2012

Cipla Medpro
SOUTH AFRICA LTD.

REVIEWED, CONDENSED, PROVISIONAL, CONSOLIDATED ANNUAL RESULTS

for the year ended 31 December 2012

- Cipla India FIA to acquire 100% of CMSA for approximately R4,5 billion
- Revenue of R2,297 billion – increased by 30%
- 3rd largest, and fastest growing of the top 10 pharmaceutical companies in SA, by value
- HEPS of 37,6 cents and EPS of 36,6 cents – decreased by 32% and 30% respectively compared to the restated results
- Normalised HEPS and EPS of 46,8 cents – remained flat compared to the restated results
- 24% of ARV tender won by the CMSA group (R1,448 billion (including VAT))

CONDENSED PROVISIONAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Reviewed 31 December 2012 R'000	Restated 31 December 2011 R'000	Restated 31 December 2010 R'000
ASSETS			
Non-current assets	**1 920 769**	1 925 787	1 833 442
Property, plant and equipment	**427 811**	444 457	420 125
Intangible assets	**1 397 749**	1 390 057	1 371 197
Other investments	**12**	8	6
Loans receivable	**1 596**	3 191	–
Deferred tax assets	**93 601**	88 074	42 114
Current assets	**1 092 157**	850 750	668 000
Inventory	**433 869**	389 253	289 661
Income tax receivable	**38 273**	1 312	742
Trade and other receivables	**518 254**	439 811	323 440
Loans receivable	**4 424**	3 881	7 709
Cash and cash equivalents	**97 337**	16 493	46 448
Total assets	**3 012 926**	2 776 537	2 501 442
EQUITY AND LIABILITIES			
Capital and reserves	**1 948 369**	1 830 937	1 702 319
Non-controlling interest	**17 789**	12 544	7 472
Total equity	**1 966 158**	1 843 481	1 709 791
Non-current liabilities	**302 042**	325 344	314 428
Loans and borrowings	**268 003**	282 722	314 428
Provisions	**16 765**	42 622	–
Deferred tax liabilities	**17 274**	–	–
Current liabilities	**744 726**	607 712	477 223
Trade and other payables	**615 611**	431 683	381 521
Loans and borrowings	**18 692**	21 976	17 354
Provisions	**44 282**	30 000	–
Income tax payable	**195**	1 7 090	7 052
Bank overdrafts	**65 946**	106 963	71 296
Total liabilities	**1 046 768**	933 056	791 651
Total equity and liabilities	**3 012 926**	2 776 537	2 501 442

CONDENSED PROVISIONAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Reviewed Year ended 31 December 2012 R'000	Restated Year ended 31 December 2011 R'000
Revenue	**2 297 224**	1 767 561
Gross profit	**1 142 936**	1 029 862
Other income	**15 422**	121 264
Other operating expenses	**(831 814)**	(766 818)
Profit before finance costs and income tax	**326 544**	384 308
Finance income	**4 380**	15 586
Finance costs	**(78 814)**	(58 212)
Profit before income tax	**252 110**	341 682
Income tax expense	**(83 746)**	(102 768)
Profit for the year	**168 364**	238 914
Profit attributable to:		
Equity holders of the parent	**161 369**	233 888
Non-controlling interest	**6 995**	5 026
Profit for the year	**168 364**	238 914
Other comprehensive income for the year (net of income tax)	**–**	–
Total comprehensive income for the year	**168 364**	238 914
Total comprehensive income attributable to:		
Equity holders of the parent	**161 369**	233 888
Non-controlling interest	**6 995**	5 026
Total comprehensive income for the year	**168 364**	238 914
Number of shares ('000)		
In issue (including treasury shares)	**446 462**	446 462
Weighted average (excluding treasury shares)		
Basic	**441 078**	446 945
Diluted	**443 292**	449 264
Earnings per share (cents)		
Basic	**36,6**	52,3
Diluted	**36,4**	52,1

RECONCILIATION OF HEADLINE EARNINGS

	Reviewed Year ended 31 December 2012 R'000	Restated Year ended 31 December 2011 R'000
Profit attributable to equity holders of the parent	**161 369**	233 888
Adjusted for:	**4 653**	13 278
Gain on disposals of property, plant and equipment	**(2)**	(72)
Loss on disposal of joint venture	**–**	385
Impairment of intangible assets	**5 426**	18 142
Total tax effects of adjustments	**(771)**	(5 177)
Headline earnings	**166 022**	247 166
Headline earnings per share (cents)		
Basic	**37,6**	55,3
Diluted	**37,5**	55,0

CONDENSED PROVISIONAL CONSOLIDATED STATEMENT OF CASH FLOWS

	Reviewed Year ended 31 December 2012 R'000	Restated Year ended 31 December 2011 R'000
Cash flows from operating activities	**163 110**	112 008
Cash flows from investing activities	**(47 673)**	(107 021)
Cash flows from financing activities	**6 424**	(70 609)
Net increase (decrease) in cash and cash equivalents	**121 861**	(65 622)
Cash and cash equivalents at beginning of the year	**(90 470)**	(24 848)
Cash and cash equivalents at end of the year	**31 391**	(90 470)

CONDENSED PROVISIONAL CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reviewed Year ended 31 December 2012 R'000	Restated Year ended 31 December 2011 R'000
Total equity at beginning of the year	**1 843 481**	1 709 791
Total comprehensive income for the year	**168 364**	238 914
Share buy-back	**–**	(49 983)
Shares issued from the CMSA Share Option Trust	**24 769**	–
IFRS 2 Share-based Payments	**2 729**	1 455
Changes in ownership interest	**–**	1 407
Dividends paid	**(73 185)**	(58 103)
Total equity at end of the year	**1 966 158**	1 843 481
Comprising:		
Capital and reserves	**1 948 369**	1 830 937
Non-controlling interest	**17 789**	12 544
Total equity	**1 966 158**	1 843 481

CONDENSED PROVISIONAL CONSOLIDATED SEGMENTAL REPORT

	Reviewed Year ended 31 December 2012 R'000	Restated Year ended 31 December 2011 R'000
Segment revenue – external customers		
SEP	**1 729 994**	1 258 717
OTC	**410 680**	391 955
Other operating segments	**156 550**	116 889
Total	**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)
Total	**326 544**	384 308

* *The unallocated item relates to the RBSA settlement.*

OVERVIEW

- Cipla Limited (Cipla India) firm intention announcement (FIA) of 100% of Cipla Medpro South Africa Limited's (CMSA) share capital, at R10,00 per share, announced on 28 February 2013. The circular to shareholders is targeted for posting on or about 28 March 2013 and the Scheme meeting of shareholders to consider and approve the transaction is planned for 30 April 2013.
- Revenue continues to grow at a pleasing rate despite all the distractions of 2012. This is a testament to the commitment and dedication of our exceptional sales force, assisted by the various key support functions across our business.
- Single exit price (SEP) increase of only 2,1% granted during the 2012 year – an increase for 2013 of 5,8% effective from March 2013.
- Delays experienced at the Medicines Control Council (MCC) with the registration of new molecules continue to hamper our ability to launch new products.
- Gross margins come under pressure as a result of the change in product mix and impact of the exchange rate.
- Incorrect application of our accounting policy on intangible assets in the past resulted in an annual amortisation charge and impairments in 2012 as well as a prior period restatement relating to historic amortisation charges and impairments of certain intangible assets.
- Chief Executive Officer (CEO) suspended in August 2012 and then subsequently resigned in October 2012. Chief Financial Officer (CFO) resigned in November 2012.
- Unauthorised bonuses paid to the former CEO and CFO were repaid in 2012 and are recorded in other income.
- KPMG Inc. appointed as the independent external auditors.

REVIEW OF OPERATIONS

We present our results for the year ended 31 December 2012 after 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 and Budeflam (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.

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 Health)* and in the 70%'s in some European markets *(European Generics Association and IMS Health))*. 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 Holdings Proprietary Limited (Cipla Medpro), a wholly owned subsidiary of CMSA, has continued to grow on the back of a strong sales and marketing team, reliable supply and excellent channel relationships. The total pharmaceutical market grew by 7,1% in Rand value, whilst Cipla Medpro posted a growth of 15,3% with an evolution index of 107,7; the highest of the top 10 pharmaceutical companies in South Africa *(IMS, December 2012).*

Our overall market share has held steady at 5,2% and we are now entrenched as the third largest pharmaceutical manufacturer by value *(IMS, December 2012).* 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 making inroads and will, in addition, this year launch a number of other previously registered products. The broad portfolios and our competitive pricing will stand us in good stead for the next tender cycle.

We are pleased with the improved performance of our tender division which bodes well for us going into the future, especially in light of the proposed National Health Insurance (NHI). In real terms, in 2012 we delivered 131 stock keeping units (SKUs) to the state (2011: 108), shipped 24,9 million units (2011: 14,3 million) – an increase of 74,1%, 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 R692,7 million excluding VAT (2011: R372,4 million). Significant gains were made in the antiretroviral (ARV) tender, wherein for some product lines we delivered more than two times the awarded tender volumes. We are particularly pleased that the tender unit was able to grow sales from buy-out opportunities more than three-fold. We were once again awarded the respiratory tender and rounded off 2012 with the award of a significant portion of the ARV tender from government worth a combined value of approximately R1,448 billion (including VAT) for a two-year period that commenced on 1 January 2013. This is a major achievement for CMSA and an improvement from the previous ARV tender in which our award was valued at R633 million (including VAT) from 2010 to 2012. The company's portion now represents 24% of the total tender award. As per Government's estimates included in the tender documents, our ARV tender combined with the previously awarded respiratory tender could result in our tender business with the State exceeding R2 billion over the next two years. A material portion of these products will be manufactured at our manufacturing facility (CMM) based in Durban.

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. We are committed to continuously improve our efficiencies and drive cost containment initiatives while we invest in new equipment and technology at our manufacturing facility to meet the evolving good manufacturing practices and volume requirements of our valued clients.

REVIEW OF RESULTS

Subsequent to the release of our 2011 annual results on SENS on 15 March 2012 and before finalisation of our 2011 Integrated Annual Report, the 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 in this advert, and the base used for the analysis in the commentary, 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 stock 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 stock.

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 non-recurring settlement income in 2011 of R68,8 million (2012: Rnil), the gains on the mark to market valuation of forward exchange contracts (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 disposal 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.

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 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).

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

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 gross profit (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%).

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 operating 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 past six months 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.

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 Pharmaceuticals Limited) acquired 100% of the share capital of Cipla Medpro in December 2005; and
- reassessment of the useful lives.

The useful lives can be summarised as follows:

	Useful life	Period
Dossiers	Indefinite and finite	Finite: 2 to 56 years
Trademarks and registrations	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	101 597
Impairment	**5 426**	18 142	4 055

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 (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:		**31 December 2012**	Restated 31 December 2011
Debtors days*	(days)	**60**	64
Inventory days	(days)	**130**	168
Creditors days*	(days)	**133**	165
Gearing/debt : equity ratio	(%)	**13,0**	21,4
Current ratio	(times)	**1,5**	1,4
Solvency ratio	(times)	**2,9**	3,0

* *This excludes the VAT receivable and payable*

BASIS OF PREPARATION

These condensed financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the interpretations adopted by the International Accounting Standards Board, South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and include disclosure as required by IAS 34 Interim Financial Reporting and the Companies Act of South Africa.

The financial statements have been prepared using accounting policies that comply with IFRS and which are consistent with those applied in the preparation of the financial statements for the year ended 31 December 2011, except for the incorrect application of the accounting policy relating to intangible assets as mentioned above.

The condensed consolidated financial statements for the year ended 31 December 2012, have been reviewed by the group's external auditors and their unqualified opinion is available for inspection at the company's registered office.

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

DIRECTORATE

The following changes have been made to the board:

- former CEO, JS Smith, was suspended in August 2012 and then resigned in October 2012;
- former independent, non-executive board member, JvD du Preez was appointed as acting CEO in August 2012;
- former CFO, C Aucamp, resigned in November 2012; and
- MW Daly, former Company Secretary and Financial Director of CMM, was appointed as CFO in November 2012.

The board continues to function in accordance with its approved charter. R Manilall was appointed as Company Secretary in December 2012.

SUBSEQUENT EVENTS

During February 2013, as mentioned above, Cipla India made a firm intention offer for the acquisition of 100% of the share capital of CMSA. This did not impact the group's results for the year ended 31 December 2012.

Other than the event referred to above, the directors are not aware of any other matter or circumstance which is material to the financial affairs of the group, which has occurred subsequent to 31 December 2012, that has not been otherwise dealt with in the consolidated financial results.

PCS Luthuli
Chairman

JvD du Preez
Acting Chief Executive Officer

19 March 2013

FORWARD-LOOKING STATEMENTS

This announcement 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.

CORPORATE INFORMATION

Non-executive directors
PCS Luthuli *(Chairman)*; MB Caga; ND Mokone; MT Mosweu; SMD Zungu

Executive directors
JvD du Preez *(Acting Chief Executive Officer)*; MW Daly *(Chief Financial Officer)*

Company secretary R Manilall

Registration number 2002/018027/06

JSE code CMP

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Sponsor Nedbank Capital

External auditors KPMG Inc.

Legal advisors Norton Rose South Africa (incorporated as Deneys Reitz Inc.)