: CMP and ISIN: ZAE000128179)
("CMSA" or "the company")

The terms and abbreviations set out on pages 152 and 153 of the integrated annual report apply to this notice of annual general meeting, unless otherwise stated.

Notice is hereby given that the AGM of CMSA will be held at the Cipla Medpro Offices, Boardroom number 1, Belvedere Office Park, Block F, Bella Rosa Street, Bellville, Cape Town at 14h00 on Thursday, 20 June 2013 for the following purposes:

1. ORDINARY RESOLUTION NUMBER 1

Approval of the audited annual financial statements

To receive, consider and adopt the audited annual financial statements of CMSA, including the directors' report, auditors' report and the report of the Audit and Risk Committee, for the financial year ended 31 December 2012. The audited annual financial statements are available on the company's website, www.ciplamedsa.co.za, and can be requested by sending an email to investor@ciplamedpro.co.za or upon request to the Company Secretary by calling +27 (0)31 451 3800.

2. ORDINARY RESOLUTION NUMBER 2

Election of director

During November 2012 the board appointed Mr MW Daly as a director of the company. Mr Daly's appointment, in terms of CMSA's MOI, must be confirmed by shareholders at the first AGM following such appointment by reason of being appointed to the board subsequent to the last AGM. Therefore, Mr Daly, being eligible, offers himself for election.

A brief curriculum vitae of Mr Daly appears on page 22 of this IAR.

"Resolved that Mr MW Daly be and is hereby elected as a director of the company."

3. ORDINARY RESOLUTION NUMBER 3

Re-election of directors

The following directors retire by rotation in terms of CMSA's MOI and, being eligible, offer themselves for re-election, each by way of a separate vote.

A brief curriculum vitae in respect of each director to be re-elected appears on pages 22 and 23 of this IAR.

3.1. "Resolved that Mr PCS Luthuli be and is hereby re-elected as a director of the company."

3.2. "Resolved that Mr MB Caga be and is hereby re-elected as a director of the company."

As special business, to consider, and if deemed fit, to pass, with or without modification the following ordinary and special resolutions.

4. ORDINARY RESOLUTION NUMBER 4

Control of authorised but unissued shares

"Resolved that all of the ordinary shares in the authorised but unissued share capital of CMSA be and are hereby placed under the control and authority of the directors of the company, and that the directors be and are hereby authorised and empowered, subject to the provisions of the the Companies Act, the MOI of CMSA and the JSE Listings Requirements to allot, issue and otherwise dispose of such shares to such person or persons on such terms and conditions and at such times as the directors may from time to time in their discretion deem fit.

This authority is restricted to 5% (five percent) of the ordinary shares in issue as at 31 December 2012 and will remain in place until the next AGM of CMSA's shareholders."

5. ORDINARY RESOLUTION NUMBER 5

Approval to issue shares for cash

"Resolved that the directors of CMSA be and are hereby authorised by way of a general authority, to issue all or any of the authorised but unissued shares in the capital of CMSA for cash, as and when they in their discretion deem fit, subject to the Companies Act, the MOI of CMSA, the JSE Listings Requirements, when applicable, and the following limitations, namely that:

- The equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- Any such issue will be made only to "public shareholders" as defined in the JSE Listings Requirements and not related parties, unless the JSE agrees otherwise;

- The number of shares issued for cash shall not in the aggregate in any one financial year exceed 2,5% (two and a half percent) of CMSA's issued share capital of ordinary shares. The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue, added to those that may be issued in future (arising from the conversion of options/convertibles) at the date of such application, less any ordinary shares issued, or to be issued in future arising from options/convertible ordinary shares issued during the current financial year; plus any ordinary shares to be issued pursuant to a rights issue which has been announced, is irrevocable and is fully underwritten, or an acquisition which has had final terms announced;
- This authority be valid until CMSA's next AGM, provided that it shall not extend beyond 15 (fifteen) months from the date that this authority is given;
- A paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) or more of the number of shares in issue prior to the issue; and
- In determining the price at which an issue of shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed to by the directors of CMSA."

Ordinary resolution number 5 is required, under the JSE Listings Requirements, to be passed by achieving a 75% (seventy-five percent) majority of the votes cast in favour of such resolution by all members present or represented by proxy and entitled to vote at the AGM.

6. ORDINARY RESOLUTION NUMBER 6

Appointment of Audit and Risk Committee

"Resolved that the members of the CMSA Audit and Risk Committee be appointed in accordance with the Companies Act, i.e. the committee should be constituted of three independent non-executive directors. The membership, therefore, as proposed by the board of directors is:

6.1. Ms MT Mosweu (Chairman) – Independent non-executive director;

6.2. Mr SMD Zungu – Independent non-executive director; and

6.3. Ms ND Mokone – Independent non-executive director."

7. ORDINARY RESOLUTION NUMBER 7

Appointment of external auditors

"Resolved, on recommendation of the CMSA Audit and Risk Committee, that KPMG Inc. (with the designated audit partner being Mr I Jeewa) be hereby appointed as the external auditor of CMSA for the ensuing year."

8. ORDINARY RESOLUTION NUMBER 8

Remuneration of external auditors

"Resolved that the CMSA Audit and Risk Committee be and is hereby authorised to determine the remuneration of the company's external auditor and the auditors' terms of engagement."

9. ORDINARY RESOLUTION NUMBER 9

Remuneration policy

"Resolved, through a non-binding advisory vote, that the company's remuneration policy (excluding the remuneration of the non-executive directors and members of board committees for their services as directors and members of committees), as set out on pages 33 to 37 of the IAR, be endorsed."

10. ORDINARY RESOLUTION NUMBER 10

Directors' authorisation

"Resolved that any director or the Company Secretary of CMSA be and is hereby authorised to do all such things and sign all such documents as may be necessary to give effect to the resolutions contained in this notice."

Notice of annual general meeting continued

11. SPECIAL RESOLUTION NUMBER 1

Remuneration of non-executive directors

"Resolved that, in accordance with section 66(8) and (9) of the Companies Act, the remuneration payable to non-executive directors for their services as directors, with effect from 1 July 2013 until the next AGM, be approved on the following basis:"

Type of fee	Proposed fee in ZAR applicable for the period 1 July 2013 until the next AGM R	Approved fee in ZAR applicable for the period 1 August 2012 until 30 June 2013 R	Proposed percentage increase %
Board			
Chairman	68 900*	65 000*	6
Member	39 750#	37 500#	6
Audit and Risk Committee			
Chairman	48 760#	46 000#	6
Member	35 722#	33 700#	6
Remuneration Committee			
Chairman	44 944#	42 400#	6
Member	22 472#	21 200#	6
Nomination Committee			
Chairman	44 944#	42 400#	6
Member	22 472#	21 200#	6
Social, Ethics and Transformation Committee			
Chairman	44 944#	42 400#	6
Member	22 472#	21 200#	6

* *Retainer per month. The Chairman of the board receives a monthly retainer rather than fees for attending committee meetings (refer to pages 36 to 37 of the Remuneration Committee report for further details).*

\# *Fee per meeting.*

12. SPECIAL RESOLUTION NUMBER 2

General authority to provide financial assistance to related or inter-related parties

"Resolved that, subject to compliance with the provisions of the Companies Act and the company's MOI, the company may, 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, provide 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), on such terms and conditions as the board of directors may deem fit, but subject at all times to the board complying with the requirements of the Companies Act."

Reason for and effect of special resolution number 2

The reason and effect for special resolution number 2 is to authorise the board, pursuant to the provisions of section 45 of the Companies Act, and subject to the provisions thereof, to provide 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.

13. SPECIAL RESOLUTION NUMBER 3

General authority to repurchase shares

"Resolved that CMSA and/or any subsidiary of CMSA be and is hereby authorised by way of a general approval contemplated in section 48(2)(b) of the Companies Act, to acquire the issued ordinary shares of CMSA, upon such terms and conditions and in such amounts as the directors of CMSA may from time to time determine, but subject to the MOI of CMSA, the provisions of the Companies Act and the JSE Listings Requirements, where applicable, and provided that:

- The repurchase of securities will be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between CMSA and the counterparty;
- This general authority shall only be valid until CMSA's next AGM, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
- In determining the price at which CMSA's ordinary shares are acquired by CMSA in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% (ten percent) of the weighted average of the market price at which such ordinary shares are traded on the JSE, as determined over the 5 (five) trading days immediately preceding the date of the repurchase of such ordinary shares by CMSA;
- The acquisitions of ordinary shares in the aggregate in any one financial year do not exceed 20% (twenty percent) of CMSA's issued ordinary share capital from the date of the grant of this general authority;
- CMSA and the group are in a position to repay their debt in the ordinary course of business for a period of 12 (twelve) months from CMSA first acquiring securities under this general approval;
- The assets of CMSA and the group, being fairly valued in accordance with IFRS, are in excess of the liabilities of CMSA and the group at the time of CMSA first acquiring securities under this general approval;
- The ordinary capital and reserves of CMSA and the group are adequate for a period of 12 (twelve) months from CMSA first acquiring securities under this general approval;
- The available working capital is adequate to continue the operations of CMSA and the group for a period of 12 (twelve) months from CMSA first acquiring securities under this general approval;
- Prior to entering the market to proceed with the repurchase, CMSA's Sponsor has complied with its responsibilities contained in Schedule 25 of the JSE Listings Requirements;
- CMSA or its subsidiaries will not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE 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 (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period;
- When CMSA has cumulatively repurchased 3% (three percent) of the initial number of the relevant class of securities, and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter, an announcement will be made; and
- CMSA only appoints one agent to effect any repurchase(s) on its behalf."

Reason for and effect of special resolution number 3

The reason and effect for special resolution number 3 is to authorise CMSA and/or its subsidiaries by way of a general authority to acquire its own issued shares on such terms, conditions and such amounts determined from time to time by the directors of CMSA, subject to the limitations set out above.

The directors of CMSA have no specific intention to effect the provisions of special resolution number 3 but will, however, continually review CMSA's position, having regard to prevailing circumstances and market conditions, in considering whether to effect the provisions of special resolution number 3.

Notice of annual general meeting continued

Statement of intent

The directors undertake that, to the extent it is required by the JSE Listings Requirements and the Companies Act, they will not implement any repurchase as contemplated in this special resolution number 3 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 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 group will comply with the provisions of section 46 of the Companies Act and the JSE Listings Requirements in relation to such repurchase.

The JSE Listings Requirements require the following additional disclosures for purposes of this general authority, some of which is set out in the IAR of which this notice forms part:

- Directors: pages 22 and 23;
- Major shareholders of CMSA: page 144;
- Directors' interests in securities: page 79; and
- Share capital of CMSA: page 113.

14. DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names are given on pages 22 and 23 of the IAR, collectively and individually accept full responsibility for the accuracy of the information contained in this notice 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 notice contains all such information as required by the JSE Listings Requirements.

15. LITIGATION STATEMENT

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names are given on pages 22 and 23 of the IAR of which this notice forms part, 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, other than as set out in note 14 on page 117 of the IAR.

16. MATERIAL CHANGE

Other than reported on within the IAR, there have been no material changes in the affairs or financial position of CMSA and its subsidiaries between 31 December 2012 and the date of this notice.

17. 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 AGM by electronic communication, as contemplated in subsection (2); and
- Shareholders and/or their proxies will be able, at their own expense, to access the meeting by means of a teleconference facility, arrangements for which can be made through the office of the Company Secretary.

18. VOTING AND PROXIES

A shareholder entitled to attend and vote at this meeting may appoint a proxy or proxies to attend and speak and, on a poll, vote in his stead. Such proxy need not be a shareholder of CMSA. A proxy form is included in this report and may also be obtained from the transfer secretaries.

The record date for a shareholder to be entitled to attend, participate and vote at the AGM is Friday, 14 June 2013.

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.

The attached form of proxy is only to be completed by those shareholders who are:

- Holding CMSA ordinary shares in certificated form; or
- Are recorded on the electronic sub-register in "own name" dematerialised form.

Shareholders who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker and wish to attend the AGM, must instruct their CSDP or broker to provide them with a Letter of Representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker. Shareholders are reminded that the onus is on them to communicate with their CSDP.

Proxy forms must be lodged with the transfer secretaries, Computershare Investor Services Proprietary Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107) by no later than Tuesday, 18 June 2013.

By order of the board

R Manilall
Company Secretary

Durban
13 May 2013

Terms and abbreviations

AGM	Annual general meeting
AltX	A division of the JSE Limited – an alternative exchange. It is a parallel market focused on good quality, small and medium sized high-growth companies
ARV	Antiretrovirals, used in the treatment of HIV/AIDS
AUD	Australian Dollar
BBBEE	Broad-based black economic empowerment
BEE	Black economic empowerment, as defined in the Broad-based Black Economic Empowerment Act, No 53 of 2003, and which means the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies
CA (SA)	Chartered Accountant (South Africa), designation governed by the Chartered Accountants Designation Act, 1993 (Act 67 of 1993), which regulates and permits the use of the CA (SA) designation exclusively by members of SAICA
CEO	Chief Executive Officer
CFO	Chief Financial Officer
cGMP	Current Good Manufacturing Practice
Cipla India	Cipla Limited (registration number 11-2380), a public company incorporated in India
CME	Continuing medical education
Cipla Medpro	Cipla Medpro Holdings Proprietary Limited (registration number 2000/018468/07), a private company situated in Cape Town and its group of subsidiaries
CMM or Cipla Medpro	The division commonly referred to as ''the factory'' or "the facility" whose manufacturing place of operation is in Mobeni, Durban
CMSA or group or company	Cipla Medpro South Africa Limited (registration number 2002/018027/06), a public company incorporated in accordance with the laws of South Africa, all the ordinary shares of which are listed on the JSE with share code CMP, and its group of subsidiaries (abbreviation not applicable to the form of proxy)
CMSA Share Option Trust	Cipla Medpro South Africa Limited Share Option Trust (trust deed number 865/2005)
CODM	Chief Operating Decision Maker
Companies Act	Companies Act, No 71 of 2008 of South Africa
CSI	Corporate social investment
EBITDA	Earnings before interest, tax, depreciation and amortisation
EHS	Environmental, health and safety
Empowerdex	Empowerdex Proprietary Limited (registration number 2001/027963/07), an economic empowerment rating agency
Enaleni	Enaleni Pharmaceuticals Limited (CMSA's former registered name)
EPS	Earnings per share
EUR	Euro
FEC	Forward exchange contract
GBP	Pound Sterling
GP	Gross profit
HEPS	Headline earnings per share

HR	Human resources
IAR	Integrated Annual Report
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMS	IMS Health is an international company that supplies the pharmaceutical industry with statistical sales data and consulting services
JIBAR	Johannesburg Interbank Agreed Rate
JSE	Johannesburg Stock Exchange
King III	King Code on Governance Principles for South Africa
MOI	Memorandum of Incorporation
MCC	Medicines Control Council of South Africa
NAPM	The National Association of Pharmaceutical Manufacturers (association incorporated under Section 21, registration number 77/02941/08), is a trade association focused on the supply of generic medicines taking into account the environmental needs of the country and its members (CMSA is a member of NAPM).
NHI	National Health Insurance
NPO	Non-profit organisation
NSAIDs	Non-steroidal anti-inflammatory drugs – medications used primarily to treat inflammation, mild to moderate pain, and fever.
OTC	Over-the-counter products, i.e. available without prescription
PAT	Profit for the year
PBT	Profit before income tax
PBIT	Results from operating activities (profit before finance costs and income tax)
Pfizer	Pfizer Limited and Pfizer Laboratories Proprietary Limited
PIC/S	Pharmaceutical Inspection Convention/Pharmaceutical Inspection Cooperation Scheme
Prime or prime rate	Lending rate used as a basis by financial institutions
QC	Quality control
RBSA	Reckitt Benckiser (SA) Proprietary Limited
Risk-free interest rate	Theoretical rate of return of an investment with zero risk
SAICA	South African Institute of Chartered Accountants
SANAS	South African National Accreditation System
SENS	The Stock Exchange News Service provided by the JSE to JSE-listed companies
SEP	Single exit price, the price determined by regulation, at which medicines may be offered for sale on the South African private market
SPE	Special-purpose entity
STC	Secondary taxation on companies
Sweet Sensation	Sweet Sensation 67 Proprietary Limited, registration number 2005/040970/07
UOP	Units of production, a method of depreciation based on use or output of the asset
USD	United States Dollar
ZAR	South African Rand

Notes

Form of proxy

CIPLA MEDPRO SOUTH AFRICA LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2002/018027/06)
(JSE code: CMP and ISIN: ZAE000128179)

For use by certificated shareholders or "own-name" dematerialised shareholders of CMSA, at the AGM of shareholders to be held at the Cipla Medpro Offices, Boardroom number 1, Belvedere Office Park, Block F, Bella Rosa Street, Bellville, Cape Town at 14h00 on Thursday, 20 June 2013.

Dematerialised shareholders holding shares other than with "own-name" registration, must inform their CSDP or broker of their intention to attend the AGM and request their CSDP or broker to issue them with the necessary Letter of Representation to attend the AGM in person and vote or provide their CSDP or broker with their voting instructions should they not wish to attend the AGM in person. These shareholders must not use this form of proxy.

I/We (name/s in block letters)

of

being the holders of shares in the capital of CMSA do hereby appoint (see note):

1. or failing him/her,

2. or failing him/her

3. the Chairman of the AGM,

as my/our proxy to act for me/us at the AGM for purposes of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment thereof; and to abstain from voting for and/or against the resolutions in respect of the shares registered in my/our name in accordance with the following instructions:

		Number of shares		
		For	Against	Abstain
1	Ordinary resolution number 1 – approval of the audited annual financial statements			
2	Ordinary resolution number 2 – election of director:			
	To elect Mr MW Daly as a director by reason of being appointed to the board subsequent to the last AGM			
3	Ordinary resolution number 3 – re-election of directors:			
3.1	To re-elect as a director, Mr PCS Luthuli who is retiring by rotation			
3.2	To re-elect as a director, Mr MB Caga who is retiring by rotation			
4	Ordinary resolution number 4 – control of authorised but unissued shares			
5	Ordinary resolution number 5 – approval to issue shares for cash			
6	Ordinary resolution number 6 – appointment of Audit and Risk Committee:			
6.1	To appoint Ms MT Mosweu as Chairman of the Audit and Risk Committee			
6.2	To appoint Mr SMD Zungu as a member of the Audit and Risk Committee			
6.3	To appoint Ms ND Mokone as a member of the Audit and Risk Committee			
7	Ordinary resolution number 7 – appointment of external auditors			
8	Ordinary resolution number 8 – remuneration of external auditors			
9	Ordinary resolution number 9 – remuneration policy			
10	Ordinary resolution number 10 – directors' authorisation			
11	Special resolution number 1 – remuneration of non-executive directors			
12	Special resolution number 2 – general authority to provide financial assistance to related or inter-related parties			
13	Special resolution number 3 – general authority to repurchase shares			

For the purpose of resolutions now proposed in terms of the JSE Listings Requirements wherein any votes are to be excluded from that resolution, any proxy given by a holder of securities to the holder of such an excluded vote shall be excluded from voting for the purposes of that resolution.

Signed at on 2013

Signature

Assisted by (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of CMSA) to attend, speak and vote in place of that shareholder at the meeting.

Notes to the form of proxy

1. The form of proxy must only be used by certificated shareholders or dematerialised shareholders who hold dematerialised shares in their "own name".

2. Shareholders are reminded that the onus is on them to communicate with their CSDP or broker.

3. A shareholder entitled to attend and vote may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "the Chairman of the AGM". A proxy need not be a shareholder of CMSA. The person whose name stands first on the form of proxy and who is present at the AGM will be entitled to act as proxy to the exclusion of those whose names follow.

4. 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.

5. A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each share held. A shareholder's instructions to the proxy must be indicated by inserting the relevant number of votes exercisable by the shareholder in the appropriate box(es). Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the AGM as he/she deems fit in respect of all the shareholder's votes.

6. A vote given in terms of an instrument of proxy shall be valid in relation to the AGM notwithstanding the death of the person granting it, or the revocation of the proxy, or the transfer of the shares in respect of which the vote is given, unless an intimation in writing of such death, revocation or transfer is received by the transfer secretaries not less than 48 (forty-eight) hours before the commencement of the AGM.

7. If a shareholder does not indicate on this form that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the AGM be proposed, the proxy shall be entitled to vote as he/she thinks fit.

8. The Chairman of the AGM may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.

9. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.

10. Documentary evidence establishing the authority of a person signing the form of proxy in a representative capacity must be attached to this form of proxy, unless previously recorded by CMSA or unless this requirement is waived by the Chairman of the AGM.

11. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian, as applicable, unless the relevant documents establishing his/her capacity are produced or have been registered by CMSA.

12. Where there are joint holders of shares:
    - Any one holder may sign the form of proxy; and
    - The vote(s) of the senior shareholders (for that purpose seniority will be determined by the order in which the names of shareholders appear in CMSA's register of shareholders) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).

13. Forms of proxy should be lodged with or mailed to Computershare Investor Services Proprietary Limited:

    Hand deliveries to:
    Ground Floor, 70 Marshall Street
    Johannesburg, 2001

    Postal deliveries to:
    PO Box 61051
    Marshalltown, 2107

    to be received by no later than Tuesday, 18 June 2013 (or 48 (forty-eight) hours before any adjournment of the AGM which date, if necessary, will be notified in the press).

14. Any alteration or correction made to this form of proxy, other than the deletion of alternatives, must be initialled by the signatory/ies.

Administration

Cipla Medpro South Africa Limited
Registration number: 2002/018027/06
JSE code: CMP
ISIN: ZAE000128179

Company Secretary
R Manilall CA (SA)

Registered office
1474 South Coast Road, Mobeni, Durban, 4052
PO Box 32003, Mobeni, 4060
Tel: +27 31 451 3800
Fax: +27 31 451 3889

Investor relations
investor@ciplamedpro.co.za
www.ciplamedsa.co.za

Whistle-blowing hotline
Hotline (toll-free): 0800 21 21 51

Legal advisors
Norton Rose South Africa (incorporated as Deneys Reitz Inc)
Registration number: 1984/003385/21
3 Pencarrow Crescent, La Lucia Ridge, Durban, 4051
PO Box 5003, Pencarrow Park, 4019

Transfer secretaries
Computershare Investor Services Proprietary Limited
Registration number: 2004/003647/07
Ground Floor, 70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107

Sponsor
Nedbank Capital
Registration number: 1951/000009/06
155 Rivonia Road, Sandown, 2196
PO Box 1144, Johannesburg, 2000

Auditors
KPMG Inc.
MSC House, 8th Floor, 1 Mediterranean Street,
Cape Town 8001

Commercial bankers
Nedbank Limited
ABSA Bank Limited

Shareholders' dairy

AGM	20 June 2013
Interim reporting period	30 June 2013
Interim report	August 2013
Financial year end	31 December 2013

FORWARD-LOOKING STATEMENTS

This integrated annual report contains certain forward-looking statements with respect to the financial condition and results of the operations of Cipla Medpro South Africa Limited that, by their nature, involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. These may relate to future prospects, opportunities and strategies. If one or more of these risks materialise, or should underlying assumptions prove incorrect, actual results may differ from those anticipated. By consequence, all forward-looking statements have not been reviewed or reported on by the group's auditors.