Cipla Medpro
SOUTH AFRICA LTD.

PROVISIONAL REVIEWED CONSOLIDATED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2009

HIGHLIGHTS

- **Fourth largest pharmaceutical company by value**
- **Fastest growing pharmaceutical company (EV 116,1)**
- **HEPS up 26% to 36,6 cents**
- **EPS up 24% to 36,3 cents**
- **Normalised HEPS up 30% to 38,9 cents**
- **Group revenue up 27% to R1,262 billion**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December 2009 Reviewed R'000	Year ended 31 December 2008 Audited R'000
Revenue		**1 262 058**	994 892
Gross profit		**620 358**	493 339
Other income		**6 426**	7 256
Other operating expenses		**(365 407)**	(273 075)
Profit before finance costs and income tax		**261 377**	227 520
Finance costs		**(28 227)**	(64 897)
Finance income		**5 354**	30 024
Profit before income tax		**238 504**	192 647
Income tax expense		**(76 418)**	(62 593)
Profit for the year		**162 086**	130 054
Profit attributable to:			
Equity holders of the parent		**159 904**	128 679
Non-controlling interest		**2 182**	1 375
Profit for the year		**162 086**	130 054
Other comprehensive income for the year (net of income tax)		**–**	–
Total comprehensive income for the year		**162 086**	130 054
Total comprehensive income attributable to:			
Equity holders of the parent		**159 904**	128 679
Non-controlling interest		**2 182**	1 375
Total comprehensive income for the year		**162 086**	130 054
Number of shares			
Weighted average (basic)	('000)	**440 111**	439 784
Weighted average (diluted)	('000)	**441 074**	439 974
Earnings per share			
Basic	(cents)	**36,3**	29,3
Diluted	(cents)	**36,3**	29,2
Reconciliation of headline earnings			
Profit attributable to ordinary shareholders		**159 904**	128 679
Adjusted for:		**1 003**	(657)
Loss on disposals of property, plant and equipment		**1 166**	172
Gain on disposals of intangible assets		**–**	(1 087)
Loss on disposals of discontinued operations		**–**	151
Total tax effects of adjustments		**(163)**	107
Headline earnings		**160 907**	128 022
Headline earnings per share			
Basic	(cents)	**36,6**	29,1
Diluted	(cents)	**36,5**	29,1

CONDENSED CONSOLIDATED SEGMENTAL REPORT

	Year ended 31 December 2009 Reviewed R'000	Year ended 31 December 2008 Audited R'000
Segment revenue – external customers		
Non-factory	**1 233 348**	937 385
Factory	**28 710**	57 507
Total	**1 262 058**	994 892
Segment result		
Non-factory	**308 078**	255 106
Factory	**(35 617)**	(15 335)
Head office	**(11 084)**	(12 251)
Total	**261 377**	227 520
Segment assets		
Non-factory	**2 384 367**	2 243 055
Factory	**1 227 670**	1 164 584
Eliminations	**(1 353 124)**	(1 252 344)
Total	**2 258 913**	2 155 295

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

	Year ended 31 December 2009 Reviewed R'000	Year ended 31 December 2008 Audited R'000
Cash flows from operating activities	**10 162**	142 503
Cash flows from investing activities	**(118 574)**	(170 380)
Cash flows from financing activities	**16 560**	(100 063)
Net decrease in cash and cash equivalents	**(91 852)**	(127 940)
Cash and cash equivalents at beginning of the year	**31 709**	159 649
Cash and cash equivalents at end of the year	**(60 143)**	31 709

COMMENTARY

FINANCIAL PERFORMANCE

Cipla Medpro is proud to announce a satisfying set of results for the 2009 financial year. This performance was achieved under trying circumstances given the Adcock bid process and a weak exchange rate in the first half of the year. Despite the above, the Cipla Medpro division achieved the highest Evolution Index (EV) of 116,1 (IMS, December 2009) of the top 30 pharmaceutical companies in South Africa, and passed the R1 billion mark in sales during 2009 – an exciting achievement for the group and another milestone.

The group's headline earnings increased to R160,9 million (2008: R128,0 million), an increase of 25,7%. This translates into an increase of 25,8% to 36,6 cents (2008: 29,1 cents) at the headline earnings per share (HEPS) level, based on 440,1 million (2008: 439,8 million) weighted average number of shares in issue for the 2009 financial year (before the effects of dilution are taken into account).

The reconciliation to headline earnings includes the following amounts, all net of tax:

- loss on the disposal of property, plant and equipment in 2009 of R1,0 million (2008: R0,1 million); and
- 2008 also included a gain on the disposal of intangible assets of R0,9 million and a loss on the disposal of discontinued operations of R0,1 million (2009: nil).

Earnings per share (EPS) improved by 23,9% to 36,3 cents (2008: 29,3 cents). When the pretax costs of R13,6 million incurred due to the Adcock bid process are excluded, and after adjusting for the full effect of the interest rate swaps of R0,6 million (2008: R5,6 million), normalised EPS is up 28,1% to 38,7 cents (2008: 30,2 cents). Normalised HEPS for the year increased 29,7% to 38,9 cents (2008: 30,0 cents).

Revenues grew by 26,9% to R1 262,1 million (2008: R994,9 million). Gross profit increased by 25,7% to R620,4 million (2008: R493,3 million), even though the gross profit margin declined slightly to 49,2% (2008: 49,6%). However there has been an improvement from 46,4% at 30 June 2009 due to the strengthening of the Rand in the second half of 2009, the full effect of the SEP increase and better forward exchange rate hedging. The Cipla Medpro division achieved a gross margin of 50,7% (2008: 52,1% and 30 June 2009: 48,4%).

Profit before financing costs and income tax (PBIT) for the year is R261,4 million (2008: R227,5 million), an increase of 14,9%. The operating profit includes the costs incurred during the Adcock process of R13,6 million (2008: nil) and foreign exchange adjustments of R22,5 million (2008: R21,4 million), inclusive of the revaluation losses on hedging instruments.

The net finance costs decreased to R22,9 million (2008: R34,9 million) mainly due to the movement on interest rate swaps of R5,0 million, a reduction in the preference share interest of R13,7 million and the capitalisation of certain borrowing costs, offset by an increase of R7,4 million in interest on the overdraft facility. Finance income, which includes swap settlements of R1,9 million (2008: R10,6 million), reduced to R5,4 million (2008: R30,0 million) mainly due to interest income on positive bank balances decreasing by R8,6 million when compared to the prior year. Nevertheless, interest cover has improved from 3,5 to 9,3 times.

After an improvement in the effective tax rate to 32,0% (2008: 32,5%), profit after tax for the year of R162,1 million (2008: R130,1 million) was achieved. The main factors resulting in the effective tax rate being higher than the statutory rate are:

- non-deductible preference share interest of R21,0 million (2008: R34,7 million);
- non-deductible IFRS 2 expenses of R6,1 million (2008: R4,6 million); and
- STC of R2,1 million (2008: R3,5 million).

When the effects of cash on hand are excluded, interest-bearing borrowings increased to R417,4 million (2008: R315,2 million). At 31 December 2009 the group was overdrawn to the extent of R60,1 million, compared to a net cash surplus of R31,7 million at 31 December 2008, primarily due to the factory upgrade and working capital requirements. Debtors days have improved to 66 days (2008: 70 days and 30 June 2009: 75 days), while creditors days have stabilised at 174 days (2008: 206 days and 30 June 2009: 187 days). Inventory days have increased marginally to 106 days (2008: 101 days and 30 June 2009: 97 days).

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31 December 2009 Reviewed R'000	31 December 2008 Audited R'000
ASSETS		
Non-current assets	**1 836 288**	1 697 023
Property, plant and equipment	**389 012**	287 174
Intangible assets	**1 428 577**	1 402 745
Other investments	**4**	4
Deferred tax assets	**18 695**	7 100
Current assets	**422 625**	458 272
Inventories	**181 673**	190 542
Income tax receivable	**1 137**	1 135
Trade and other receivables	**230 970**	222 839
Loans receivable	**5 162**	3 505
Cash and cash equivalents	**3 683**	40 251
Total assets	**2 258 913**	2 155 295
EQUITY AND LIABILITIES		
Capital and reserves	**1 576 545**	1 404 284
Non-controlling interest	**3 822**	1 640
Total equity	**1 580 367**	1 405 924
Non-current liabilities	**358 321**	346 818
Loans and borrowings	**348 779**	345 024
Deferred tax liabilities	**9 542**	1 794
Current liabilities	**320 225**	402 553
Bank overdraft	**63 826**	8 542
Loans and borrowings	**8 430**	1 926
Income tax payable	**11 793**	15 298
Trade and other payables	**236 176**	376 787
Total liabilities	**678 546**	749 371
Total equity and liabilities	**2 258 913**	2 155 295

Cash flows generated from operating activities are R10,2 million (2008: R142,5 million). This decrease is mainly due to the decrease in creditors by R140,6 million to a normalised level of R236,2 million (2008: R376,8 million), while R118,6 million (2008: R170,4 million) was invested mainly in the upgraded facility and the acquisition of intangible assets. A net R16,6 million was generated through financing activities (2008: R100,1 million was utilised to settle debt). During the 2009 year, an additional R60,5 million debt was raised through instalment sale agreements and additional facilities, while R50,2 million was utilised to settle a portion of the preference shares.

OPERATIONAL REVIEW

Cipla Medpro Holdings (Pty) Limited (Cipla Medpro)

Accounting for 100% of the group's profits with revenues of R1 233,3 million (2008: R937,4 million) and PBIT of R307,4 million (2008: R254,1 million), 2009 saw positive results for this business despite adverse market conditions. Cipla Medpro retained its standing as the fastest growing pharmaceutical company in South Africa and the fourth largest (IMS, December 2009) by value.

The Total Private Market grew at 13,6% (Rand value) between January and December 2009, while the Cipla Medpro business grew at 31,9% according to IMS, and its Evolution Index was 116,1, the highest of the top 30 pharmaceutical companies. The company's Total Private Market share by Rand value at December 2009 was 4,5% and by Units, 5,9%.

During November 2009, the company achieved year to date sales of R1 billion, another significant milestone in its short life, and was also presented with the Frost & Sullivan "2009 South African Generic Pharmaceuticals Company of the Year" award.

The relationship with Cipla India continues to deliver research and development on newer generics, the launch of first to market patent expired molecules and over the counter (OTC) medicines. Dossiers regularly flow from Cipla India helping to bolster our already significant pipeline of products for the future. A significant collaboration agreement has been concluded with Biomab/Desano of China which will open up the doors to their extensive range of biosimilars, biotechnology and monoclonal antibodies. The top ten Cipla Medpro products by value, some as old as ten years, continue to grow in units, which is very rewarding given our strategy of building brands.

2009 saw a number of significant product launches including:

- Cipla-Oseltamivir, an antiviral influenza medication listed on the World Health Organisation's Prequalified Products list; and
- Ciplatrim, a weight loss medication launched in partnership with leading weight management business, Weigh-Less.

Cipla Medpro will add an oncology division to its already comprehensive medicines portfolio in 2010/2011. Commencing with 20 molecules targeting a host of cancers, including breast, colon and lung, three of the leading causes of cancer-related deaths globally, as well as ovarian and pancreatic cancers, it is likely that Cipla Medpro will boast the most comprehensive and affordable portfolio locally.

In the last quarter of 2009, Cipla Medpro was awarded first-time state tenders for the following products – AlkaFizz, Gastrolyte and Acitop. The company also obtained tenders under the RT297 for the supply of insulin needles and the RT290 oncology tender for the provision of cytoplastin.

While the group was already exporting to Namibia, Botswana, Lesotho and Swaziland, during 2009 the African Trade division commenced obtaining regulatory approvals in various countries, including Kenya, Zambia, Uganda, Nigeria and Ireland. Dossiers have been submitted, key trading partners have been appointed in each country and this division is ready to commence trading as soon as dossiers are registered. This division focuses on the large emerging middle class market looking for high quality, cost effective OTC products, such as Gelacid and AlkaFizz, which are produced in the group's Durban manufacturing facility. These new markets will increase manufacturing demand within the manufacturing facility.

While small contributors to total revenues, the six-year old animal health businesses continued to demonstrate pleasing growth. The Cipla Vet business (targeting the small and companion animal markets) increased its market share across many lines and showed total revenue growth of 24,3%. The Cipla Agrimed division (targeting the livestock and production animal markets) recorded a 51,8% growth in revenue and a number of its brands occupy top ten positions in their categories.

Cipla Agricare, the fledgling agrichemicals business, has not achieved its targets and objectives and came under price pressure during 2009. The Cipla team remains convinced of the opportunities that exist in this market.

Cipla Medpro Manufacturing (Pty) Limited (CMM)

This division posted a loss before interest and tax of R35,6 million (2008: R15,3 million) for the year. The facility is currently producing some of the group's own products – Laxette, Pynmed, AlkaFizz, Gastrolyte, Efavirenz and Abflex (and additional products have been planned for 2010) – and three third-party manufacturing contracts with local and multinational companies were secured during 2009. Initial orders were conservative, however, we are optimistic that volumes will increase as the relationships grow. Additional contract manufacturing negotiations are ongoing and will deliver results.

Manufacturing requirements for products awarded in the state tenders for 2010/2011 will generate approximately R80 million in revenues for this division too. The turnaround strategy for this facility is on track.

BOARD OF DIRECTORS

The board is pleased to announce that JS Smith (CEO) and C Aucamp (CFO) have reaffirmed their commitment to the group by extending their contracts to the end of 2015. Due to a decision to pursue personal interests, non-executive director Dr GS Mahlati tendered his resignation from the board of directors in November 2009. The board extends its appreciation to Dr Mahlati for his contribution to the group. The remainder of the board remains stable and dedicated to the group. In line with its commitment to good corporate governance, the board has appointed Mr Sandile Zungu and Mr Johan du Preez as independent non-executive directors.

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 during the 2009 financial year.

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), is presented in terms of the disclosure requirements as set out in IAS 34 Interim Financial Reporting and is in accordance with the Companies Act of South Africa. 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 2009, 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 and fund growth opportunities.

PCS Luthuli
Chairman

JS Smith
Chief Executive Officer

18 March 2010
Durban

CORPORATE INFORMATION

Non-executive directors	PCS Luthuli *(Chairman)*; JvD du Preez*; MT Mosweu; MB Caga; ND Mokone; SMD Zungu* *appointed 16 March 2010
Executive directors	JS Smith *(Chief Executive Officer)*; C Aucamp *(Chief Financial Officer)*
Company secretary	MW Daly
Registration number	2002/018027/06
JSE code	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
Website	www.ciplamedsa.co.za

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						
	Share capital R'000	Share premium R'000	Treasury shares R'000	Retained income R'000	Total R'000	Non-controlling interest R'000	Total equity R'000
Balance at 1 January 2008	443	1 019 296	(8 707)	259 190	1 270 222	152	1 270 374
Total comprehensive income for the year	–	–	–	128 679	128 679	1 375	130 054
Shares issued from the Share Option Trust	–	–	737	–	737	–	737
IFRS 2 Share-based Payments	–	–	–	4 646	4 646	–	4 646
Acquisition of non-controlling interest	–	–	–	–	–	113	113
Balance at 1 January 2009	**443**	**1 019 296**	**(7 970)**	**392 515**	**1 404 284**	**1 640**	**1 405 924**
Total comprehensive income for the year	**–**	**–**	**–**	**159 904**	**159 904**	**2 182**	**162 086**
Issue of share capital	**7**	**21 654**	**–**	**–**	**21 661**	**–**	**21 661**
Share issue expenses	**–**	**(26)**	**–**	**–**	**(26)**	**–**	**(26)**
Shares issued from the Share Option Trust	**–**	**–**	**6 327**	**–**	**6 327**	**–**	**6 327**
Shares acquired by the Share Option Trust	**–**	**–**	**(21 661)**	**–**	**(21 661)**	**–**	**(21 661)**
IFRS 2 Share-based Payments	**–**	**–**	**–**	**6 056**	**6 056**	**–**	**6 056**
Balance at 31 December 2009	**450**	**1 040 924**	**(23 304)**	**558 475**	**1 576 545**	**3 822**	**1 580 367**

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