Cipla Medpro
SOUTH AFRICA LTD.

PROVISIONAL REVIEWED CONSOLIDATED RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2008

Fastest growing top 10 pharmaceutical company in South Africa
Continuing operations: Revenue increased 23% to R994,9 million
Continuing operations: Basic EPS increased 17%
Continuing operations: Basic HEPS increased 19%

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December 2008 Reviewed R'000	Year ended 31 December 2007 Audited R'000
Continuing operations			
Revenue		**994 892**	806 234
Cost of sales		**(501 553)**	(392 611)
Gross profit		**493 339**	413 623
Other income		**7 256**	14 864
Selling and distribution expenses		**(164 712)**	(154 179)
Administrative expenses		**(81 267)**	(54 512)
Other expenses		**(27 096)**	(21 099)
Profit before finance costs and income tax		**227 520**	198 697
Net finance costs and finance income		**(34 873)**	(33 666)
Finance costs		**(64 897)**	(54 182)
Finance income		**30 024**	20 516
Share of profit of associate (net of tax)		**–**	317
Profit before income tax		**192 647**	165 348
Income tax expense		**(62 593)**	(58 880)
Profit from continuing operations		**130 054**	106 468
Discontinued operations			
Profit from discontinued operations (net of tax)		**–**	26 348
Profit for the year		**130 054**	132 816
Attributable to:			
Equity holders of the parent		**128 679**	131 841
Minority interest		**1 375**	975
Profit for the year		**130 054**	132 816
Number of shares	('000)		
Weighted average	(basic)	**439 784**	425 603
Weighted average	(diluted)	**439 974**	426 550
Earnings per share			
Total operations			
Basic	(cents)	**29,3**	31,0
Diluted	(cents)	**29,2**	30,9
Continuing operations			
Basic	(cents)	**29,3**	25,0
Diluted	(cents)	**29,2**	24,9
Reconciliation of headline earnings			
Profit attributable to ordinary shareholders		**128 679**	131 841
Adjusted for the after tax effects of:		**(657)**	(26 865)
Loss (gain) on disposal of property, plant and equipment		**148**	(188)
Gain on disposal of intangible assets		**(935)**	(8 236)
Loss (gain) on disposal of discontinued operations		**130**	(24 642)
Excess of assets acquired over purchase price (negative goodwill)		**–**	(74)
Impairment of property, plant and equipment		**–**	5 616
Impairment of intangible assets		**–**	976
Share of profit of associate		**–**	(317)
Headline earnings		**128 022**	104 976
Headline earnings per share			
Total operations			
Basic	(cents)	**29,1**	24,7
Diluted	(cents)	**29,1**	24,6
Continuing operations			
Basic	(cents)	**29,1**	24,5
Diluted	(cents)	**29,1**	24,5

CONSOLIDATED BALANCE SHEET

	31 December 2008 Reviewed R'000	31 December 2007 Audited R'000
ASSETS		
Non-current assets	**1 697 023**	1 491 865
Property, plant and equipment	**287 174**	130 909
Intangible assets	**1 402 745**	1 355 431
Other investments	**4**	328
Deferred tax assets	**7 100**	5 197
Current assets	**458 272**	445 274
Inventories	**190 542**	85 356
Income tax receivable	**1 135**	1 186
Trade and other receivables	**222 839**	156 078
Loans receivable	**3 505**	42 234
Cash and cash equivalents	**40 251**	160 420
Total assets	**2 155 295**	1 937 139
EQUITY AND LIABILITIES		
Attributable to equity holders of the parent	**1 404 284**	1 270 222
Minority interest	**1 640**	152
Total equity	**1 405 924**	1 270 374
Non-current liabilities	**346 818**	448 356
Loans and borrowings	**345 024**	442 678
Deferred tax liabilities	**1 794**	5 678
Current liabilities	**402 553**	218 409
Bank overdraft	**8 542**	771
Loans and borrowings	**1 926**	5 072
Income tax payable	**15 298**	25 126
Trade and other payables	**376 787**	187 440
Total liabilities	**749 371**	666 765
Total equity and liabilities	**2 155 295**	1 937 139

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December 2008 Reviewed R'000	Year ended 31 December 2007 Audited R'000
Cash flows from operating activities	**142 505**	102 423
Cash flows from investing activities	**(170 380)**	(36 247)
Cash flows from financing activities	**(100 065)**	(85 637)
Net decrease in cash and cash equivalents	**(127 940)**	(19 461)
Cash and cash equivalents at beginning of the year	**159 649**	179 110
Cash and cash equivalents at end of the year	**31 709**	159 649

CONDENSED SEGMENTAL REPORT

	Year ended 31 December 2008 Reviewed R'000	Year ended 31 December 2007 Audited R'000
Segment revenue		
Pharmaceutical	**994 892**	806 234
Non-factory	**937 385**	720 974
Factory	**57 507**	85 260
Head office	**–**	–
Consumer and Vitality	**–**	134 507
Total	**994 892**	940 741
Segment results		
Pharmaceutical	**227 520**	198 697
Non-factory	**255 106**	232 094
Factory	**(15 335)**	(18 612)
Head office	**(12 251)**	(14 785)
Consumer and Vitality	**–**	39 383
Total	**227 520**	238 080

The basis of segmentation since the year ended December 2007 has changed, as the chief operating decision-maker reviews the segments on a factory versus non-factory basis. In the previous financial year the business was reviewed by the chief operating decision- maker on a Pharmaceutical versus Consumer and Vitality basis. Towards the end of the previous financial year, the businesses belonging to the Consumer and Vitality segment were sold.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Share premium R'000	Treasury shares R'000	Retained income R'000	**Total R'000**	Minority interest R'000	**Total equity R'000**
	Attributable to equity holders of the parent						
GROUP							
Balance at 1 January 2007	409	890 728	(18 873)	125 557	997 821	(213)	997 608
Total recognised income and expenditure	–	–	–	131 841	131 841	975	132 816
Issue of share capital	34	130 183	–	–	130 217	–	130 217
Share issue expenses	–	(1 615)	–	–	(1 615)	–	(1 615)
Shares issued from share incentive trust	–	–	10 166	–	10 166	–	10 166
IFRS 2 Share-based payments	–	–	–	1 792	1 792	–	1 792
Acquisition of minority interest	–	–	–	–	–	(6)	(6)
Disposal of minority interest	–	–	–	–	–	(604)	(604)
Balance at 31 December 2007	**443**	**1 019 296**	**(8 707)**	**259 190**	**1 270 222**	**152**	**1 270 374**
Total recognised income and expenditure	**–**	**–**	**–**	**128 679**	**128 679**	**1 375**	**130 054**
Issued from share incentive trust	**–**	**–**	**737**	**–**	**737**	**–**	**737**
IFRS 2 Share-based payments	**–**	**–**	**–**	**4 646**	**4 646**	**–**	**4 646**
Acquisition of minority interest	**–**	**–**	**–**	**–**	**–**	**113**	**113**
Balance at 31 December 2008	**443**	**1 019 296**	**(7 970)**	**392 515**	**1 404 284**	**1 640**	**1 405 924**

COMMENTARY

Overview

We are pleased to announce a satisfactory set of annual results for 2008. The year in review saw good progress in both divisions, with the Cipla Medpro business growth continuing to outperform that of the total private market. Growth was recorded across numerous categories, such as neuropsychiatry, asthma, cardiovascular, over the counter (OTC) and animal health.

The upgrade of the factory was mostly completed by year-end and the new MCC-approved plant in Durban now houses one of the continent's most sophisticated pharmaceutical manufacturing facilities.

Financial performance

In spite of limited production in the factory during the year as a result of the upgrade work, the group, driven by the pharmaceutical business of Cipla Medpro Holdings (Pty) Limited, succeeded in producing a solid set of results.

Revenue from continuing operations increased by 23,4% to R994,9 million (2007: R806,2 million). The Cipla Medpro core division grew by 38,8%.

The gross margin achieved for the period is 49,6% (2007: 51,3%). This slight decrease in the margin is attributed to the devaluation of the Rand against the US Dollar in the last quarter of 2008.

Profit before financing costs and income tax (PBIT) for the period is R227,5 million (2007: R198,7 million), an increase of 14,5%. The operating profit includes a loss on exchange rate differences of R21,4 million (2007: R1,5 million).

During the year under review, the total net interest expense was R34,9 million (2007: R33,7 million). The net finance costs have increased due to the movement on the interest rate swaps of R20,7 million when compared to 2007. The finance costs are shown net of finance income of R30,0 million (2007: R20,5 million). Finance income includes swap settlements of R10,6 million (2007: R4,7 million).

The effective taxation rate of the continuing operations for the year is 32,5% (2007: 35,6%) and the reason for the improvement is mainly due to a reduction of notional interest in 2008 and the reduction in the corporate tax rate from 29% to 28%. The primary adjustments to the statutory tax rate are attributable to non-deductible interest of R34,7 million (2007: R38,1 million), IFRS 2 expenses of R4,6 million (2007: R1,8 million) and STC of R3,5 million (2007: R3,9 million). Non-taxable income included a government grant of R1,0 million (2007: Rnil) and dividends received of R2,1 million (2007: R2,9 million).

Profit after tax for the year for continuing operations is R130,1 million (2007: R106,5 million) resulting in basic EPS from continuing operations of 29,3 cents (2007: 25,0 cents), and fully diluted EPS from continuing operations of 29,2 cents (2007: 24,9 cents), an increase of 17,2% and 17,3% respectively. Basic and fully diluted HEPS from continuing operations increased 18,8 % to 29,1 cents (2007: 24,5 cents).

After adjusting for foreign exchange losses, impairment of property, plant and equipment, movement in the stock provision, restructuring costs, the interest rate swap settlements (and the fair value adjustments required, which were significant as a result of the changes in the market conditions when compared to 2007), a normalised EPS for 2008 on the continuing operations would be 34,5 cents (2007: 27,2 cents), an increase of 27%. Normalised HEPS for continuing operations in 2008 would amount to 34,3 cents (2007: 26,7 cents), an increase of 28%. The normalised EPS on the total operations for 2008 would be 34,5 cents (2007: 33,2 cents) which represents an increase of 4%. The normalised HEPS for the total operations would increase by 28% from 26,9 cents to 34,3 cents.

The reconciliation to headline earnings comprises the following amounts, all net of the applicable taxes:

- Gain on disposal of intangibles of R0,9 million (2007: R8,2 million);
- Loss on disposal of discontinued operations of R0,1 million (2007: gain of R24,6 million);
- Loss on disposal of property, plant and equipment of R0,1 million (2007: gain of R0,2 million); and
- 2007 also included impairments of R6,6 million, share of profit of associate of R0,3 million and negative goodwill of R0,1 million.

Interest-bearing borrowings, net of cash on hand, are R315,2 million (2007: R288,1 million). When the effects of cash on hand are excluded, the interest-bearing borrowings have decreased from R448,5 million in 2007 to R355,5 million in 2008. The cash on hand has decreased by R120,2 million due to the requirements of the factory upgrade.

Cash flows generated from operating activities are R142,5 million (2007: R102,4 million), while R170,4 million (2007: R36,2 million) was invested in the group, mainly in the new facility. R100,1 million (2007: R85,6 million) was utilised to reduce debt in the group.

Board of directors

The board is extremely stable and remains unchanged from the previous year with two executive directors, JS Smith (CEO) and C Aucamp (CFO), and five non-executive directors, PCS Luthuli (Chairman), Dr GS Mahlati, MT Mosweu, MB Caga and ND Mokone. Ms Mokone and Mr Caga represent empowerment consortium Sweet Sensations 67 (Pty) Limited which continues to hold an 18,5% shareholding in Cipla Medpro South Africa Limited.

OPERATIONAL REVIEW

Cipla Medpro Holdings (Pty) Limited

This division accounted for 100% of the group's profit for the year, with revenues of R937,6 million and PBIT of R227,0 million.

With its revenues growing at 38,8% and an Evolution Index of 118 (Source: IMS) during 2008, Cipla Medpro again continued to grow faster than the total private market which grew at 12,4%. The growth was attributable to product launches, exclusive access to Indian pharmaceutical giant Cipla India's strong pipeline of products and dossiers, a strong and rapidly expanding OTC product portfolio, listings in mass market retailers, a large sales force and a continued aggressive marketing strategy.

Strong focus was applied to the OTC division which, together with the tender business, accounts for up to 30% of the business' revenues and is not subject to single exit pricing (SEP). The top ten OTC products generated R57 million during 2008. Twenty five new products were launched during the year across all categories – skincare, colds and flu, nutritional supplements, etc and further launches are scheduled for 2009.

In May 2008, the group launched two significant generics – a first to market antidepressant, and a cardiovascular medication. While initial sales were extremely pleasing, the full impact of these product launches will be evident in 2009. By December 2008, the antidepressant, Lexamil, had gained market share of almost 40% and sales up to R75 million per annum are targeted for 2009. The cardiovascular product, Cipla Perindopril 4 mg, and a subsequent first to market 8 mg strength, were launched into a R100 million market and sales of up to R40 million are targeted for 2009. In February 2009, the company released another first to market cardiovascular generic, Clopivas into an existing R60 million market. Sales of R23,5 million are targeted for this year.

The pipeline from Cipla India remains strong, with the benefit of favourable prices and payment terms. The group currently has 155 dossiers awaiting registration, another 37 about to be submitted and a further 46 dossiers ordered from Cipla India for delivery over the next 12 months.

Cipla Vet, (the companion animal veterinary products business) and Cipla Agrimed, (the farming and livestock veterinary products business) both continued their consistent market share gains, with some notable product launches during the year and continuing a strong focus on registrations. Cipla Vet has recently launched the first generic of the world's biggest selling tick and flea product and we anticipate significant market share gains in this category during 2009.

After in-depth industry research and analysis, the new agricultural chemicals division, Cipla Agricare launched recently with a comprehensive range of 21 internationally SGA-certified pesticides. This division aims for between 4 – 6% of the local agrichemicals industry which is valued at over R2 billion annually. With another 12 products expected soon from Cipla India for local trials and registration and a further six ready for registration, it is envisaged that the targeted market share and revenues are attainable within approximately four seasons.

Cipla Medpro Manufacturing (CMM)

As anticipated, this division posted a loss of R15,6 million before interest and taxation due to the major upgrade which is now mostly complete. Following the MCC's approval of the new facility in October 2008, manufacture of certain of the group's own products commenced. This included effervescents, a capability CMM is only one of two in South Africa to offer to third parties.

In addition to the ongoing process of moving some of its own manufacturing requirements into the Durban-based plant, the group is presently negotiating manufacturing contracts with multinationals. Currently operating at 20% capacity, this highly sophisticated plant has an annual output capability of 3,5 billion tablets (with reserve) and is one of the first to offer internationally PIC/S-compliant high volume manufacturing in South Africa. While it may still take some time to see significant revenues being generated by this division, we remain confident that the R225 million investment in the plant, sophisticated equipment, skills, tech transfer and quality systems will prove to be an extremely advantageous investment in light of the MCC's adherence to PIC/S compliance.

Prospects

The group expects to continue increasing market shares across numerous categories, through its existing and planned new products, particularly within the OTC division where African market opportunities are also being explored. New therapeutic classes such as oncology and ophthalmology are being investigated, with Cipla India preparing numerous dossiers for local registration. In addition, in the current economic climate, Cipla's good pricing strategies and extensive product portfolio across a broad range of categories positions the business well to meet the increasing local demand for high quality, affordably priced medicines.

Audit and risk committee

The audit and risk committee functions in accordance with a formal charter approved by the board and meets at least four times a year to discharge its responsibilities. The audit and risk committee is satisfied that the auditor was independent of the group.

Basis of preparation of the reviewed results

The financial information has been prepared in accordance with the recognition and measurement criteria of all applicable statements and interpretations of International Financial Reporting Standards ("IFRS") and is presented in terms of the disclosure requirements set out in IAS 34: Interim Financial Reporting. The accounting policies applied are consistent with those as set out in the annual financial statements for the previous year. Mazars Moores Rowland have reviewed the consolidated provisional financial information for the year ended 31 December 2008, and their unmodified opinion is available for inspection at the group's registered office.

Dividends

Currently all earnings generated by the group are utilised to repay debt, fund the remainder of the factory upgrade and fund growth opportunities.

PCS Luthuli
Chairman
31 March 2009

JS Smith
Chief Executive Officer

CORPORATE INFORMATION

Non-executive directors	PCS Luthuli *(Chairman)*; Dr GS Mahlati; MT Mosweu; MB Caga; ND Mokone
Executive directors	JS Smith *(Chief Executive Officer)*; C Aucamp *(Chief Financial Officer)*
Company secretary	MW Daly
Registration number	2002/018027/06
JSE	CMP
ISIN	ZAE000128179
Registered address	1474 South Coast Road, Mobeni, KwaZulu-Natal, 4052
Postal address	PO Box 32003, Mobeni, 4060
Transfer secretaries	Computershare Investor Services (Proprietary) Limited
Telephone	+27 31 451 3800
Facsimile	+27 31 451 3889
Sponsor	Nedbank Capital
Auditors	Mazars Moores Rowland
Legal advisors	Deneys Reitz Incorporated