

**ANNUAL REPORT 2010**



**Vision**

To heal South Africa and to become the biggest and the most admired pharmaceutical company in South Africa.

**Mission**

Cipla commits itself to endeavour to satisfy our customers' needs in every manner possible: through excellent service, by developing and marketing an effective, safe and quality product and by offering our product at a price affordable to all patients. We further commit ourselves to contributing to continued medical education and research into new drug delivery systems in the belief that this contribution will improve technical know-how and ultimately benefit all patients in South Africa.

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. It is our wish that we be recognised as innovators in the field of pharmaceutical marketing rather than just followers, be the investors' pick and achieve sustainable, above average returns for the investor. It is our dream that through our policy of dedication and commitment we will create an environment whereby Cipla will come to be recognised as the preferred partner in medicine.

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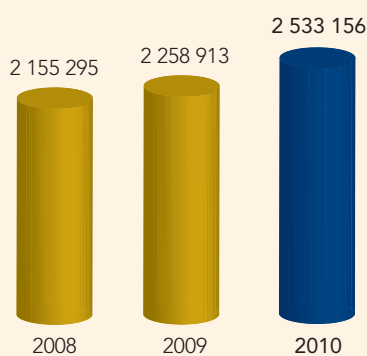




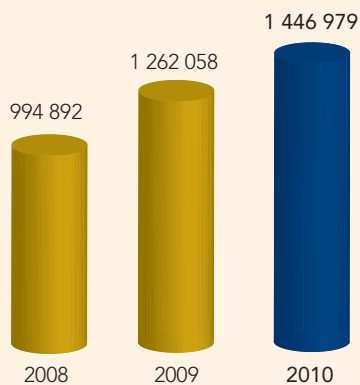
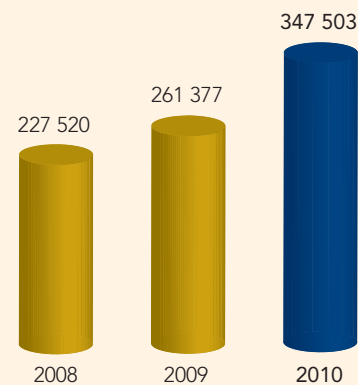
## Group financial highlights

		2008 R'000	2009 R'000	2010 R'000
Revenue	(R'000)	994 892	1 262 058	1 446 979
Gross profit margin	(%)	49,6	49,2	62,1
Profit before finance costs and income tax	(R'000)	227 520	261 377	347 503
Operating profit margin	(%)	22,9	20,7	24,0
Profit before income tax	(R'000)	192 647	238 504	289 748
Profit for the year	(R'000)	130 054	162 086	199 303
Total assets	(R'000)	2 155 295	2 258 913	2 533 156
Total liabilities	(R'000)	749 371	678 546	748 288
Inventory days		101	106	157
Debtors days		70	66	63
Creditors days		206	174	186
Current ratio	(times)	1,1	1,3	1,4
Gearing ratio	(%)	22,4	26,3	19,8
Solvency ratio	(times)	2,9	3,3	3,4
Interest cover	(times)	3,5	9,3	5,7
Earnings per share	(cents)	29,3	36,3	44,2
Headline earnings per share	(cents)	29,1	36,6	44,2
Employee head count		585	592	611

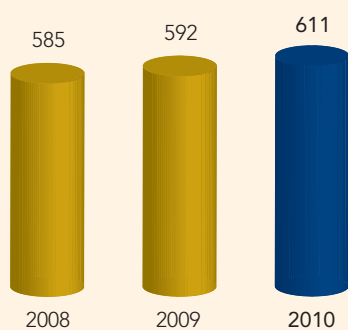
Total assets (R'000)



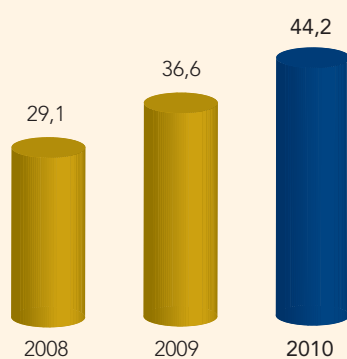
Revenue (R'000)

Profit before finance costs and  
income tax (R'000)

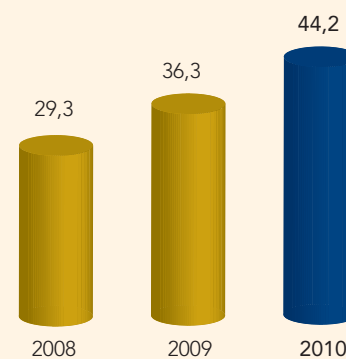
Employee head count



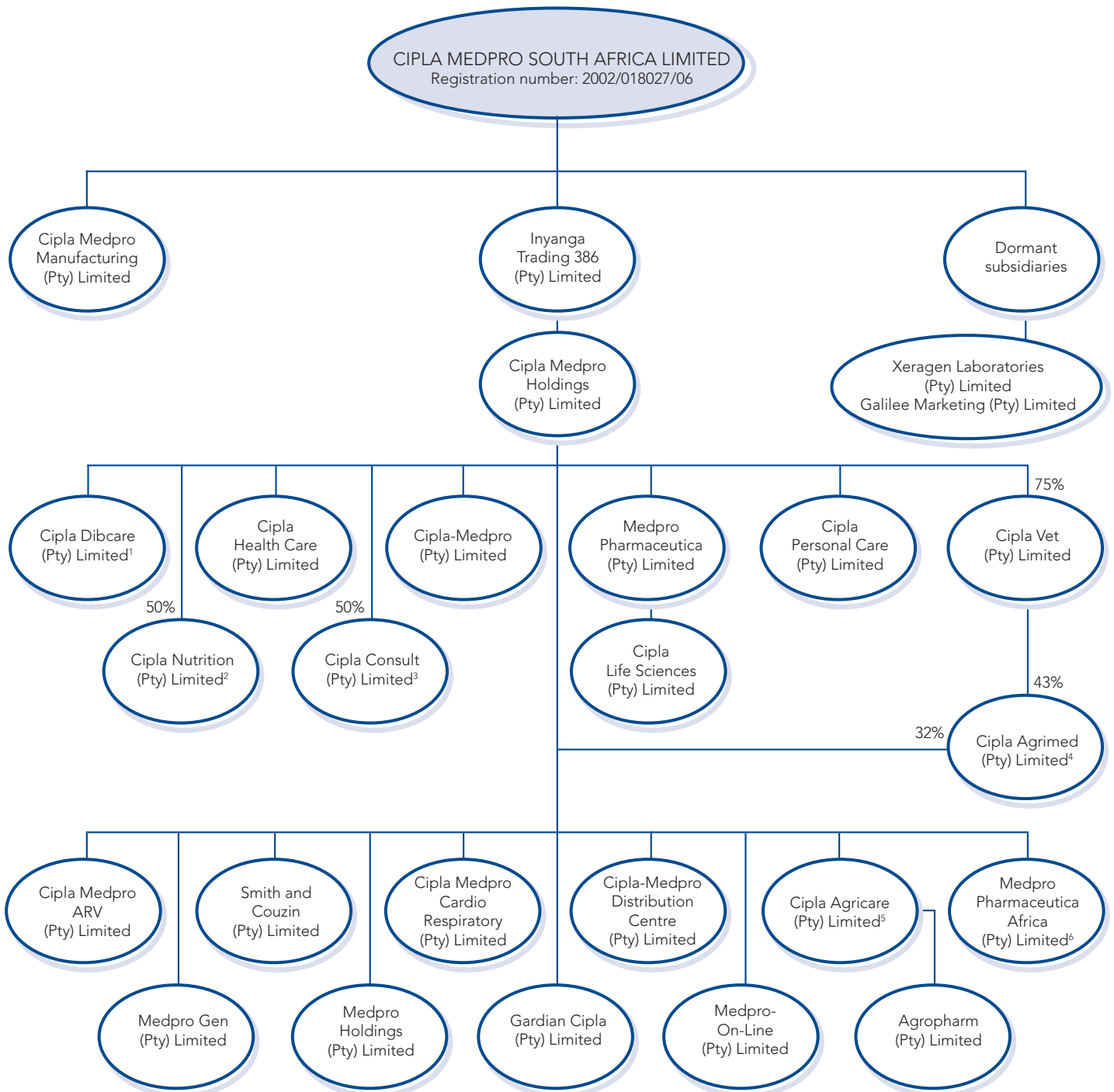
Headline earnings per share (cents)



Earnings per share (cents)



# Group structure



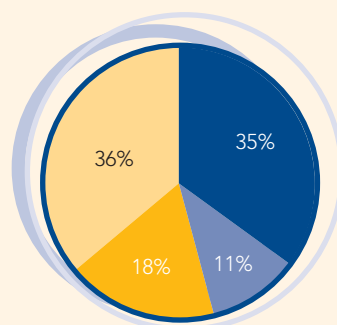
During the year, Cipla Medpro Holdings (Pty) Limited made the following acquisitions:

- 1 Acquired the remaining 33% of Cipla Dibcare (Pty) Limited on 26 October 2010.
- 2 Acquired 50% of Cipla Nutrition (Pty) Limited, a jointly controlled entity, on 1 March 2010.
- 3 Acquired 50% of Cipla Consult (Pty) Limited, a jointly controlled entity, on 16 April 2010.
- 4 The non-controlling interest in Cipla Agrimed (Pty) Limited increased to 35,75% (2009: 24,75%) after options exercised.
- 5 Acquired the remaining 50% of Cipla Agricare (Pty) Limited on 3 June 2010.
- 6 Acquired the remaining 50% of Medpro Pharmaceutica Africa (Pty) Limited on 3 June 2010.

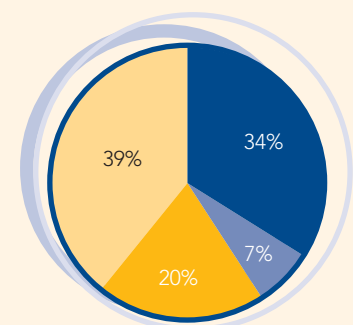
## Value added statement for the years ended 31 December

	Note	GROUP 2010 R'000	GROUP 2009 R'000
Revenue		1 446 979	1 262 058
Other operating income		6 614	6 426
Less: purchased materials and services		(882 525)	(849 395)
<b>Value added from operations</b>		<b>571 068</b>	<b>419 089</b>
Finance income		2 830	5 354
<b>Total value created</b>		<b>573 898</b>	<b>424 443</b>
<b>Value distribution</b>			
Employees (including directors)		200 821	143 342
Providers of capital		64 485	30 409
Finance costs		60 585	28 227
Non-controlling interests		3 900	2 182
Monetary exchanges with government	1	101 286	83 355
Reinvested in the group		207 306	167 337
Depreciation and recurring amortisation		18 628	11 280
Deferred taxation		(6 725)	(3 847)
Retained in the group		195 403	159 904
<b>Total value distribution</b>		<b>573 898</b>	<b>424 443</b>
<b>Value added statistics</b>			
Number of full-time employees at year end		611	592
Revenue per employee		2 368	2 132
Value added per employee		935	708
Value created per employee		939	717
Note:			
<b>1. Monetary exchanges with government</b>			
Current taxes (including STC)		97 170	80 265
Customs and excise duties		4 116	3 090
<b>Gross contribution to central and local governments</b>		<b>101 286</b>	<b>83 355</b>
<b>Additional collections on behalf of government</b>			
Employees' taxes		53 378	39 026
Net value added tax paid		50 532	42 351
		103 910	81 377

Value distribution 2010



Value distribution 2009



● Employees ● Capital providers  
● Government ● Retained for growth

## Chairman's report



Sbu Luthuli

**Official commissioning of the Durban facility by President Jacob Zuma**

**A-rating from Empowerdex**

**15% of ARV tender secured**

**Final dividend of six cents per share**

On 22 September 2010 the Honourable President of the Republic of South Africa, Jacob Zuma, officially opened our state-of-the-art pharmaceutical manufacturing facility in Durban, which at present is 100% owned by Cipla Medpro South Africa Limited (CMSA).

The Cipla Medpro Manufacturing (CMM) division houses the company's Durban-based Medicines Control Council (MCC) -approved manufacturing facility – one of the largest pharmaceutical manufacturing plants of its kind in South Africa. CMM, which recently invested R341 million in upgrading the plant to international Pharmaceutical Inspection Co-operation Scheme (PIC/S) standards, offers high volume contract manufacturing solutions in line with current Good Manufacturing Practice (cGMP) and PIC/S standards to both large local and multinational pharmaceutical companies, including select lines of the group's own products.

In recognition of the important role played by education in the development of the country, the group made, simultaneously with the commissioning of its new manufacturing plant, a R1,5 million donation to the Jacob Zuma RDP Educational Trust, payable over the next three years. In accordance with the wishes of CMSA, the educational grant will be used primarily for post-matric studies in the engineering, medicine and pharmaceutical fields.

This donation was made to the Jacob Zuma RDP Educational Trust in acknowledgement of the important role that tertiary technical education in the fields of science, medicine and engineering plays in the development of our country. A core principal of CMSA is a belief that affordable healthcare is a right for all South Africans, not a privilege. To this end, we are firmly committed to providing world class, yet affordable medicines to all.

CMSA has a long-standing relationship with Cipla India Limited (Cipla India), the largest stand-alone generic company in the world and number one pharmaceutical company in India by value, which enables it access to Cipla India's impressive pipeline of products.

The company is in the process of finalising a transaction in terms of which Cipla India will eventually acquire a 25% stake in CMM. Once the transaction has been concluded, Cipla India will be in the position to drive additional volumes through CMM's manufacturing facility as well as assist the company in achieving the much sought after United Nations public health arm World Health Organisation (WHO) status and Food and Drug Administration (FDA) manufacturing approvals. This will give the manufacturing facility greater scope to export product into Africa.

### **Black economic empowerment (BEE) rating**

The group has achieved an A-rating from South African National Accreditation System (SANAS) -approved Empowerdex, an improvement from our last rating of BBB, thereby solidifying the group as a "Level 4" contributor to broad-based black economic empowerment (BBBEE) in the country. Although this is satisfactory, we are in the process of setting realistic targets in order to improve on our next scorecard.

### **Antiretrovirals (ARV) tender**

The group was very proud to announce the results of the ARV tender RT71-2010, which was released by the National Treasury in December 2010. We were awarded a meaningful share of the tender, namely 15%, which will materialise into at least R633 million (including VAT) of business over the next two years. A large portion of this will be manufactured at CMM, resulting in much needed volumes for the facility.

We believe competitive pricing and our high quality local manufacturing facility was a determining factor in us being awarded 15% of the tender. We aim to live up to our vision and are poised to be a significantly greater provider of low cost, effective, quality medicines in the growing generics market, aiding in the effective and ongoing treatment of human ailments.

### CMSA board

I extend my thanks and appreciation to Jerome and my fellow board members with whom I have had the pleasure to serve our company during 2010. We were joined by Sandile Zungu and Johan du Preez in March 2010 and we have enjoyed the experience and knowledge they have brought to our board. Besides these two new appointments our board has remained stable and continues to work well with the executive.

### Dividends

In closing, I am pleased to announce that the board has declared our second dividend, which is payable in May 2011. The interim dividend of five cents per share was declared based upon the results of the six-month period ended 30 June 2010, and the final dividend of six cents per share, payable in relation to the year ended 31 December 2010, is scheduled to be paid on 16 May 2011, bringing our total dividend related to the 2010 financial year to 11 cents per share.

The board has chosen to adopt a dividend cover policy of four to five times, rather than the originally publicised dividend yield.



**Sbu Luthuli**  
Chairman



## Chief Executive Officer's report



Jerome Smith

**Group revenue up 15% to R1,447 billion**

**EV of 108,0 (Rands) – fastest growing of the top 10 pharmaceutical companies**

**Launch Oncology range in 2011**

It gives me pleasure to present the 2010 annual results. The results demonstrate once again that our strategy is sound, our business is growing – faster than the market still, and that we are well positioned to compete for the future. Indeed we enter into 2011 buoyed by the excellent tender performance, wherein we have won a portion – equivalent to R633 million – of the recently awarded R4,3 billion ARV tender. We are also hopeful that we will launch yet more exciting products on the South African market this year, and as usual, we will deliver a quality product at an affordable price; and pass on significant savings to payers and patients.

In 2010, Cipla Medpro Holdings (Pty) Limited (Cipla Medpro) once again delivered the goods, accounting for 100% of the group's profits with revenues for the year of R1,418 billion (group: R1,447 billion) and profit before finance costs and income tax of R380,7 million (group: R347,5 million). As with 2009, this division continued to grow faster than the total private market (TPM) with an Evolution Index (EV) of 108,0 for the year. At the end of December 2010, Cipla Medpro had maintained its ranking as the fourth largest pharmaceutical company by value. Naturally, we have our sights set on third place by the end of 2011. IMS December 2010 placed us third by value for the month and we believe we are on track to deliver on our vision – to become the biggest and most admired pharmaceutical company in South Africa.

Certainly this is true of our partners Cipla India: The most intensive study on brand trust recently undertaken by Trust Research Advisory & Publisher generated nearly 10 million data points. The survey covered 16 000 brands and the 2 310 respondents voted Cipla India the most trusted and admired pharmaceutical company in India.

Despite a fairly pleasing set of results, it could have been better. The legislated annual price increases were delayed by a few months, and there were also unforeseen delays with registrations, which in turn delayed the launch of two first-to-market generics that we believe will contribute significantly to our earnings going into the future. These two molecules are Didivir, a dual combination fixed drug combination for treating HIV/AIDS, and Sereflo, a combination product for the treatment of asthma.

During the year under review, we have continued to remain true to our focus – we aim always to register, launch and commercialise a quality product at an affordable price, across the various therapeutic categories. We have also stuck to our diversification strategy and have grown our over-the-counter (OTC) product range significantly, whilst our animal health businesses continue to grow. The success of this diversification strategy will become more apparent in the coming months and years as we launch our Oncology range, and in the medium to long term, when we move into Biosimilars or subsequent-entry biologics. Our efforts to expand geographically are taking shape, and we are making progress in our efforts to enter other markets.

The global generics industry continues to grow and South Africa is no different. At the end of 2010, the local generic medicines unit market share was just over 58%. This is still quite low compared to some markets in the west, wherein generic usage is north of 70%. We are hopeful that we will continue to see more growth, no doubt fuelled firstly by the increasing recognition that generic medicines offer the same quality, safety and efficacy at a much reduced cost; and secondly the increasing number of people needing treatment (especially chronic care) against ever constrained and shrinking health budgets. We do, however, remain in the hands of our MCC for timely registrations. We currently have over two hundred applications pending registration, which when launched will save this country and its people hundreds of millions.

Given our extremely strong relationship with Cipla India, which affords us access to one of the best generic pipelines in the world, we believe that we will benefit significantly from the increased generic usage in the future, especially in the chronic medicine segments.

In conclusion I wish to thank Cipla India for their continued support, Sbu for his guidance and leadership as Chairman of our board, my fellow directors and employees who continue to remain dedicated to our company, and lastly, to the doctors, pharmacists, nurses, patients and everyone else that continues to use and believe in our products and services.



Jerome Smith  
Chief Executive Officer



# Chief Financial Officer's report



Chris Aucamp

**HEPS of 44,2 cents**

**Normalised HEPS  
of 52,3 cents**

**GP percentage of 62,1%**

**Profit after tax of  
R199,3 million**

## Overview

These 2010 annual results have been achieved despite significant non-cash International Financial Reporting Standard (IFRS) adjustments with regard to forward exchange contracts (FECs). As a result of the strong Rand/weak US Dollar on 31 December 2010, an unrealised loss on FECs of R44,7 million was debited to the income statement despite a gain being recorded in the accounts at 30 June 2010 of R22,4 million and an unrealised loss of R24,7 million at 31 December 2009. Although this has resulted in a significant non-cash adjustment to the income statement, we have enjoyed the benefit of the stronger Rand throughout the year, and this can be seen in our gross profit margin which has increased significantly from 49,2% at 31 December 2009 to 62,1% at the end of 2010. To illustrate the significance that the strong Rand/weak US Dollar had on the results, which was at its lowest level in about seven years, we have re-valued the FECs using the spot rate at the end of January 2011 which was R7,20. At this rate the loss of R44,7 million would have been reversed completely.

These adjustments do not affect the group's ability to generate cash and after paying its inaugural interim dividend in the second half of 2010, which amounted to R22,5 million, the group's operations generated R150,9 million cash in the 2010 financial year, compared to R10,2 million in 2009.

## Income statement

CMSA is pleased to announce a satisfactory increase of 21,5% to R195,4 million (2009: R160,9 million) in headline earnings for the financial year, constituting an increase of 20,8% to 44,2 cents (2009: 36,6 cents) in headline earnings per share (HEPS). This is based on 442,5 million (2009: 440,1 million) weighted average number of shares in issue for the 2010 year (before the effects of dilution are taken into account). The reconciliation to headline earnings includes the loss on disposals of property, plant and equipment of R36 068 (2009: R1,0 million), net of tax.

Earnings per share (EPS) improved by 21,8% to 44,2 cents (2009: 36,3 cents). After adjusting for the full effect of the fair value adjustment on the interest rate swaps, interest rate swap settlements and the FEC losses, normalised HEPS increased by 28,5% to 52,3 cents (2009: 40,7 cents) and normalised EPS increased by 29,1% to 52,3 cents (2009: 40,5 cents). The current and comparative normalised calculations mainly comprise non-cash adjustments.

Revenue increased by 14,7% to R1,447 billion (2009: R1,262 billion) and the improvement in our gross profit margin to 62,1% can be attributed to the stronger Rand and a price increase on OTC products that was implemented in March 2010. Although Cipla Medpro only implemented the price increase on certain products subject to Single Exit Price (SEP) regulations in June 2010, with the full effect of this only materialising during the second half of the year, the increase in the margin is also due to a more profitable product mix.

Profit before finance costs and income tax for the year increased by 33,0% to R347,5 million (2009: R261,4 million).

Finance income reduced to R2,8 million (2009: R5,4 million) due to no swap refund earned in 2010, compared to the R1,9 million refund in the previous financial year. The increase in net finance costs to R57,8 million (2009: R22,9 million) is mainly due to:

- Finance costs of only R0,3 million qualifying for capitalisation during 2010 in terms of IAS 23 Borrowing Costs (2009: R35,5 million);
- Swap settlements of R2,8 million (2009: R1,9 million refund);
- A decrease of R11,5 million in interest on preference shares;
- An increase of R4,7 million in interest on the Nedbank loan facilities; and
- An increase of R3,3 million in interest on instalment sale agreements.

Despite an increase in finance costs the interest cover still remains at a satisfactory level of 5,7 times (2009: 9,3 times).

Profit after tax for the year was R199,3 million (2009: R162,1 million). This was achieved after an improvement in the effective tax rate to 31,2% (2009: 32,0%). The main factors resulting in the effective tax rate being higher than the statutory tax rate are:

- Non-deductible preference share interest of R9,5 million (2009: R21,0 million);
- Non-deductible IFRS 2 Share-based Payment expenses of R10,5 million (2009: R6,1 million); and
- Secondary Tax on Companies (STC) of R2,7 million (2009: R2,1 million).

#### Balance sheet

Excluding the effects of cash on hand, interest-bearing borrowings have decreased to R356,6 million (2009: R417,4 million). After paying the inaugural interim dividend of R22,5 million in October 2010, and the second provisional tax payment of R32,4 million on 31 December 2010, the group's net cash position was overdrawn to the extent of R24,8 million at 31 December 2010 – an improvement from R60,1 million overdrawn at 31 December 2009. The improvement in the cash position can be attributed to the improved profitability of the business and increased sales in 2010.

Debtors days have improved to 63 days (31 December 2009: 66 days and 30 June 2010: 67 days). Creditors days have improved to 186 days (31 December 2009: 174 days and 30 June 2010: 166 days) due to increased purchases from Cipla India in the second half of the year, in anticipation of holiday periods, longer lead times and increased sales budgeted for 2011. This in turn resulted in a higher stock holding than normal and inventory days increased accordingly to 157 days (31 December 2009: 106 days and 30 June 2010: 114 days).

#### Cash flow statement

Cash flows generated from operating activities are R150,9 million (2009: R10,2 million), after adjusting for the non-cash flow effects of depreciation of R18,1 million (2009: R10,8 million), IFRS 2 Share-based Payment expenses of R10,5 million (2009: R6,1 million) and FEC losses of R44,7 million (2009: R24,7 million). The inaugural interim dividend of R22,5 million was also paid to shareholders during the second half of 2010 (2009: Rnil).

Investing activities resulted in outflows of R98,2 million (2009: R118,6 million) due to acquisitions of property, plant and equipment and intangible assets. A net R17,4 million was utilised for financing activities (2009: R16,6 million generated), mainly for the settlement of R159,8 million of the preference shares (R109,7 million of which was settled in advance). This was offset by draw downs of R100 million on the Nedbank Limited loan facility and R34,3 million on the working capital and instalment sale facilities at the factory.

I would like to thank Jerome for his continued guidance and support, as well as my fellow directors and employees for their valued contributions throughout the year.



**Chris Aucamp**  
*Chief Financial Officer*

# Directorate

## **Sibusiso Luthuli**

*Independent non-executive Chairman*

CA (SA)

Sbu Luthuli is the independent non-executive Chairman of our board. He is the Chief Executive of the Eskom Pension and Provident Fund. Prior to that he was the Chief Executive Officer of Ithala Limited. Sbu is also a non-executive director of Telkom SA Limited, and has served on various other boards and audit committees. He is a qualified Chartered Accountant (SA).

## **Jerome Smith**

*Chief Executive Officer*

Group Chief Executive Officer since September 2007, Jerome Smith has spent his career in the pharmaceutical industry. In 1992, he founded the Cipla Medpro business, one of the first generic medicines businesses in South Africa. With a strong belief that healthcare is a right, not a privilege, and determined to ensure the provision of world class, affordable medicines in South Africa, he strategically aligned the business with Indian pharmaceutical giant Cipla India. He has led Cipla Medpro to its current standing as South Africa's fourth largest and fastest growing of the top 10 pharmaceutical companies.

## **Chris Aucamp**

*Chief Financial Officer*

CA (SA)

Chris Aucamp has been Financial Director of Cipla Medpro for 15 years, prior to which he worked for SARS for two years and then in commerce as a financial director of a FMCG company. Appointed as group Chief Financial Officer in October 2007, he has extensive knowledge of the pharmaceutical industry and oversees all the day-to-day financial affairs of both the Cipla Medpro and CMM divisions. Chris was an integral member of the team that oversaw the capital raising and acquisition of Cipla Medpro by Enaleni Pharmaceuticals Limited in 2005.

## **Bongani Caga**

*Non-executive director*

LLB (Bachelor of Law); LLM (Masters) International Business Law

Bongani Caga is a director of Umnombo Consulting as well as Sweet Sensation 67 (Pty) Limited, 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 of 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 on the Johannesburg Stock Exchange (JSE) and 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.

**Johan du Preez***Independent non-executive director*

MPharm; MBA

Johan du Preez is the founder and Managing Director of SAAD Investment Holdings, an investment company primarily focusing on establishing new financial services entities. 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 Chief Executive Officer 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.

**Nthabiseng Mokone***Non-executive director*

CA (SA)

Nthabiseng Mokone is the founding partner of Moche Mokone Capital Partners and Landomed. She was previously head of Amabubesi Health Services and its Private Equity Fund. She has spent time in deal origination, structuring, capital raising, and execution at Amabubesi. In her role, she participated in some of the major deals concluded by Amabubesi and continued to add value to the investee companies by representing Amabubesi at their respective boards. Before Amabubesi, Nthabiseng was with ABC South Africa, a subsidiary of African Banking Corporation Holdings Limited, where she held the position of group head accountant. Before that she was with Pioneer Foods' Sacko Milling in Krugersdorp. Her career started in 1996 when she joined Transtel, a division of Transnet, and in 2002 moved to Transnet Group Finance to start Training Outside Public Practice until 2003.

**Mpho Mosweu***Independent non-executive director*

CA (SA); MBL

Mpho Mosweu is head of the Techno Industries business unit at the Industrial Development Corporation. 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 board of CMSA.

**Sandile Zungu***Independent non-executive director*

BSc (Mechanical Engineering); MBA

Sandile Zungu 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 a non-executive director of Grindrod Limited, Supercare Cleaning Services, G4S Cash Management Services and Outdoor Network. He also serves as the Presidential Advisory on the BBBEE Advisory Council, the Board of Trustees of the International Marketing Council, on the Advisory Board of the University of Cape Town (UCT) Graduate School of Business and on the management committee of Business Unity SA. In addition to a BSc degree and an MBA from the UCT Graduate School of Business, Sandile also has certification in Global Leadership from the Harvard Business School in Boston, USA.

# Operational review: Cipla Medpro

**Cipla Medpro continues to grow faster than the market and its major competitors**

**Sereflo, Numoxx and Atolip launched late in 2010**

This business continues its growth and by December 2010 was ranked the fourth largest pharmaceutical company for the 12 months and the third largest, by value, for the month of December 2010. Cipla Medpro had an EV of 108,0 (Rands) and 109,2 (units) (IMS, December 2010) and, by value, grew the fastest of the top ten pharmaceutical companies in South Africa, as we did in 2009.

The TPM grew by 8,0% in Rands and 4,9% in units. Cipla Medpro's performance outstripped the market, growing by 16,6% in Rands and 14,5% in units respectively in the 2010 year (IMS, December 2010).

Accounting for 100% of the group's profits with revenues of R1,418 billion (2009: R1,233 billion) and profit before finance costs and income tax of R380,7 million (2009: R296,4 million), before inter-company eliminations, 2010 saw positive results for this business.

The relationship with Cipla India continues to deliver research and development on newer generics, the launch of first-to-market patent expired molecules and OTC medicines. Dossiers regularly flow from Cipla India, helping to bolster our already significant pipeline of products for the future. The top ten Cipla Medpro products by value, some as old as ten years, continue to grow in units, which is rewarding given our strategy of building brands.

2010 saw a number of significant product launches, albeit late during the year:

- First-to-market Sereflo, a combination active ingredient inhaler for asthma;
- Numoxx, a late generation quinolone antibiotic; and
- Atolip, a generic of the world's most popular anti-hypercholesterol agent.

We believe that Sereflo, Numoxx and Atolip will deliver attractive revenues and margins for us during 2011. We are unhappy with the number of registrations we gained during the year, even though a vast number of dossiers were submitted and are awaiting evaluation and registration.

Cipla Medpro will add an oncology division to its already comprehensive medicines portfolio during 2011, commencing with 20 molecules targeting a host of cancers.

In the highly specialised field of oncology, Cipla India has remained one of the leading manufacturers of cancer drugs by keeping ahead of the technological advances at their state-of-the-art dedicated plants, not only for these products, but also the Active Pharmaceutical Ingredients (APIs).

The fact that Cipla India is fully integrated and therefore in control of the supply, quality and obviously price of their API and finished product, is a strategic advantage.

Furthermore, the range and depth of their growing oncology portfolio makes them an attractive supplier to us in this specialised market.

Dr Yusuf Hamied, Chairman and Managing Director of Cipla India, is quoted as saying that after HIV/AIDS, this is Cipla India's second major crusade: to see that access to life-saving anticancer medicines are available to patients at affordable prices.

We also continue to work on opportunities outside of South Africa and to launch more and more OTC medicines in our domestic market.



While small contributors to total revenues, the seven-year old animal health businesses continued to demonstrate pleasing growth. The Cipla Vet business (targeting small and companion animal markets) increased its market shares across many lines and showed total revenue growth of 31,1%. The Cipla Agrimed division (targeting livestock and production animal markets) recorded a 36,1% growth in revenue and a number of its brands occupy top positions in their categories.

Looking forward, we are optimistic that Cipla Medpro will realise its potential even further. Cipla India has taken a major stand in biotechnology and has set up factories in Goa to produce some of the world's leading anticancer drugs. They have also invested in stem cell research and development. In the short term Cipla Medpro will focus on more generic launches at home and abroad (we own 109 registrations in Botswana, 211 in Namibia and expect quite a few in Nigeria in the months to come), more OTC launches, growth in our animal health businesses and a complete turnaround of our Agricare business.

### Cipla India

#### *About Cipla India's fight against HIV/AIDS:*

At a time when the world has already lost 20 million people to HIV/AIDS, the cost of HIV/AIDS treatment of at least USD12 000 per patient per year had made the scientific achievements in drug innovation inaccessible to the ordinary people of the developing nations who were worst hit with the disease. Cipla India then revolutionised the treatment of HIV/AIDS in 2001 by bringing down the cost of HIV treatment and making the ARVs available at below a "Dollar a Day". With the reduced cost of USD300 per patient per year, HIV/AIDS treatment becomes a reality and the survival rates went up dramatically.

Further, Cipla India's innovation of a Fixed Dose Combination (FDC) in 2001 of the "triple cocktail drug" called Triomune was a significant step which simplified treatment and fostered adherence. Cipla India was also the first to prepare a child-friendly three-in-one paediatric formulation (Triomune Baby and Junior) for the young population infected with HIV/AIDS.

Currently, with more than 45 ARV formations in its portfolio, Cipla India supplies these to over 120 countries including various Ministries of Health, the Government of India and to several international AIDS agencies like UNICEF, MSF, SCMS/PEPFAR, Clinton Foundation, IDA and PAHO among others. Today, almost one out of three HIV-infected patients in the third world is on Cipla drugs and Cipla India continues to work towards its commitment that "None shall be denied".

Cipla Medpro, on a smaller scale at this stage, markets 17 ARV formulations to the private and public sectors in South Africa, Swaziland, Lesotho and Namibia. Botswana remains an opportunity for the future.



## Operational review: CMM

### **CMM will benefit from the meaningful stake in the ARV tender secured by the group**

The turnaround strategy for this facility is starting to take effect and although this division still recorded a loss of R27,8 million before finance costs and tax (2009: R35,8 million), turnover almost doubled from R49,2 million in 2009 to R94,5 million in 2010 (all figures above stated before inter-company eliminations).

CMM significantly ramped up production in the second half of the year as a result of new product introduction, mainly of the groups' own products, but also from an increasing portfolio from existing customers. This had a direct effect on the division's performance in the second half of the year, and a better performance was achieved. Currently 28 products are being produced at the facility, of which 15 are for the group. This should increase to at least 32 products in 2011 and 50 stockkeeping units.

The group was very pleased to announce the successful ARV tender results, wherein the group was awarded approximately 15% of the total ARV tender RT71-2010, amounting to R633 million (including VAT) over the next two years. This will generate significant revenue for CMM, as four of the products will be produced at the Durban facility, namely:

- Efavirenz 600mg 30s;
- Lamivudine 300mg 30s;
- Lamivudine 150mg 60s; and
- Nevirapine 200mg 60s.

It is further anticipated that once we obtain regulatory approvals in Africa, we will begin manufacturing for those markets at CMM.

It was previously identified that automation in the packaging area would be required in order to facilitate on-time delivery for these products. This project is in progress, and will contribute to improved output during 2011. In addition, we aim to complete the upgrade of the existing Quality Control and Microbiology laboratories by mid-2011.

Finally, with Cipla India poised to take a 25% stake in CMM, and with our intention to attain both WHO prequalification and FDA accreditation for CMM, we are confident that significant opportunities will open up to supply the donor funded markets north of us, further increasing the business of CMM.





# Sustainability report

## EMPLOYEES

CMSA employs approximately 700 staff, including contract employees, with just over 50% employed within Cipla Medpro and the remainder at the CMM facility in Durban.

The group seeks to be an employer of choice within the pharmaceutical sector and the Human Resources (HR) and management teams are dedicated to attracting and retaining the best talent whilst providing employees with a working environment conducive to career growth and advancement.

### Skills development

Training requirements and programmes within the rapidly growing group are extensive, diverse and continual. The training department, based at the group's head office in Cape Town, consistently evaluates training and skills development requirements across all staff levels and divisions within the group and implements suitable programmes which are then monitored, with post-training support provided when required.

The training department works closely with the HR department when addressing skills development needs – from ensuring the almost 350 CMM staff, from pharmacists to cleaners, receive ongoing cGMP training in accordance with regulatory requirements, to inducting new recruits at all levels, to constantly keeping the medical and product knowledge of the 180-strong national sales team current.

#### *Cipla Medpro Distribution Centre training – Cape Town*

In 2009, 28 Distribution Centre staff underwent a Good Wholesaling Practice course which incorporated ethics and professional practice, pharmaceutical supply chain management, cold chain management and occupational health and safety. Following that exam, the top five employees were enrolled in the 18-month Pharmacist's Assistant Basic course. Upon completion the company will then enrol these staff members in the post-basic level course.

Along with the ongoing programmes referred to above, the next Distribution Centre skills programme in Good Wholesaling Practice took place in March 2011, with a further 46 employees completing the course. The qualifying top five candidates will also embark on the Pharmacist's Assistant Basic course. The courses cover the required unit standards and uses outcomes-based assessments to evaluate competency, skills and knowledge.

#### *CMM training – Durban*

The group's Durban-based pharmaceutical manufacturing facility operates under stringent MCC cGMP guidelines as well as being one of the first in South Africa to meet international PIC/S standards and guidelines.

For the staff on-site training is paramount. The HR and Quality Assurance (QA) departments ensure that there is continual cGMP training, development and assessments across all departments and staff levels in accordance with an approved training plan for CMM and for each individual, whilst HR handles the day-to-day recruitment and industrial relations duties.

#### *Continuous education/learnerships*

CMSA supports the continuous and ongoing development of its employees and initiates and encourages employee attendance at workshops, training courses and seminars nationally. In 2010, 22 employees from the CMM plant attended numerous webinars (web-based seminars) aimed at providing cGMP compliance awareness and updates on pharmaceutical regulations.

At Cipla Medpro the focus has been on continuous medical education, with almost 30 employees attending internal and external functional related training. In addition, a total of 14 employees were granted the opportunity to gain first-hand exposure from our "partner" Cipla India in Goa, India in March/April 2011. As an example, the respiratory team spent a week with Indian specialists in the respiratory field, gaining immense knowledge and updates of the latest respiratory technology and devices.

The group is also a constituent member within the Chemical Industries sector. Our Skills Development Facilitator in conjunction with our HR department submits a Workplace Skills Plan and Training Report annually to the Chemical Industries Education and Training Authority (CHIETA) to assist us in fast-tracking the ongoing development and empowerment of our employees. During the year, the group applied for and received two discretionary grants for Adult-Based Education and Training (ABET) and for the Pharmacist Assistant Scarce Skills Programme.

There were 20 black employees from CMM enrolled under registered learnerships who attended ABET programmes during the year. These ranged from ABET level one to level three. Selections were made from the previously disadvantaged groups, providing significant development opportunities to these employees. A training venue, complete with computers and other relevant training aids, has been made available for our ABET learnership students to achieve their goals. In terms of the BBBEE Codes of Good Practice issued by the Department of Trade and Industry, skills spend on ABET programmes is currently recognisable at a multiple of 1,25 of the amount actually spent, for the purposes of the BEE scorecard.

Fifteen employees were registered for the South African Pharmacy Council-accredited Basic and Post Basic Pharmacist's Assistant Courses, with completion dates expected in the first half of 2011.

#### ***In-service training***

Four Durban University of Technology students were taken on as in-service trainees at the CMM facility in 2010, two of whom were taken on permanently in January 2011. In 2011, our in-service trainee complement will increase to five.

#### ***Financial study assistance for staff***

The group provided financial aid in the form of study assistance loans to 11 employees at the CMM plant and to seven employees at Cipla Medpro during 2010/2011, to allow employees to further their studies as related to their job functions.

All of the above has contributed positively to the skills enhancement and knowledge base of our employees.

#### **Cipla Adelaide Tambo Healthcare Bursary**

By the end of 2009, two black pharmacy students were able to complete their Bachelor of Science degrees in Pharmacy at the University of KwaZulu-Natal as a result of CMSA funding provided in the form of this bursary, whilst a third pharmacy student finished mid-2010.

The first student has completed his one-year internship at the Durban manufacturing facility and has also successfully completed his community service. We anticipate a further two bursary students for the 2011 year. The internship programme at the CMM plant allows the students to gain exposure in all facets of a pharmaceutical business and the company is committed to providing ongoing development opportunities.

#### **Employee health services**

Cipla Medpro's staff are optional members of the company's medical aid scheme and this option is planned to be rolled out at CMM in due course. Cipla Medpro staff joined a compulsory pension fund in 2009, while CMM staff have remained on a provident fund.

At CMM, all employees in direct contact with product undergo annual medical assessments. Employees now have access to a clinic on-site staffed by a doctor and nursing sister, once a week. Awareness programmes have been introduced to ensure the general wellness of all employees, and include:

- An Occupational Health Management Programme:
  - Hazardous exposure identification and management, i.e. noise and audiograms; and
  - Certifying employees fit to work, i.e. driver medicals.
- Compensation for Occupational Injuries and Diseases Act, 1993 (COIDA):
  - Workman's Compensation covers injured on duty (IOD) and occupational diseases; and
  - COIDA Claims Management, i.e. IODs.
- Incapacity Management (i.e. labour relations legislation):
  - Absenteeism and productivity assessments;
  - Rehabilitation back-to-work programmes;
  - Ill health retirement assessment; and
  - Substance abuse management.
- Occupational Health Education:
  - i.e. noise-induced hearing loss.

# Sustainability report continued

- HIV/AIDS:
  - The doctor is available at our on-site clinic to provide confidential medical counselling to affected employees; and
  - We are also affiliated to ICAS South Africa who provides us with an Employee Wellbeing Programme, which includes services that are accessible to all employees, and provides unique and tailored solutions to assist employees to face the stresses associated with modern life. The Employee Wellbeing Programme includes a range of HIV/AIDS services, all of which have been specifically developed to reduce the impact of the pandemic.

## HUMAN RIGHTS

The company is committed to ensure that all employees operate in a work environment that is compliant with all relevant charters and labour regulations. To support this culture the relevant policies have been introduced and are visibly placed to ensure compliance.

## CODE OF ETHICS

A code of ethics policy has been introduced to create an awareness of the group's values and standards. The group provides an environment in which personal growth is supported and encouraged. Performance excellence is promoted to balance current competencies with the present and future needs of the group and in support of the individual's aspirations, and is in line with the group's Employment Equity policy and strategy.

Training and development initiatives are generally funded by the group. Staff needs are identified through the Performance Management system and one-on-one personal development discussions with their managers.

Categories of training and development required include:

- Adult Basic Education initiatives to support Affirmative Action and Employment Equity;
- Accelerated training and fast-tracking of identified top performers;
- Mentorship programmes and processes;
- Training and development for succession;
- Diversity;
- Specialised skills;
- Supervisory/managerial skills;
- Group specific skills/knowledge/values; and
- Interpersonal skills and other performance improvement skills.

## SAFETY, HEALTH AND ENVIRONMENT (SHE)

CMM is committed to developing and maintaining a work environment that is safe and risk free.

- External audits both from potential and current customers have been conducted, with no significant findings. Our SHE department has implemented a monthly SHE internal audit plan since 2008 which certifies legal compliance. All findings are noted, corrected and audited to ensure the recommendations of the findings have been implemented;
- All employees are encouraged to report all incidents (accidents) on-site. Incidents are tracked on a monthly basis and are investigated and reported to the health and safety committee. All supervisors are trained and competent in the incident investigation and management procedure;
- All employees and contractors have completed the on-site induction training which includes safety, health and environmental aspects;
- There are SHE representatives in every department and all representatives receive ongoing and up to date training. In addition, the site induction procedure requires that all employees attend SHE induction, thereby ensuring awareness and compliance with the SHE policy at the outset;
- Monthly SHE committee meetings are held and potential risks raised by management and SHE representatives; the issues are noted and followed up until the corrective actions are effectively implemented;
- Annually, unplanned evacuation drills at the plant are conducted to evaluate adherence to the evacuation policy as well as to identify opportunities for improvement. For the Emergency Preparedness Plan, seven firefighters and 15 first-aiders have been trained and emergency preparedness committee meetings are held every three months;

- All employees are currently monitored in a medical compliance programme, which is conducted annually;
- Pollution – all efforts are made to ensure that no uncontrolled products or chemicals pollute the environment. Emergency procedures and spills kits are available on-site. All persons handling chemicals have been trained in chemical or product spill procedures and chemical hazards (MSDS training);
- Waste management – all waste is sent to designated sites and is tracked on a monthly basis. Currently waste is comprised of general waste (non-hazardous), microbiological waste (hazardous), chemical waste from the laboratory and product waste (high-hazardous) which is sent for safe disposal. A separate upgraded high-hazard waste area is being built;
- Effluent monitoring has been done and the levels are well within the required limits. This monitoring occurs on a monthly basis;
- The carbon footprint exercise for the manufacturing plant revealed that the carbon dioxide footprint is 11 000 tons per annum. 97% of the carbon footprint is due to electricity consumption and the other 3% is attributed to air travel and employees commuting to work. In addition, a power correction factor is in the process of being implemented – currently, electric boilers are used on-site, with the plan to use only one of these to save on electrical consumption. Monthly inspections are carried out on all utility lines to ensure optimal efficiency of the energy services; and
- ISO 14000 principles are being implemented in preparation for future certification.

#### TRANSFORMATION

CMSA maintains its commitment and role toward transformation in South Africa, through its embracing of BBBEE throughout its operations. The company strives to:

- Be an equal opportunity employer, giving preference to, and aiming to increase, the number of employees from previously disadvantaged groups;
- Foster a culture of equity for all employees and awareness of diversity; and
- Empower employees through incentive schemes and upliftment projects, such as numeracy and literacy training for staff.

The group has achieved an A-rating from SANAS-approved Empowerdex, verified in terms of the Department of Trade and Industry's Codes of Good Practice, thus solidifying the group as a "Level 4" contributor to BBBEE in the country. The current accreditation demonstrates a marked improvement of 12,65 points since the previous BBB-rating, at which the CMM operation was verified at "Level 5".

CMSA verified BEE scorecard statistics:

Scorecard element	Target score	Actual score 2010/2011*
Ownership	20,00	17,01
Management control	10,00	4,96
Employment equity	15,00	6,98
Skills development	15,00	9,24
Preferential procurement	20,00	16,09
Enterprise development	15,00	8,57
Socio-economic development	5,00	5,00
<b>Total</b>	<b>100,00</b>	<b>67,85</b>

\* The 2010/2011 scorecard was completed on a consolidated basis, which includes subsidiaries across the group, whilst the 2008/2009 scorecard was based on the CMM operations only.

#### Ownership

After the exclusion of organs of state and mandated investments as provided for in the Codes, black ownership and black female ownership on the basis of economic interest has improved to 37,57% and 5,43% respectively (previous scorecard: 31,58% and 4,34% respectively). On the basis of voting rights, these scores are even more impressive with 40,62% black ownership and 6,20% black female ownership. The above has allowed the group to score the maximum points within certain areas of the ownership element.

## Sustainability report continued

The R270 million BEE transaction concluded in 2005, has firmly secured CMSA's position as a leading empowerment pharmaceutical company in South Africa. As part of that transaction, directors and staff were afforded the opportunity to acquire eight million shares in the company through a management holding company which is 51% black-owned.

### Management control

There has been an improvement in the management control element of the scorecard to 4,96 points (previous scorecard: 3,00 points) which is supported by our steadfast board structure and the demographics of the positions occupied at top management levels in the group.

The board's composition can be summarised as follows:

Name	Gender	Race	Date appointed	Type of directorship	Independent
Chris Aucamp	Male	White	17 August 2007	Executive (CFO)	✗
Bongani Caga	Male	African	13 November 2007	Non-executive	✗
Johan du Preez	Male	White	16 March 2010	Non-executive	✓
Sbu Luthuli	Male	African	1 January 2005	Non-executive	✓
Nthabiseng Mokone	Female	African	13 November 2007	Non-executive	✗
Mpho Mosweu	Female	African	22 February 2007	Non-executive	✓
Jerome Smith	Male	White	1 September 2006	Executive (CEO)	✗
Sandile Zungu	Male	African	16 March 2010	Non-executive	✓

The board's membership constitutes five black directors ensuring 62,5% black representation before the adjusted recognition for gender. Two of the board's directors are black female, equivalent to 25% of the total board membership. The group has also scored bonus points for 50% of the board being independent.

All board members are South African citizens and hold equal voting rights. For a brief curriculum vitae of each of the directors, and the board committee's of which they are members, please refer to pages 12 and 13, and pages 28 to 31 respectively.

### Employment equity

The group has scored 6,98 points on the employment equity element, based on a 597-strong permanent workforce spread throughout the country.

Black employee representation at the time of accreditation was 56,62% whilst black females comprised 21,94% of our staff complement. The table below, which is based on our most recent submission (30 September 2010) to the Department of Labour, depicts the demographic distribution of our labour force:

Occupational level	MALE					FEMALE					Total
	A	C	I	W	FN	A	C	I	W	FN	
Top management	2	0	1	11	0	0	1	0	1	0	16
Senior management	0	0	3	9	0	0	0	6	4	0	22
Middle management	2	4	3	28	0	0	0	2	20	0	59
Junior management	7	11	14	52	0	11	11	14	88	0	208
<b>Total management</b>	<b>11</b>	<b>15</b>	<b>21</b>	<b>100</b>	<b>0</b>	<b>11</b>	<b>12</b>	<b>22</b>	<b>113</b>	<b>0</b>	<b>305</b>
Semi-skilled	44	21	49	10	1	14	18	17	35	0	209
Unskilled	21	11	14	0	0	16	17	4	0	0	83
<b>Total permanent</b>	<b>76</b>	<b>47</b>	<b>84</b>	<b>110</b>	<b>1</b>	<b>41</b>	<b>47</b>	<b>43</b>	<b>148</b>	<b>0</b>	<b>597</b>
Temporary employees	0	0	1	0	1	2	0	2	0	1	7
<b>Grand total</b>	<b>76</b>	<b>47</b>	<b>85</b>	<b>110</b>	<b>2</b>	<b>43</b>	<b>47</b>	<b>45</b>	<b>148</b>	<b>1</b>	<b>604</b>

A = African, C = Coloured, I = Indian, W = White, FN = Foreign national

We have scored extremely well at senior management level, with a respectable score at the junior management level, however, we have earmarked middle management and the meeting of published Economically Active Population (EAP) targets as an area for improvement. This shall be achieved through the implementation of programmes and training to help develop and upskill 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 staff.

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

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

Our permanent staff complement also includes seven disabled employees, of which six are black people.

As of December 2010, our permanent labour force had increased to 611 employees, with a net 12 black people having been employed during the last quarter of 2010, of which five were black female.

#### ***Skills development***

A score of 9,24 out of a possible 15 points was achieved in the skills development category. The group strives to contribute significantly to the ongoing development of its major resource, its employees.

Refer to the Employees section on page 18 for more details on the various skills development initiatives in place at CMSA.

#### ***Preferential procurement***

We are pleased with our score of 16,09 out of a possible 20 points achieved through the procurement of qualifying goods and services from black-owned entities, after the exclusion of non-discretionary imports.

With the majority of our qualifying suppliers being value-adding suppliers, and based on their favourable procurement recognition levels, the maximum 12 points were achieved in 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).

Our customers in turn are able to recognise 100% of 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 support of BEE-compliant suppliers and in particular, BEE procurement from QSEs and EMEs, which helps to improve their chances of business success.

#### ***Enterprise development***

The group has scored a fair 8,57 points on the enterprise development element based on qualifying contributions and the benefit factor matrix. Our target is at least 3% of net profit after tax as provided for in the Codes, hence we have highlighted this element as an area to be progressed in future.

#### ***Socio-economic development***

The board and management of CMSA acknowledge their responsibility towards the community in which it operates and a number of Corporate Social Investment (CSI) initiatives were undertaken during the year. In line with this, the group has scored the maximum five points within this scoring category.

Refer to page 24 for details of the various CSI initiatives undertaken by the group.

# Sustainability report continued

## CORPORATE SOCIAL INVESTMENT

Initiatives undertaken during the year include:

### *Jacob Zuma RDP Educational Trust*

At the official opening of the CMM facility in Durban and in acknowledging the vital role of education in the development of the country, a R1,5 million donation was made to the Jacob Zuma RDP Educational Trust. The educational grant will be awarded to post-matric students in the field of engineering, medicine and pharmaceutical studies.

### *Cipla Miles for Smiles*

Being one of our flagship initiatives, Cipla Medpro continues its ongoing Diamond Smile sponsorship of Operation Smile SA, underwriting the costs of Cipla Miles for Smiles challenges. In 2006, the non-profit Cipla Miles for Smiles Foundation was launched which raises funds to enable Operation Smile SA to create awareness and provide free reconstructive surgery for children born with cleft lips and/or palates.

During this launch year, Cipla Miles for Smiles extreme athletes Braam Malherbe and David Grier made history by running the length of the Great Wall of China (The Great Wall Challenge), and in the process raised sufficient funds to provide corrective facial surgery to 55 children.

In 2008, they returned for another never-been-done-before extreme event, the Cipla SPAR Miles for Smiles Coastal Challenge, where they ran a 3 300 kilometre "smile" around the coastline of Southern Africa.

In December 2009/January 2010, David undertook the Madagascar Challenge, becoming the first to kayak solo from Mozambique to Madagascar, and thereafter running approximately 2 500 kilometres up the length of the island. At the Operation Smile Madagascar surgical mission, almost 200 children received corrective facial surgery.

### *Adopt-a-School*

Cipla Medpro, for the third time, held a fundraising event in November 2010 for the benefit of the Adopt-a-School project. The funds donated to the Peninsula School Feeding Association were allocated to seven schools and provided meals for 1 336 learners.

## STAKEHOLDER ENGAGEMENT AND COMMUNICATION

CMSA is committed to regular, relevant and consistent communication with all its stakeholders, including the communities in which it operates, its customers, suppliers, unions, shareholders, regulatory bodies and employees.



Stakeholder	Engagement and communication method
Employees	<ul style="list-style-type: none"> <li>• Regular, routine meetings across all divisions and regions</li> <li>• 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</li> <li>• Executive and middle management strategy meetings are held regularly</li> <li>• Staff attend regular training workshops</li> <li>• 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 team staff</li> <li>• The HR Forum serves as an interactive meeting between representatives from all departments and management, addressing aspects including and not limited to: Employment Equity, Skills Development Planning and overall improvement initiatives</li> </ul>
Investors and healthcare analysts	<ul style="list-style-type: none"> <li>• Bi-annual presentations are held for investors and healthcare analysts at the release of the annual and interim results as required by the JSE</li> <li>• The company operates two websites containing investor related information</li> <li>• SENS announcements pertaining to corporate activity are released in terms of the JSE requirements</li> <li>• Site visits to CMM are arranged periodically for investors</li> </ul>
Shareholders	<ul style="list-style-type: none"> <li>• Adverts are placed in English and Afrikaans media on the day results are released on SENS</li> <li>• Annual and interim results are uploaded to the CMSA website after release on SENS</li> <li>• Shareholders may contact the Chief Executive Officer and Chief Financial Officer for disclosable information when the company is not in a closed period</li> <li>• Annual and interim results booklets and the annual report are distributed to all investors</li> <li>• SENS announcements are released whenever the company needs to convey information relating to directors' share dealings or statutory corporate activity</li> <li>• The annual general meeting (AGM) is held in Cape Town</li> </ul>
Corporate bankers and funders	<ul style="list-style-type: none"> <li>• The Chief Financial Officer and Company Secretary work closely with the corporate bankers regarding the group's performance, it's finance requirements in the short and long term, and foreign exchange dealings</li> </ul>
Customers (consumers/patients, healthcare providers, doctors, pharmacists, national and provincial departments of health, medical aid societies)	<ul style="list-style-type: none"> <li>• A large national sales force details many of the customer groups</li> <li>• Numerous advertising and marketing initiatives are undertaken within specified pharmaceutical industry parameters</li> <li>• Representatives and marketing staff regularly attend industry conferences and congresses</li> <li>• 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</li> <li>• Relevant corporate or product related news is communicated via press releases and group websites</li> <li>• Continuing Medical Education (CME) functions are arranged and facilitated for medical practitioners/pharmacists in order to promote industry learning and continuing education amongst practitioners</li> </ul>
Pharmaceutical industry	<ul style="list-style-type: none"> <li>• Representation on industry bodies, such as NAPM</li> </ul>
Regulatory bodies	<ul style="list-style-type: none"> <li>• Regular site inspections and correspondence with regulatory bodies occurs</li> </ul>
Trade unions	<ul style="list-style-type: none"> <li>• 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</li> </ul>
Bargaining councils	<ul style="list-style-type: none"> <li>• The company has elected not to affiliate to a Bargaining Council at this time</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>• Skilled procurement departments in place at both Cipla Medpro and CMM to negotiate and work closely with suppliers regarding raw materials and packaging materials</li> <li>• Supplier audits conducted periodically</li> <li>• BEE status of suppliers is ascertained in line with CMSA's BEE policy</li> </ul>
Cipla India	<ul style="list-style-type: none"> <li>• Senior staff from both divisions work closely with Cipla India</li> <li>• Site visits in South Africa and India regularly arranged</li> <li>• Best practice, advice and knowledge shared freely</li> <li>• Dedicated technology transfer teams work closely with all partners to facilitate smooth introduction of new products into the manufacturing facility</li> </ul>

# Corporate governance

CMSA subscribes to a culture of openness, 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 of King II, while implementing necessary changes to comply with King III which became effective from 1 March 2010. In 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.

CMSA subscribes to the principles of good corporate governance as set out in King II and the board is of the view that, save for items specifically disclosed hereunder, the company has complied with the principles of King II during the year under review.

A few of the changes already implemented by the board in order to comply with the requirements of King III, include the following:

- Updating all charters and terms of reference for the board and committees respectively in line with the recommendations of King III;
- Our Audit and Risk Committee comprises three independent, non-executive directors and is chaired by Mpho Mosweu. Non-independent non-executive director, Bongani Caga, has relinquished his membership of this committee and now occupies a role on the Remuneration Committee. Bongani assisted during the 2010 year by attending meetings in order to hand over to the new members, and also when certain members were not available to attend the Audit and Risk Committee meetings. The Chairman of the board is not a member of this Committee;
- Our Remuneration Committee was restructured, and newly appointed, independent non-executive director, Johan du Preez, has been appointed to chair the committee, with Sbu Luthuli filling the role of the second independent non-executive director. As mentioned above, Bongani Caga is the third member of this committee, meeting the requirements that:
  - The majority of its members must be non-executive directors;
  - The majority of its members must be independent;
  - The Chairman of the board may not chair this committee; and
  - The Chief Executive Officer should not be a member.
- The recently formed Nomination Committee has assisted in the recruitment process which resulted in the appointment of both Johan du Preez and Sandile Zungu in March 2010. We were very pleased to announce the appointments of two additional independent non-executive directors to our board. This committee is chaired by the Chairman of the board, and the second member is Mpho Mosweu. We have also recently appointed Nthabiseng Mokone as the third member of this committee, again meeting the requirements that:
  - All members should be non-executive directors;
  - The majority of its members should be independent;
  - The Chairman of the board should chair the Nomination Committee; and
  - The Chief Executive Officer should not be a member.
- Appraisals and evaluations are carried out annually for each committee, the board and the directors, through the assistance of Internal Audit.

## BOARD OF DIRECTORS

The board of directors comprises six non-executive directors (four of whom are independent) and two executive directors. The roles of Chairman and Chief Executive Officer are separate in accordance with best practice principles, and there is clear division of responsibilities at board level and no one director has unfettered powers of decision making. Independent non-executive director Sbu Luthuli chairs the board. Although Sbu owns 2 787 000 CMSA shares in total (789 000 direct and 1 998 000 indirect shares), this is not material in terms of the company (being only 0,61% of the issued share capital) and in his own personal capacity.

During March 2010 two independent non-executive director appointments were made, viz. Johan du Preez and Sandile Zungu. In accordance with the requirements of King III, the board has satisfied itself that each independent director does not have any business interests or other relationship that could interfere materially with their capacity to act in an independent manner.

The names and brief curriculum vitas of the directors are set out on pages 12 and 13 of this report. The board of CMSA has been established to retain full and effective control over the company and its subsidiaries. Its 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;
- Identify key risks and key performance indicators in order for the group to generate economic profit and enhance shareholder value;
- Full and timely disclosure of material matters concerning the group;
- 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.

All directors have unrestricted access to all company information, records, documents and property. Directors receive detailed information packs on all operating subsidiaries 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. Non-executive directors have full access to management and the Company Secretary, and may seek independent professional advice at the company's expense.

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. 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 Chief Executive Officer, Chief Financial Officer or Company Secretary prior to trading the company's shares; directors are obliged to provide the Chief Financial Officer and/or Company Secretary with all information required by the company to comply with its disclosure duties in terms of the Listing Requirements of the JSE by no later than 24 hours after the share dealing.

Executive directors are non-voting invitees at all Audit and Risk Committee, Remuneration Committee and Nomination Committee meetings and attendance is by invitation only. Attendance by the directors at board meetings during the year is set out below:

Directors	Status	22/02/10 <sup>1</sup>	11/03/10	20/05/10	25/08/10	24/11/10
Sbu Luthuli (Chairman)	Independent non-executive	✓	✓	✓	✓	✓
Chris Aucamp (CFO)	Executive	✓	✓	✓	✓	✓
Bongani Caga	Non-executive	✓	✓	✓	✓	✓
Johan du Preez <sup>2</sup>	Independent non-executive	n/a	n/a	✓	✓	✓
Nthabiseng Mokone	Non-executive	✓	✓	✓	✓	✓
Mpho Mosweu	Independent non-executive	✓	✓	✓	x	x
Jerome Smith (CEO)	Executive	x	✓	✓	✓	✓
Sandile Zungu <sup>2</sup>	Independent non-executive	n/a	n/a	x	x	✓

1 This was a special board meeting that was held during 2010.

2 Appointed on 16 March 2010.

✓ In attendance

x Apologies

# Corporate governance continued

## Company Secretary

The Company Secretary attends board and committee meetings at the invitation of the board, and 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 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. In addition, all new directors are provided with an induction pack including important information on the group, the group's governance framework including the board and committee structures, as well as the board charter and the committees' terms of reference. In addition, ongoing directors' training sessions are arranged as required.

## 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 and Nomination Committee. In addition to these committees listed above, the board may constitute additional committees as and when required. The various committee Chairmen attend the company's AGM each year in order to provide relevant feedback as required.

## AUDIT AND RISK COMMITTEE

The Audit and Risk Committee consists of three members, all of whom are independent non-executive directors, and are appropriately qualified for their roles on the committee. These members are appointed by shareholders at the AGM each year. The committee functions in accordance with its terms of reference as approved by the board. The committee is chaired by Mpho Mosweu and meets at appropriate times during the year to assist the board with all matters relating to external reporting and risk management including:

- Reviewing publicly released financial information;
- Overseeing integrated financial and sustainability reporting;
- Establishing processes for monitoring the effectiveness of internal controls and safeguarding of assets;
- Discuss the level of materiality adopted by the auditors and all over- and understatements not adjusted in the accounts;
- Developing risk management strategies;
- Appointment and monitoring of independent external auditors, approving their fees and setting principles for utilising the external auditors for non-audit services;
- Monitoring and supervising the effective functioning of Internal Audit;
- Compliance with statutory and regulatory services; and
- Review of the group's insurance portfolio and foreign exchange risk management policies.

The Chief Executive Officer, Chief Financial Officer and Company Secretary attend meetings of the committee by invitation only. In addition, the external and internal auditors attend meetings by invitation, as well as our in-house legal counsel. The external and internal auditors have unrestricted access to the Chairperson of the committee and report to the committee at each meeting in accordance with established principles.

With appropriate input from the Audit and Risk Committee, the board regularly reviews the effectiveness of the company's risk management and internal control systems. These systems are designed to ensure the accuracy of financial reporting and to safeguard the company's assets. The systems include documented organisation structures and operating policies and procedures. The board's risk management strategy includes matters relating to enterprise risk, including strategic, operational, financial and compliance risks.

The Audit and Risk Committee considered, and was satisfied with, the experience, expertise and suitability of the Chief Financial Officer. The committee is also satisfied that all financial announcements and annual financial statements have been prepared in compliance with the JSE Listings Requirements, IFRS and the accounting policies of the group. The following table sets out the attendance of directors at meetings of the Audit and Risk Committee during 2010:

Members	10/03/10	20/05/10	24/08/10	23/11/10
Mpho Mosweu (Chairperson)	✓	✗	✗	✓
Johan du Preez <sup>1</sup>	n/a	✓	✓	✓
Sandile Zungu <sup>1</sup>	n/a	✗	✗	✓
Bongani Caga <sup>2</sup>	✓	✓	✓	n/a
Nthabiseng Mokone <sup>3</sup>	n/a	n/a	✓	n/a

1 Appointed on 16 March 2010.

2 As this committee was only restructured after the new appointments of Johan du Preez and Sandile Zungu, Bongani Caga attended the first three meetings in order to hand over to the new members and to assist when Mpho Mosweu was unable to attend.

3 Nthabiseng Mokone acted as a stand-in member for this committee for the August 2010 meeting.

✓ In attendance

✗ Apologies

#### REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, two of whom are independent non-executive directors. The committee is chaired by Johan du Preez, and he is accompanied on the committee by Sbu Luthuli and Bongani Caga. As Johan du Preez was only appointed on 16 March 2010, Mpho Mosweu was the acting Chairperson for the first meeting of the year, whilst Bongani Caga was only appointed to this committee after the first meeting was held. The committee functions in accordance with its terms of reference as approved by the board.

The committee meets at appropriate times during the year to assist the board with all matters relating to the reward and retention of directors and senior executives in the group including:

- Appraisal of the performance of executive directors;
- Determining the conditions of employment, service agreements and basic remuneration for executives;
- Developing appropriate short and long-term incentives for executives;
- Recommending fees for non-executive directors;
- Setting the policy for the company's share option scheme; and
- Monitoring executive succession planning.

The table below sets out the attendance of directors at meetings of the Remuneration Committee during 2010:

Members	10/03/10	24/08/10	10/11/10	23/11/10	23/12/10
Johan du Preez <sup>1</sup> (Chairman)	n/a	✓	✓	✓	✓
Sbu Luthuli	✓	✓	✓	✓	✓
Bongani Caga <sup>3</sup>	n/a	✓	✓	✓	✓
Mpho Mosweu <sup>2</sup>	✓	n/a	n/a	n/a	n/a

1 Appointed on 16 March 2010, therefore could not chair the first meeting on 10 March 2010.

2 Mpho Mosweu was the stand-in Chairperson for this meeting as Johan du Preez was not yet appointed, and in terms of good governance the Chairman of the board could not chair this committee.

3 Bongani Caga was only appointed to this committee after the first meeting was held.

✓ In attendance

✗ Apologies

## Corporate governance continued

### REMUNERATION PHILOSOPHY FOR THE GROUP

CMSA has been in a process of revising its policies and practices to ensure good governance, and ultimately achieve compliance with the recommendations and best practices described in King III. To this end we have implemented the following:

#### *Remuneration Committee*

- The Remuneration Committee has been restructured as explained on page 26;
- Under the new leadership of Johan du Preez the committee has begun a process of reviewing the current remuneration practices of the group; and
- We are in the final stages of completing, and then adopting, a new remuneration policy for the group.

#### *Share option scheme*

- The two existing employee share schemes, viz. the broad-based employee share plan and the share incentive scheme, will no longer be utilised to issue share options to staff, and hence, once all of the unexercised options have been exercised, these schemes will be collapsed;
- As part of our ongoing process, and to ensure compliance with the new JSE Listings Requirements, the group proposed a new share option scheme which 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, with the vesting conditions having been amended as follows:
  - 10%, 2 years after grant date;
  - 30%, 3 years after grant date;
  - 30%, 4 years after grant date; and
  - 30%, 5 years after grant date.

In addition, all vested options must be exercised within 18 months from the vesting date; and

- This scheme will be utilised for the issue of shares to key employees and executives within the group, and will be based on a benchmarked multiple of their guaranteed remuneration packages, their grading, position and performance, and will be approved by the Remuneration Committee.

#### *Senior management remuneration*

Currently, CMSA uses an independent market-related remuneration survey to benchmark the appropriate remuneration for its executive and non-executive directors, also taking into consideration the performance of CMSA and the prevailing rate of inflation.

We have begun a process of reviewing the fixed and variable portions of executive management's remuneration in order to achieve a suitable balance between guaranteed remuneration, and short- and long-term incentives based on performance. As fixed-term contracts with key executives expire over time, the remuneration structures contained in these will be restructured to reflect the updated remuneration policy.

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

#### *Non-executive directors*

As stated above, we use independent market-related surveys to determine the remuneration levels for our senior executives, including the non-executive directors. In addition, we have amended the fee structure utilised to remunerate the non-executive directors (refer to page 92 for full disclosure of the proposed fees).

For 2011, we have proposed an increase in the fees for members attending board and Audit and Risk Committee meetings, and a reduction in the fees for members attending Remuneration Committee and Nomination Committee meetings. Except for the Chairman of the board, directors do not receive retainers, but are remunerated based on their attendance at board and committee meetings. The attendance fees for the Chairmen of the respective committees, have also increased slightly.

**General remuneration**

The group aims to remunerate staff based on experience, grading and performance whilst at the same time remaining competitive in order to retain our human capital, and to set us apart from the competition.

The group makes use of the Paterson Grading system and benchmarks salaries against two market-related surveys. Bonuses are not guaranteed, but are based on individual performance and the financial performance of the group.

**NOMINATION COMMITTEE**

This committee was established in 2010 to ensure that the board is suitably constituted taking into account skills requirements, experience and diversity required to lead the group forward, as well as being able to assume responsibility to shareholders for the strategic direction of the group. A key requirement is to ensure that the majority of the board membership consists of non-executive directors, and that the majority of these members are independent. Appointments to the board are made in a formal and transparent manner.

The Nomination Committee is chaired by Sbu Luthuli and has as its 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 group Chief Executive Officer and other key senior executives within the business;
- To regularly review the required mix of skills, experience and other qualities of the board of directors in order to assess the effectiveness of the board as a whole, its committees and the contribution of each director;
- To involve itself in the annual performance evaluations of the directors; and
- To develop an annual plan for approval by the board, incorporating its responsibilities and duties for the year ahead.

The table below sets out the attendance of directors at meetings of the Nomination Committee during 2010:

Members	22/02/10	11/03/10
Sbu Luthuli (Chairman)	✓	✓
Mpho Mosweu	✓	✓

✓ *In attendance*

**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.

Internal Audit is an independent appraisal function, established from both within the group and co-sourced with an external third party, RAFT Consulting, to examine and evaluate the group processes as a service to the group in the effective discharge of its responsibilities. The audit objective includes promoting effective risk management and operational efficiency. Working together with the group's external auditors, Mazars, the group Internal Audit Manager reports into the Audit and Risk Committee to assist the group in further formalising and managing its risk management process.

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 Auditors' (IIA) 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.



# Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the group annual financial statements and the annual financial statements of Cipla Medpro South Africa Limited, comprising the statements of financial position at 31 December 2010, and the statements of comprehensive income, the statements of changes in equity and statements of cash flow for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with IFRS and in the manner required by the Companies Act of South Africa.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the group's and company's ability to continue as a going concern and there is no reason to believe these entities will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the group annual financial statements and the annual financial statements of Cipla Medpro South Africa Limited are fairly presented in accordance with the applicable financial reporting framework.

## Approval of the group annual financial statements and the annual financial statements of Cipla Medpro South Africa Limited

The group annual financial statements and annual financial statements of Cipla Medpro South Africa Limited, as identified in the first paragraph, for the year ended 31 December 2010, set out on pages 35 to 88, were approved by the board of directors on 15 April 2011 and signed on their behalf by:



PCS Luthuli  
Chairman

Durban  
15 April 2011



JS Smith  
Chief Executive Officer

## Company Secretary's report

I, Mark Daly, 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 respect of the year ended 31 December 2010, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.



MW Daly  
*Company Secretary*

Durban  
15 April 2011

# Independent Auditor's report

## to the members of Cipla Medpro South Africa Limited

We have audited the group annual financial statements and the annual financial statements of Cipla Medpro South Africa Limited, which comprise the consolidated and separate statements of financial position at 31 December 2010, and the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and consolidated and separate statements of 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, and the directors' report, as set out on pages 35 to 37.

### 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 IFRS, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### 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 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 2010, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with IFRS, and in the manner required by the Companies Act of South Africa.



**Mazars**  
*Registered Auditor*  
Partner: Conrad Burger  
*Registered Auditor*

Mazars House  
Rialto Road  
Grand Moorings Precinct  
Century City  
7441

15 April 2011

# Directors' report

The directors have pleasure in presenting their report which forms part of the audited annual financial statements of Cipla Medpro South Africa Limited and the consolidated financial statements of the group for the year ended 31 December 2010.

The directors are pleased to announce a satisfactory set of annual results for 2010. The year in review saw good progress in both divisions, with the Cipla Medpro growth continuing to outperform that of the TPM.

## Nature of business

Cipla Medpro South Africa Limited is one of the leading pharmaceutical companies in South Africa. The group engages in the manufacture, marketing and supply of pharmaceutical products.

## Financial results and review of operations

The financial results of the group for the year ended 31 December 2010 are set out in the attached financial statements.

The review of operations for the year is fully covered in the Chairman's, Chief Executive Officer's and Chief Financial Officer's reports.

## Acquisitions and disposals of businesses

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

Name of entity	Date of acquisition/change	Percentage acquired/change	Percentage shareholding	Accounting treatment
Cipla Nutrition (Pty) Limited	1 March 2010	50% joint control	50	Equity account
Cipla Consult (Pty) Limited	16 April 2010	50% joint control	50	Equity account
Cipla Agricare (Pty) Limited	3 June 2010	50% interest	100	Consolidate
Medpro Pharmaceutica Africa (Pty) Limited	3 June 2010	50% interest	100	Consolidate
Cipla Dibcare (Pty) Limited	26 October 2010	33% interest	100	Consolidate
Cipla Agrimed (Pty) Limited	31 December 2010	Reduction of 11% interest	64,25	Consolidate

## Subsidiary companies

Details of the subsidiary companies are set out in note 19 and Annexure A of the financial statements.

## Joint ventures

Details of the joint ventures are set out in note 19 and Annexure A of the financial statements.

## Capital expenditure

The upgrade of CMM's 4 000 square metre Mobeni site and pharmaceutical manufacturing facility is substantially complete having commenced during January 2007. The R341 million (2009: R311 million) upgrade has seen CMM become one of the first PIC/S compliant facilities in South Africa, matching the highest standards for pharmaceutical manufacturers in the world.

## Dividends

On 19 March 2010, the company announced that a dividend policy for the 2010 year (with a dividend yield of between 1,8% and 2,0%, split between an interim and final dividend) had been approved by the board. This policy was subsequently amended to a dividend cover of between four and five times.

The company declared an inaugural interim dividend of five cents per share, based on the results of the first six-month period of 2010. A final dividend in respect of the year ended 31 December 2010 of six cents per share was declared on 17 March 2011.

The total dividend for the year amounted to 11 cents per ordinary share (2009: nil) equating to a dividend cover of 4,0 times. The estimated total cash flow of the final dividend of six cents per share, payable on 16 May 2011, is R27,2 million (2009: Rnil).

The board is satisfied that the remaining capital, after the payment of the final dividend, is sufficient to support the current operations and to facilitate the future development of the group.

## 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 is R454 027 (consisting of 454 026 555 ordinary shares of 0,1 cent each) (2009: R449 856 consisting of 449 856 116 ordinary shares of 0,1 cent each).

## Directors' report continued

At the AGM of the company held on 21 May 2010, the requisite majority of Cipla Medpro South Africa 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. In accordance with such general authority the company issued 4 170 439 ordinary shares to the CMSA Share Option Trust, equating to approximately 0,9% of the company's issued share capital at 31 December 2010. The shares were issued at an average price of R4,91 per share, representing the 30-day volume weighted average market price of the company's shares preceding the November 2009 and March 2010 option grant dates. These shares were listed on the JSE on 24 November 2010 and rank *pari passu* with the existing ordinary shares of the company.

The following shareholders own more than 5% of the issued share capital of the company:

- Sweet Sensation 67 (Pty) Limited is the owner of 82 000 000 ordinary shares in the company, equivalent to 18,1% of the issued share capital; and
- The Government Employees Pension Fund owns 30 785 749 ordinary shares in the company, equivalent to 6,8% of the issued share capital.

Further details of the authorised and issued share capital of the company are given in note 11 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
<b>31 December 2010</b>					
C Aucamp	–	750	–	750	0,17
MB Caga	–	180	–	180	0,04
PCS Luthuli	789	1 998	–	2 787	0,61
JS Smith	–	16 822	–	16 822	3,70
	789	19 750	–	20 539	4,52
<b>31 December 2009</b>					
C Aucamp	–	750	–	750	0,17
MB Caga	–	180	–	180	0,04
PCS Luthuli	1 689	1 998	–	3 687	0,82
JS Smith	–	16 822	–	16 822	3,74
	1 689	19 750	–	21 439	4,77

There were no changes in the direct and indirect interests declared by Chris Aucamp, Bongani Caga and Jerome Smith, while Sbu Luthuli sold 900 000 of his directly held shares at an average price of 703 cents at the end of October 2010. In addition, there have been no movements between year end and the approval date of this annual report.

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

#### Executive directors

JS Smith (Chief Executive Officer)  
C Aucamp (Chief Financial Officer)

#### Non-executive directors

PCS Luthuli (Chairman)  
MB Caga  
JvD du Preez – appointed 16 March 2010  
ND Mokone  
MT Mosweu  
SMD Zungu – appointed 16 March 2010

Each of the executive directors has a fixed term contract containing terms considered to be standard for such contracts. These contracts include restraint of trade provisions for which no payment was made.

An executive director is required to retire from the board at the age of 60, while a non-executive director is required to retire at the age of 70.

Refer to note 20 for detailed disclosure of directors' emoluments 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 19 of the annual financial statements.

#### Special resolutions

At the AGM held on 21 May 2010, shareholders approved via special resolution, for the company and/or its subsidiaries by way of a general approval contemplated in sections 85 (2) and 85 (3) of the Companies Act of South Africa, to acquire the issued ordinary shares of the company, upon such terms and conditions and in such amounts as the directors of the company may from time to time determine, but subject to the Articles of Association of the company, the provisions of the Companies Act of South Africa and the JSE Listings Requirements, and the provisos as listed in the notice of meeting dated 15 April 2010 included in the 2009 group annual report.

#### Going concern

The directors consider that the company and the group have adequate resources to continue operating for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the company and group 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

The auditors of the company are Mazars.

#### 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:

1474 South Coast Road  
Mobeni  
4052

#### Postal address

PO Box 32003  
Mobeni  
4060

#### Subsequent events

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 2010 and the date of approval of the annual financial statements, that has not been otherwise dealt with in the company and group annual financial statements.



PCS Luthuli  
Chairman

Durban  
15 April 2011



JS Smith  
Chief Executive Officer

# Statements of financial position

as at 31 December

	Notes	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	3	420 125	389 012	339 965	316 599
Intangible assets	4	1 475 470	1 428 577	1 427	1 427
Investments in subsidiaries	5	–	–	831 185	831 185
Other investments	6	6	4	–	–
Loans receivable	7	–	–	29 328	23 304
Deferred tax assets	8	28 220	18 695	22 850	16 879
<b>Total non-current assets</b>		<b>1 923 821</b>	<b>1 836 288</b>	<b>1 224 755</b>	<b>1 189 394</b>
<b>Current assets</b>					
Inventories	9	289 661	181 673	23 014	12 213
Income tax receivable		742	1 137	–	1 117
Trade and other receivables, including derivatives	10	264 775	230 970	48 544	39 078
Loans receivable	7	7 709	5 162	47	2 162
Cash and cash equivalents	23.4	46 448	3 683	167	160
<b>Total current assets</b>		<b>609 335</b>	<b>422 625</b>	<b>71 772</b>	<b>54 730</b>
<b>Total assets</b>		<b>2 533 156</b>	<b>2 258 913</b>	<b>1 296 527</b>	<b>1 244 124</b>
<b>EQUITY</b>					
Issued share capital	11	454	450	454	450
Share premium	11	1 063 098	1 040 924	1 063 098	1 040 924
Treasury shares	11	(28 019)	(23 304)	–	–
Retained earnings		741 863	558 475	(58 413)	(12 225)
<b>Total equity attributable to equity holders of the parent</b>		<b>1 777 396</b>	<b>1 576 545</b>	<b>1 005 139</b>	<b>1 029 149</b>
Non-controlling interest	11	7 472	3 822	–	–
<b>Total equity</b>		<b>1 784 868</b>	<b>1 580 367</b>	<b>1 005 139</b>	<b>1 029 149</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Loans and borrowings	12	311 428	346 376	43 470	27 106
Accrued operating leases		3 000	2 403	2 244	2 072
Amounts due to subsidiaries	5	–	–	133 589	113 312
Deferred tax liabilities	8	12 342	9 542	–	–
<b>Total non-current liabilities</b>		<b>326 770</b>	<b>358 321</b>	<b>179 303</b>	<b>142 490</b>
<b>Current liabilities</b>					
Bank overdrafts	23.4	71 296	63 826	58 221	50 028
Loans and borrowings	12	17 354	8 430	14 934	7 968
Income tax payable		10 012	11 793	–	–
Trade and other payables, including derivatives	13	322 856	236 176	38 930	14 489
<b>Total current liabilities</b>		<b>421 518</b>	<b>320 225</b>	<b>112 085</b>	<b>72 485</b>
<b>Total liabilities</b>		<b>748 288</b>	<b>678 546</b>	<b>291 388</b>	<b>214 975</b>
<b>Total equity and liabilities</b>		<b>2 533 156</b>	<b>2 258 913</b>	<b>1 296 527</b>	<b>1 244 124</b>

# Statements of comprehensive income

## for the years ended 31 December

	Notes	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Revenue		1 446 979	1 262 058	94 527	49 210
Cost of sales		(548 892)	(641 700)	(77 730)	(53 480)
<b>Gross profit</b>		<b>898 087</b>	<b>620 358</b>	<b>16 797</b>	<b>(4 270)</b>
Other income		6 614	6 426	19 267	13 882
Selling and distribution expenses		(284 972)	(224 200)	(8 645)	(11 266)
Administrative expenses		(155 751)	(93 687)	(42 194)	(27 585)
Other expenses		(116 475)	(47 520)	(13 025)	(6 527)
<b>Profit (loss) before finance costs and income tax</b>	14	<b>347 503</b>	<b>261 377</b>	<b>(27 800)</b>	<b>(35 766)</b>
Net finance costs and finance income	15	(57 755)	(22 873)	(10 608)	(1 407)
Finance costs		(60 585)	(28 227)	(10 838)	(5 801)
Finance income		2 830	5 354	230	4 394
<b>Profit (loss) before income tax</b>		<b>289 748</b>	<b>238 504</b>	<b>(38 408)</b>	<b>(37 173)</b>
Income tax expense	16	(90 445)	(76 418)	4 235	10 265
<b>Profit (loss) for the year</b>		<b>199 303</b>	<b>162 086</b>	<b>(34 173)</b>	<b>(26 908)</b>
<b>Profit (loss) attributable to:</b>					
Equity holders of the parent		195 403	159 904	(34 173)	(26 908)
Non-controlling interest		3 900	2 182	–	–
<b>Profit (loss) for the year</b>		<b>199 303</b>	<b>162 086</b>	<b>(34 173)</b>	<b>(26 908)</b>
Other comprehensive income for the year (net of income tax)		–	–	–	–
<b>Total comprehensive income (loss) for the year</b>		<b>199 303</b>	<b>162 086</b>	<b>(34 173)</b>	<b>(26 908)</b>
<b>Total comprehensive income (loss) attributable to:</b>					
Equity holders of the parent		195 403	159 904	(34 173)	(26 908)
Non-controlling interest		3 900	2 182	–	–
<b>Total comprehensive income (loss) for the year</b>		<b>199 303</b>	<b>162 086</b>	<b>(34 173)</b>	<b>(26 908)</b>
<b>Earnings per share</b>					
Basic earnings per share (cents)	17	44,2	36,3		
Diluted earnings per share (cents)	17	43,7	36,3		

# Statements of changes in equity

for the years ended 31 December

	Attributable to equity holders of the parent								
	Note	Share capital R'000	Share premium R'000	Treasury shares R'000	Share-based Payment reserve* R'000	Retained income* R'000	Total R'000	Non-controlling interest R'000	Total equity R'000
<b>GROUP</b>									
Balance at 1 January 2009		443	1 019 296	(7 970)	9 557	382 958	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	11	7	21 654	–	–	–	21 661	–	21 661
Share issue expenses	11	–	(26)	–	–	–	(26)	–	(26)
Shares issued from the CMSA Share Option Trust		–	–	6 327	–	–	6 327	–	6 327
Shares issued to the CMSA Share Option Trust		–	–	(21 661)	–	–	(21 661)	–	(21 661)
IFRS 2 Share-based Payments		–	–	–	6 056	–	6 056	–	6 056
<b>Balance at 1 January 2010</b>		<b>450</b>	<b>1 040 924</b>	<b>(23 304)</b>	<b>15 613</b>	<b>542 862</b>	<b>1 576 545</b>	<b>3 822</b>	<b>1 580 367</b>
Total comprehensive income for the year		–	–	–	–	195 403	195 403	3 900	199 303
Issue of share capital	11	4	22 201	–	–	–	22 205	–	22 205
Share issue expenses	11	–	(27)	–	–	–	(27)	–	(27)
Shares issued from the CMSA Share Option Trust		–	–	17 490	–	–	17 490	–	17 490
Shares issued to the CMSA Share Option Trust		–	–	(22 205)	–	–	(22 205)	–	(22 205)
IFRS 2 Share-based Payments		–	–	–	10 478	–	10 478	–	10 478
Dividends paid		–	–	–	–	(22 493)	(22 493)	(250)	(22 743)
<b>Balance at 31 December 2010</b>		<b>454</b>	<b>1 063 098</b>	<b>(28 019)</b>	<b>26 091</b>	<b>715 772</b>	<b>1 777 396</b>	<b>7 472</b>	<b>1 784 868</b>
<b>COMPANY</b>									
Balance at 1 January 2009		443	1 019 296	–	9 557	(930)	1 028 366	–	1 028 366
Total comprehensive loss for the year		–	–	–	–	(26 908)	(26 908)	–	(26 908)
Issue of share capital	11	7	21 654	–	–	–	21 661	–	21 661
Share issue expenses	11	–	(26)	–	–	–	(26)	–	(26)
IFRS 2 Share-based Payments		–	–	–	6 056	–	6 056	–	6 056
<b>Balance at 1 January 2010</b>		<b>450</b>	<b>1 040 924</b>	<b>–</b>	<b>15 613</b>	<b>(27 838)</b>	<b>1 029 149</b>	<b>–</b>	<b>1 029 149</b>
Total comprehensive loss for the year		–	–	–	–	(34 173)	(34 173)	–	(34 173)
Issue of share capital	11	4	22 201	–	–	–	22 205	–	22 205
Share issue expenses	11	–	(27)	–	–	–	(27)	–	(27)
IFRS 2 Share-based Payments		–	–	–	10 478	–	10 478	–	10 478
Dividends paid		–	–	–	–	(22 493)	(22 493)	–	(22 493)
<b>Balance at 31 December 2010</b>		<b>454</b>	<b>1 063 098</b>	<b>–</b>	<b>26 091</b>	<b>(84 504)</b>	<b>1 005 139</b>	<b>–</b>	<b>1 005 139</b>

\* The Share-based Payment reserve is now, and going forward, shown in a separate column, in order to enhance disclosure, whereas in the past it was consolidated into one column, as retained earnings. Please see below for the details:

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
Share-based Payment reserve	26 091	15 613	26 091	15 613
Retained income	715 772	542 862	(84 504)	(27 838)
<b>Retained earnings as per statement of financial position</b>	<b>741 863</b>	<b>558 475</b>	<b>(58 413)</b>	<b>(12 225)</b>

# Statements of cash flow

## for the years ended 31 December

	Notes	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>Cash flows from operating activities</b>					
Cash generated (utilised) by operations	23.1	314 457	125 886	(6 568)	(23 200)
Finance costs paid		(44 607)	(37 306)	(10 802)	(5 801)
Finance income received		2 389	5 354	230	4 394
Dividends paid		(22 743)	–	(22 493)	–
Income tax (paid) refunded	23.2	(94 514)	(80 663)	1 117	–
STC paid	23.3	(4 042)	(3 109)	(1 736)	–
<b>Net cash flows from operating activities</b>		<b>150 940</b>	<b>10 162</b>	<b>(40 252)</b>	<b>(24 607)</b>
<b>Cash flows from investing activities</b>					
Acquisitions of property, plant and equipment		(49 286)	(91 126)	(29 982)	(83 199)
Acquisitions of intangible assets		(47 400)	(26 270)	–	–
Proceeds on disposals of property, plant and equipment		10	479	–	375
(Increase) decrease in loans receivable		(1 550)	(1 657)	18 296	4 518
<b>Net cash flows from investing activities</b>		<b>(98 226)</b>	<b>(118 574)</b>	<b>(11 686)</b>	<b>(78 306)</b>
<b>Cash flows from financing activities</b>					
Share issue expenses		(27)	(26)	(27)	(26)
Proceeds from the exercise of share options		16 493	6 327	–	–
Redemption of preference shares		(159 770)	(50 200)	–	–
Increase in loans payable		125 885	60 459	43 779	61 443
<b>Net cash flows from financing activities</b>		<b>(17 419)</b>	<b>16 560</b>	<b>43 752</b>	<b>61 417</b>
Net increase (decrease) in cash and cash equivalents		35 295	(91 852)	(8 186)	(41 496)
Cash and cash equivalents at beginning of the year		(60 143)	31 709	(49 868)	(8 372)
<b>Cash and cash equivalents at end of the year</b>	23.4	<b>(24 848)</b>	<b>(60 143)</b>	<b>(58 054)</b>	<b>(49 868)</b>

# Notes to the annual financial statements

## for the years ended 31 December

### 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.

These annual financial statements were authorised for issue by the directors on 15 April 2011.

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of compliance

The consolidated financial statements of the group and separate company financial statements have been prepared in accordance with IFRS, interpretations adopted by the International Financial Reporting Interpretations Committee (IFRIC) and the Companies Act of South Africa.

#### b) Basis of preparation

The financial statements are presented in ZAR, rounded to the nearest thousand. They are prepared in accordance with the going concern and the historical cost bases except where otherwise indicated. The accrual basis of accounting has been applied in the preparation of these financial statements.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and 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 annual financial statements, management is required to make estimates and assumptions that affect the amounts presented in these financial statements and related disclosures. Significant judgements include:

##### *Allowance for impairment of trade receivables*

The allowance represents management's estimate of probable incurred losses in respect of trade receivables. The allowance is determined based on historical data of payment statistics for similar debtors.

##### *Allowance for slow moving, damaged and obsolete inventories*

An allowance for inventories is used to write down inventories 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 14 for the amount written down.

##### *Options granted*

The estimate of the fair value of services received from employees in return for share options granted, are measured with reference to the fair value of the share options granted and is based on the binomial lattice 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 may then impact our estimations and may require a material adjustment to the carrying value of goodwill and tangible assets.

The group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is 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 goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of economic factors.

##### *Taxation*

Judgement is required in determining the provision 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 ordinary 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 provisions in the period in which such determination is made.

## 1. SIGNIFICANT ACCOUNTING POLICIES continued

### b) Basis of preparation continued

The group recognises the net future benefit related to deferred income 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 income 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.

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 2010 year (refer to note 25) and the change in accounting policies noted below, refer to accounting policy (h).

### c) Basis of consolidation

The group has changed its accounting policy with respect to business combinations, see accounting policy (h).

#### (i) 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.

#### (ii) Special-purpose entities (SPEs)

The group has established a 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.

#### (iii) 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 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.

#### (iv) 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 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.

# Notes to the annual financial statements

## for the years ended 31 December

### 1. SIGNIFICANT ACCOUNTING POLICIES continued

#### c) Basis of consolidation continued

##### (v) 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.

#### d) 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. 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.

#### e) 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 fair value.

Accounting for finance income and expense is discussed in accounting policy (q).

##### *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.

##### *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 IAS 18 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 rate method, less any impairment losses.

## 1. SIGNIFICANT ACCOUNTING POLICIES continued

### e) Financial instruments continued

#### (i) Non-derivative financial instruments continued

##### *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.

#### (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. The share capital is reduced for the par value of the shares and the balance is taken to share premium.

##### *Preference shares*

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 the statement of comprehensive income as finance expense, as accrued.

### f) 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 (j)).

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.

# Notes to the annual financial statements

## for the years ended 31 December

### 1. SIGNIFICANT ACCOUNTING POLICIES continued

#### f) Property, plant and equipment continued

##### (iii) Depreciation

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. 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:

<i>Asset category</i>	<i>Useful life</i>
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.

#### g) 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 (h).

##### *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.

##### (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 (j)). 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 the end of each financial year 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:

<i>Asset category</i>	<i>Useful life</i>
Trademarks, registrations and dossiers	Indefinite
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.

## 1. SIGNIFICANT ACCOUNTING POLICIES continued

### g) 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.

### h) Changes in accounting policies

#### (i) Accounting for business combinations

From 1 January 2010 the group has applied IFRS 3 Business Combinations (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on EPS.

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 so 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.

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.

##### *Acquisitions prior to 1 January 2004 (date of transition to IFRSs)*

As part of its transition to IFRSs, the group elected to restate only those business combinations that occurred on or after 1 January 2004. In respect of acquisitions prior to 1 January 2004, goodwill represents the amount recognised under the group's previous accounting framework, SA GAAP.

#### (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. The change in accounting policy has been applied prospectively and has had no impact on EPS.

Under the new accounting policy, 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.

# Notes to the annual financial statements

## for the years ended 31 December

### 1. SIGNIFICANT ACCOUNTING POLICIES continued

#### i) 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 (f)).

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

#### j) 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.

#### k) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost method, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories 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 inventories are identified on a regular basis and are written down to their estimated net realisable values.

#### l) Impairment

##### (i) Non-derivative financial assets

A financial asset not carried 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.

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 inventories (refer to accounting policy (k)) and deferred tax assets (refer to accounting policy (r)), 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.

## 1. SIGNIFICANT ACCOUNTING POLICIES continued

### m) 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 when they are due.

#### (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.

#### (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.

### n) 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.

#### *Restructuring*

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

### o) Revenue

#### *Goods sold*

Revenue from the sale of goods 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.

### p) Lease payments

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.

### q) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised 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 expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities and changes in the fair value of financial liabilities at fair value through profit or loss. All borrowing costs are recognised in profit or loss using the effective interest rate method.

# Notes to the annual financial statements

## for the years ended 31 December

### 1. SIGNIFICANT ACCOUNTING POLICIES continued

#### r) Taxation

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 items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable 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.

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 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 declared is accrued for in the period in which the dividend is declared.

#### s) Earnings per share

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 for the effects of all dilutive potential ordinary shares, which comprises share options granted to employees.

#### t) 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 decision makers. Geographical segments are not represented as the group operates mainly in South Africa.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

#### u) 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.

## 1. SIGNIFICANT ACCOUNTING POLICIES continued

### u) Determination of fair values continued

#### (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.

#### (vi) Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price 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 lattice 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.

### v) Government grants

Government grants relating to assets are recognised as deferred income in the statement of financial position in the year that it becomes 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.

# Notes to the annual financial statements

## for the years ended 31 December

### 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 decision makers.

Geographical segments have not been presented as the group operates mainly in South Africa. No single customer contributes 10% or more of the total revenue. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets, other than goodwill. Group financing (including finance costs and finance income) and income taxes are handled on a group level and are not allocated to operating segments.

#### Business segments

The basis of segmentation is representative of the manner in which the chief operating decision maker reviews the business viz. on a factory versus non-factory basis.

The group comprises the following main business segments:

Factory :	Manufacture of pharmaceutical products
Non-factory:	Supply and distribution of pharmaceutical products
Head office:	Administrative function of the group

GROUP 2010	Factory R'000	Non-factory R'000	Head office R'000	Eliminations R'000	Total R'000
<b>Revenue</b>					
External customers	29 301	1 417 678	–	–	1 446 979
Inter-segment revenue	65 226	–	–	(65 226)	–
<b>Total segment revenue</b>	<b>94 527</b>	<b>1 417 678</b>	<b>–</b>	<b>(65 226)</b>	<b>1 446 979</b>
<b>Segment result</b>	<b>(27 800)</b>	<b>380 664</b>	<b>(23 238)</b>	<b>17 877</b>	<b>347 503</b>
<b>Segment assets</b>	<b>1 273 677</b>	<b>2 806 782</b>	<b>–</b>	<b>(1 576 265)</b>	<b>2 504 194</b>
Unallocated tax assets					28 962
<b>Total assets</b>					<b>2 533 156</b>
<b>Segment liabilities</b>	<b>291 386</b>	<b>1 911 369</b>	<b>–</b>	<b>(1 476 821)</b>	<b>725 934</b>
Unallocated tax liabilities					22 354
<b>Total liabilities</b>					<b>748 288</b>
<b>Capital expenditure</b>	<b>29 982</b>	<b>66 704</b>	<b>–</b>	<b>–</b>	<b>96 686</b>
<b>Significant non-cash expenses</b>					
Depreciation	(6 616)	(7 839)	(3 667)	–	(18 121)
Amortisation	–	(507)	–	–	(507)
<b>GROUP 2009</b>					
<b>Revenue</b>					
External customers	28 710	1 233 348	–	–	1 262 058
Inter-segment revenue	20 500	–	–	(20 500)	–
<b>Total segment revenue</b>	<b>49 210</b>	<b>1 233 348</b>	<b>–</b>	<b>(20 500)</b>	<b>1 262 058</b>
<b>Segment result</b>	<b>(35 295)</b>	<b>294 632</b>	<b>(471)</b>	<b>2 511</b>	<b>261 377</b>
<b>Segment assets</b>	<b>1 226 128</b>	<b>2 366 369</b>	<b>–</b>	<b>(1 353 416)</b>	<b>2 239 081</b>
Unallocated tax assets					19 832
<b>Total assets</b>					<b>2 258 913</b>
<b>Segment liabilities</b>	<b>214 975</b>	<b>1 706 288</b>	<b>–</b>	<b>(1 264 052)</b>	<b>657 211</b>
Unallocated tax liabilities					21 335
<b>Total liabilities</b>					<b>678 546</b>
<b>Capital expenditure</b>	<b>83 199</b>	<b>34 197</b>	<b>–</b>	<b>–</b>	<b>117 396</b>
<b>Significant non-cash expenses</b>					
Depreciation	(4 859)	(5 983)	–	–	(10 842)
Amortisation	–	(438)	–	–	(438)

## 3. PROPERTY, PLANT AND EQUIPMENT

GROUP 2010	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Leasehold improvements	132 389	(11 614)	120 775
Plant and machinery	283 929	(12 473)	271 456
Motor vehicles	2 807	(1 101)	1 706
Furniture and equipment	42 740	(16 552)	26 188
	461 865	(41 740)	420 125

GROUP Movement summary 2010	Opening carrying value R'000	Acquisitions R'000	Disposals R'000	De- preciation <sup>2</sup> R'000	Closing carrying value R'000
Leasehold improvements	116 561	9 408	–	(5 194)	120 775
Plant and machinery	249 196	29 646	–	(7 386)	271 456
Motor vehicles	1 671	457	(52)	(370)	1 706
Furniture and equipment	21 584	9 775	–	(5 171)	26 188
	389 012	49 286	(52)	(18 121)	420 125

GROUP 2009	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Leasehold improvements	122 981	(6 420)	116 561
Plant and machinery	254 283	(5 087)	249 196
Motor vehicles	2 402	(731)	1 671
Furniture and equipment	32 965	(11 381)	21 584
	412 631	(23 619)	389 012

GROUP Movement summary 2009	Opening carrying value R'000	Acquisitions R'000	Disposals R'000	Transfers <sup>1</sup> R'000	De- preciation <sup>2</sup> R'000	Closing carrying value R'000
Leasehold improvements	9 530	5 612	–	105 658	(4 239)	116 561
Plant and machinery	266 104	102 659	(1 447)	(115 942)	(2 178)	249 196
Motor vehicles	1 165	1 064	(198)	–	(360)	1 671
Furniture and equipment	10 375	4 990	–	10 284	(4 065)	21 584
	287 174	114 325	(1 645)	–	(10 842)	389 012

**Upgrade of site and manufacturing facilities**

During the year ended 31 December 2007, the company commenced an upgrade of its site and manufacturing facilities. 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 which are now substantially complete, with only minor capital expenditure still to be incurred. The investment in the upgrade has been a total of R341 million (2009: R311 million) to date.

Included in plant and machinery are borrowing costs capitalised as part of the cost of qualifying assets (refer to note 15), as well 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.

# Notes to the annual financial statements

## for the years ended 31 December

### 3. PROPERTY, PLANT AND EQUIPMENT continued

#### Secured leased assets

In the current year, the group entered into a number of finance lease arrangements on plant and equipment as disclosed in note 12 (a).

The carrying value of secured leased assets can be summarised as follows:

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>Carrying values of leased plant and equipment</b>				
Plant and machinery	69 044	34 052	69 044	34 052
	69 044	34 052	69 044	34 052

COMPANY 2010	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Leasehold improvements	113 016	(3 925)	109 091
Plant and machinery	226 065	(7 052)	219 013
Motor vehicles	64	(24)	40
Furniture and equipment	15 483	(3 662)	11 821
	354 628	(14 663)	339 965

COMPANY Movement summary 2010	Opening carrying value R'000	Acquisitions R'000	De- preciation <sup>2</sup> R'000	Closing carrying value R'000
Leasehold improvements	110 592	500	(2 001)	109 091
Plant and machinery	193 336	29 098	(3 421)	219 013
Motor vehicles	53	–	(13)	40
Furniture and equipment	12 618	384	(1 181)	11 821
	316 599	29 982	(6 616)	339 965

COMPANY 2009	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Leasehold improvements	112 516	(1 924)	110 592
Plant and machinery	196 967	(3 631)	193 336
Motor vehicles	64	(11)	53
Furniture and equipment	15 099	(2 481)	12 618
	324 646	(8 047)	316 599

COMPANY Movement summary 2009	Opening carrying value R'000	Acquisitions R'000	Disposals R'000	Transfers <sup>1</sup> R'000	De- preciation <sup>2</sup> R'000	Closing carrying value R'000
Leasehold improvements	3 585	3 119	–	105 658	(1 770)	110 592
Plant and machinery	233 728	78 992	(1 447)	(115 942)	(1 995)	193 336
Motor vehicles	158	62	(135)	–	(32)	53
Furniture and equipment	2 370	1 026	–	10 284	(1 062)	12 618
	239 841	83 199	(1 582)	–	(4 859)	316 599

1 Assets capitalised during the upgrade and previously accounted for under the capital work-in-progress category within plant and machinery, have been transferred to their respective asset categories after a factory-wide physical asset verification was conducted in 2009.

2 Depreciation is recognised on a straight-line 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, laboratory equipment and leasehold improvements categories, an UOP basis incorporating capacity and remaining useful life has been applied to these assets housed within the manufacturing facility.

## 4. INTANGIBLE ASSETS

	Cost R'000	Accumulated amortisation R'000	Accumulated impairment R'000	Carrying value R'000
<b>GROUP 2010</b>				
Trademarks, registrations and dossiers	1 460 789	–	(1 378)	1 459 411
Brands	3 261	–	–	3 261
Goodwill	11 666	–	–	11 666
Computer software	2 658	(1 526)	–	1 132
	1 478 374	(1 526)	(1 378)	1 475 470
	Opening carrying value R'000	Acquisitions R'000	Amortisation R'000	Closing carrying value R'000
<b>GROUP Movement summary 2010</b>				
Trademarks, registrations and dossiers	1 413 243	46 168	–	1 459 411
Brands	3 261	–	–	3 261
Goodwill	11 666	–	–	11 666
Computer software	407	1 232	(507)	1 132
	1 428 577	47 400	(507)	1 475 470
	Cost R'000	Accumulated amortisation R'000	Accumulated impairment R'000	Carrying value R'000
<b>GROUP 2009</b>				
Trademarks, registrations and dossiers	1 414 621	–	(1 378)	1 413 243
Brands	3 261	–	–	3 261
Goodwill	11 666	–	–	11 666
Computer software	1 426	(1 019)	–	407
	1 430 974	(1 019)	(1 378)	1 428 577
	Opening carrying value R'000	Acquisitions R'000	Amortisation R'000	Closing carrying value R'000
<b>GROUP Movement summary 2009</b>				
Trademarks, registrations and dossiers	1 387 245	25 998	–	1 413 243
Brands	3 261	–	–	3 261
Goodwill	11 666	–	–	11 666
Computer software	573	272	(438)	407
	1 402 745	26 270	(438)	1 428 577

# Notes to the annual financial statements

## for the years ended 31 December

### 4. INTANGIBLE ASSETS continued

	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
<b>COMPANY 2010</b>			
Brands	1 427	–	1 427
	1 427	–	1 427
	Opening carrying value R'000	Amortisation R'000	Closing carrying value R'000
<b>COMPANY Movement summary 2010</b>			
Brands	1 427	–	1 427
	1 427	–	1 427
	Cost R'000	Accumulated amortisation R'000	Carrying value R'000
<b>COMPANY 2009</b>			
Brands	1 427	–	1 427
	1 427	–	1 427
	Opening carrying value R'000	Amortisation R'000	Closing carrying value R'000
<b>COMPANY Movement summary 2009</b>			
Brands	1 427	–	1 427
	1 427	–	1 427

#### Secured assets

As indicated within notes 12 (b) and 12 (c), the loan facilities of R100 million and R125 million respectively, are secured in part through intellectual property. The carrying value of intellectual property held as security for these facilities amounts to R149 million (2009: R103 million).

#### 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.

CMSA has classified its intangible assets as having indefinite useful lives. This conclusion is supported by the following factors:

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

#### 4. INTANGIBLE ASSETS continued

##### Impairment tests for intangible assets

Detailed impairment testing is performed for goodwill and indefinite-life intangible assets annually 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:*

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 intangible assets is determined primarily using the "free cash flow" methodology. We begin with the forecast of all the expected future net cash flows available to the group after taking into account in certain instances, working capital requirements. These cash flows are then present valued by applying an appropriate discount rate which incorporates the risk factors (systematic and unsystematic) associated with the cash flow streams. Certain judgements and assumptions are also taken into account in arriving at the net present value of the intangible asset. Accordingly, the potential for impairment of these intangible assets may exist if actual revenues are significantly lower than those initially forecasted or actual expenditure are significantly greater than those initially forecasted. 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.

For finite-life intangible assets, such as computer software, whenever impairment indicators are present, we perform detailed impairment testing as for indefinite-life intangible assets (refer above).

##### Key assumptions applied in value-in-use calculations

Growth in revenue	Determined from financial budgets and forecasts covering a five-year period. The growth rates used range between 6% and 16% (2009: 6% and 20%). Growth rates ranging between 6% and 16% (2009: 6% and 15%) were used to value Cipla Medpro.
Pre-tax operating margin	Based on previous year's margins as well as past valuation assumptions and approved management budgets. This rate ranges between 32% and 49% (2009: 28% and 53%). For the valuation of Cipla Medpro, a rate of 41% (2009: 36%) was used.
Survival periods	Assumed at 15 years (2009: 15 years) for the purposes of performing the valuation (reasonable in relation to the average life of a dossier).
Book value realised on termination	Gordon's dividend growth model used to determine terminal value – assumed a 6% growth (2009: 6%) in perpetuity.
Fair rate of return	Approximates 16,1% (2009: 16,8%).
Pre-tax risk-free rate	Approximates 7,3% (2009: R157 10-year bond rate).
Systematic risk premium	6% (2009: 6%) – generally accepted in South Africa.
Beta	1,2 (2009: 1,2).
Unsystematic risk premium	4,5% (2009: 4,5%).

# Notes to the annual financial statements

## for the years ended 31 December

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>5. INVESTMENTS IN SUBSIDIARIES</b>				
Shares at cost less impairment losses	–	–	31 274	31 274
Amounts due by subsidiaries – non-current	–	–	799 911	799 911
Investments in subsidiaries	–	–	831 185	831 185
Amounts due to subsidiaries – non-current	–	–	(133 589)	(113 312)
Net investments in subsidiaries	–	–	697 596	717 873
Loans and receivables	–	–	799 911	799 911
Financial liabilities measured at amortised cost	–	–	(133 589)	(113,312)
Refer to note 24 and Annexure A which detail the group's acquisitions during the year as well as a description of the terms and conditions attached to inter-group borrowings.				
<b>6. OTHER INVESTMENTS</b>				
<b>Non-current investments</b>				
Financial assets designated at fair value through profit or loss on initial recognition	6	4	–	–
	6	4	–	–
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 in accordance with a documented investment strategy. The fair value is based on the market price as quoted on the London Stock Exchange at year end.				
<b>7. LOANS RECEIVABLE</b>				
<b>Non-current</b>				
CMSA Share Option Trust (a)	–	–	29 328	23 304
	–	–	29 328	23 304
<b>Current</b>				
H Brand 6 CC t/a Essential Health Kuilsrivier (b)	1 000	3 000	–	–
Sweet Sensation 67 (Pty) Limited (c)	–	2 115	–	2 115
Majestic Silver Trading 223 (Pty) Limited (d)	47	47	47	47
Cipla Nutrition (Pty) Limited (d)	1 632	–	–	–
Cipla Consult (Pty) Limited (d)	3 265	–	–	–
Nedgroup Securities (Pty) Limited (e)	1 765	–	–	–
	7 709	5 162	47	2 162

(a) 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 has no fixed terms of repayment. Refer to note 22 for further details relating to share options in issue.

(b) The loan to H Brand 6 CC t/a Essential Health Kuilsrivier is secured by H Brand in his personal capacity, as well as general notarial bond registered over the moveable assets situated at the business's premises. The loan bears interest at the prime rate, and the entire principal debt and interest thereon is due to be repaid by the end of the financial year.

(c) The loan to Sweet Sensation 67 (Pty) Limited was unsecured and interest-free. The loan was repaid in full on 8 March 2010.

(d) These loans are unsecured and interest-free. There are no fixed terms of repayment.

(e) The loan to Nedgroup Securities (Pty) Limited was repaid in full on 3 January 2011.

### Credit quality of loans receivable

Management assesses the ability of the entities to repay these loans as high, as there has been no default on repayments in the past. The loans are therefore not considered to be past due nor impaired.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>8. DEFERRED TAX</b>				
<b>Deferred tax balance comprises:</b>				
Property, plant and equipment	35 487	26 003	30 200	19 689
Trademarks and registrations	6 196	4 130	–	–
Inventories	(586)	(111)	–	–
Operating leases	(840)	(173)	(628)	(80)
Employee benefit accruals	(1 062)	(1 184)	(225)	(375)
Impairment of trade receivables	(16)	(35)	–	(15)
Other	(4 917)	(4 243)	(4 167)	(4 205)
Tax losses carried forward	(50 140)	(33 540)	(48 030)	(31 893)
<b>Net deferred tax asset</b>	<b>(15 878)</b>	<b>(9 153)</b>	<b>(22 850)</b>	<b>(16 879)</b>
<b>Disclosed as follows in the statement of financial position</b>				
Deferred tax asset	(28 220)	(18 695)	(22 850)	(16 879)
Deferred tax liability	12 342	9 542	–	–
<b>Balance at end of the year</b>	<b>(15 878)</b>	<b>(9 153)</b>	<b>(22 850)</b>	<b>(16 879)</b>
<b>Reconciliation of deferred tax asset</b>				
<b>Balance at beginning of year</b>	<b>(9 153)</b>	<b>(5 306)</b>	<b>(16 879)</b>	<b>(6 614)</b>
Property, plant and equipment	9 484	31 196	10 511	24 835
Trademarks and registrations	2 066	4 130	–	–
Inventories	(475)	(90)	–	–
Operating leases	(667)	(432)	(548)	(339)
Employee benefit accruals	122	(1 446)	150	(637)
Impairment of trade receivables	19	(70)	15	(50)
Other	(674)	(8 277)	38	(6 863)
Tax losses carried forward	(16 600)	(28 858)	(16 137)	(27 211)
<b>Balance at end of the year</b>	<b>(15 878)</b>	<b>(9 153)</b>	<b>(22 850)</b>	<b>(16 879)</b>

*Unrecognised deferred tax assets and liabilities*

There were no unrecognised deferred tax assets or liabilities at year end (2009: Rnil).

There were no adjustments to deferred tax in the current or prior year that were recognised directly in equity 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 14% (2009: 14%) was used to compute deferred tax for assets and liabilities which will be realised through sale, and a rate of 28% (2009: 28%) was used for deferred tax balances to be recovered through use.

STC on the payment of our second dividend, on 16 May 2011, is estimated to be approximately R2,7 million (2009: Rnil).

# Notes to the annual financial statements

## for the years ended 31 December

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>9. INVENTORIES</b>				
Raw materials	29 485	9 591	18 329	9 591
Finished goods	258 154	170 703	2 663	1 243
Work-in-progress	2 022	1 379	2 022	1 379
	<b>289 661</b>	<b>181 673</b>	<b>23 014</b>	<b>12 213</b>
Allowance for the impairment of inventories	(3 860)	(2 313)	(1 410)	(1 414)
<p>Inventories that are considered to be obsolete are written off when the inventories cannot be sold or have reached expiry date.</p> <p>Cost of inventory recognised as an expense during the year is R548 892 305 (2009: R641 700 441).</p> <p>Write downs of R4,4 million (2009: R10,4 million) on inventories relate mainly to inventories which have expired.</p> <p>Inventories held as security by Nedbank Limited for loans granted amounted to R290 million (2009: R182 million). Refer to notes 12 (b) and 12 (c) for further details.</p>				
<b>10. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES</b>				
Trade receivables due from related parties	–	–	12 162	775
Trade receivables due from external parties	252 829	213 703	35 925	34 769
Other receivables	6 697	4 812	–	1 071
Prepayments	5 249	12 455	457	2 463
	<b>264 775</b>	<b>230 970</b>	<b>48 544</b>	<b>39 078</b>
Allowance for impairment of trade receivables	(363)	(452)	–	(73)
<p>As indicated in notes 23.4, 12 (b) and 12 (c), trade receivables of R253 million (2009: R214 million) have been ceded to the bank as security for banking and loan facilities granted.</p> <p>Trade and other receivables are carried at amortised cost, with the fair value being approximated by such carrying values.</p> <p>The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:</p>				
Wholesale customers	175 173	161 299	48 087	35 544
Retail customers	34 958	25 603	–	–
Tender customers	42 698	26 801	–	–
	<b>252 829</b>	<b>213 703</b>	<b>48 087</b>	<b>35 544</b>

Further details regarding the group's exposure to credit risk is disclosed in note 18.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>10. TRADE AND OTHER RECEIVABLES, INCLUDING DERIVATIVES</b>				
continued				
<b>Reconciliation of allowance for impairment of trade receivables</b>				
Balance at 1 January	452	514	73	167
Raised during the year	61	–	–	–
Utilised during the year	(77)	–	–	–
Unused amounts reversed	(73)	(62)	(73)	(94)
Balance at 31 December	363	452	–	73
<b>Ageing of trade receivables at reporting date:</b>				
<i>Neither past due nor impaired</i>				
Current	140 394	119 760	6 431	2 928
0 to 30 days	59 090	53 474	7 969	6 164
<i>Past due and partially impaired</i>				
31 to 120 days	53 422	40 490	33 687	26 525
More than one year	286	431	–	–
Allowance for impairment of trade receivables	(363)	(452)	–	(73)
Balance at 31 December	252 829	213 703	48 087	35 544

Based on past experience, the group believes that the impairment allowance 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 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.

# Notes to the annual financial statements

## for the years ended 31 December

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>11. SHARE CAPITAL AND RESERVES</b>				
<i>Authorised share capital</i>				
500 000 000 ordinary shares of 0,1 cent each	500	500	500	500
<i>Issued share capital</i>				
454 026 555 ordinary shares of 0,1 cent each (2009: 449 856 116)	454	450	454	450
<i>Number of shares in issue</i>				
Opening balance	449 856 116	443 265 635	449 856 116	443 265 635
Issue of shares to the CMSA Share Option Trust	4 170 439	6 590 481	4 170 439	6 590 481
Closing balance	454 026 555	449 856 116	454 026 555	449 856 116
<i>Share premium</i>				
Opening balance	1 040 924	1 019 296	1 040 924	1 019 296
Issue of shares to the CMSA Share Option Trust	22 201	21 654	22 201	21 654
Share issue expenses	(27)	(26)	(27)	(26)
Closing balance	1 063 098	1 040 924	1 063 098	1 040 924

### *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 five percent of the ordinary shares in issue as at 31 December 2010 and will remain in place until the next AGM.

### *Treasury shares*

The treasury share reserve comprises the cost of the company's shares held by the group equating to R28 019 000 (2009: R23 304 000). At 31 December 2010, 6 439 181 (2009: 7 729 072) treasury shares were held in the CMSA Share Option Trust which are available to be utilised for the exercise of share options.

### *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 total cash dividend declared for the 2010 financial year is 11 cents per share (2009: Rnil), which equates to a dividend cover of 4,0 times. The final dividend of six cents per share (interim dividend: five cents per share) was declared subsequent to 31 December 2010. No liability regarding the final dividend for 2010 has therefore been recognised as at 31 December 2010.

### *Non-controlling interest*

During the current and the preceding year, the group allocated a 25% share of profits earned by Cipla Vet (Pty) Limited to non-controlling parties.

Cipla Dibcare (Pty) Limited is now a wholly owned subsidiary of Cipla Medpro Holdings (Pty) Limited (2009: 67%), therefore no non-controlling interest exists at 31 December 2010.

Cipla Agricare (Pty) Limited is now a wholly owned subsidiary of Cipla Medpro Holdings (Pty) Limited (2009: 50%), therefore no non-controlling interest exists at 31 December 2010.

For the year ended 31 December 2010, the group allocated a 35,75% (2009: 24,75%) share of profits earned by Cipla Agrimed (Pty) Limited to non-controlling parties. During the year the option to acquire 11 shares from Cipla Medpro Holdings (Pty) Limited, was exercised by the Jan Wentzel Familie Trust and the non-controlling interest increased accordingly.

Medpro Pharmaceutica Africa (Pty) Limited is now a wholly owned subsidiary of Cipla Medpro Holdings (Pty) Limited (2009: 50%), therefore no non-controlling interest exists at 31 December 2010.

Agropharm (Pty) Limited is now a wholly owned subsidiary of Cipla Medpro Holdings (Pty) Limited (2009: 50%), therefore no non-controlling interest exists at 31 December 2010.

		GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>12. LOANS AND BORROWINGS</b>					
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 notes 18 and 26.					
<i>Held at amortised cost</i>					
Nedbank Limited	(a)	59 066	35 074	58 404	35 074
Nedbank Limited	(b)	100 000	100 000	–	–
Nedbank Limited	(c)	125 000	25 000	–	–
L'amar (France) Pharmatec (Pty) Limited	(d)	1 758	462	–	–
Depfin Investments (Pty) Limited	(e)	34 500	194 270	–	–
<i>At fair value through profit or loss</i>					
Forward exchange contracts	(f)	8 458	–	–	–
<b>Total loans and borrowings</b>		<b>328 782</b>	<b>354 806</b>	<b>58 404</b>	<b>35 074</b>
<i>Comprising:</i>					
<b>Current portion</b>					
Nedbank Limited		14 934	7 968	14 934	7 968
L'amar (France) Pharmatec (Pty) Limited		2 420	462	–	–
<b>Total current portion</b>		<b>17 354</b>	<b>8 430</b>	<b>14 934</b>	<b>7 968</b>
<b>Total non-current portion</b>		<b>311 428</b>	<b>346 376</b>	<b>43 470</b>	<b>27 106</b>
<i>Finance lease liabilities</i>					
The future minimum lease payments under finance leases are as follows:					
Less than one year		18 964	11 068	18 302	11 068
Between two and five years		48 914	32 166	48 914	32 166
More than five years		–	–	–	–
<b>Total future minimum lease payments</b>		<b>67 878</b>	<b>43 234</b>	<b>67 216</b>	<b>43 234</b>
Interest		(8 812)	(8 160)	(8 812)	(8 160)
<b>Present value of future minimum lease payments</b>		<b>59 066</b>	<b>35 074</b>	<b>58 404</b>	<b>35 074</b>

- (a) The liabilities held under finance lease arrangements are repayable over a period of five years at the prime rate less 0,5%. The finance leases are secured by plant and machinery with a book value of R69 043 769 (2009: R34 052 060) as referred to in note 3. The liabilities are being repaid in fixed monthly instalments of R1 525 175 (2009: R393 467).
- (b) This loan bears interest at rates linked to the JIBAR rate. The loan is repayable in full on 31 December 2013, with interest payable bi-annually. The loan is secured through guarantees and subordination of their claims against Cipla Medpro Holdings (Pty) Limited and its holding company, Inyanga Trading 386 (Pty) Limited, the pledge and cession of its shares in Cipla Medpro Holdings (Pty) Limited, a general notarial bond over the moveable assets of Cipla Medpro Holdings (Pty) Limited, the cession of trade receivables, cash balances, insurances and claims of Cipla Medpro Holdings (Pty) Limited and Inyanga Trading 386 (Pty) Limited, and the pledge and hypothecation of rights in intellectual property held by Cipla Medpro Holdings (Pty) Limited.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<i>Five-year facility of R100 million</i>				
Opening balance	100 000	100 000	–	–
Interest capitalised	11 198	13 335	–	–
Repayment of interest	(5 714)	(13 335)	–	–
Interest disclosed in trade and other payables (note 13)	(5 484)	–	–	–
<b>Closing balance</b>	<b>100 000</b>	<b>100 000</b>	<b>–</b>	<b>–</b>

# Notes to the annual financial statements

## for the years ended 31 December

### 12. LOANS AND BORROWINGS continued

- (c) This loan bears interest at rates linked to the JIBAR rate. The loan is repayable in full on 31 December 2013, with interest payable quarterly. The loan is secured through guarantees by Cipla Medpro Holdings (Pty) Limited, the cession of trade receivables, cash balances, insurances and a general notarial bond over all moveable assets of Cipla Medpro Holdings (Pty) Limited, as well as the hypothecation of trademarks and any other intellectual property held by Cipla Medpro Holdings (Pty) Limited.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<i>Five-year facility of R125 million (2009: R25 million)</i>				
Opening balance	25 000	–	–	–
Capital advanced	100 000	25 000	–	–
Interest capitalised	6 854	117	–	–
Repayment of interest	(6 854)	(117)	–	–
Closing balance	125 000	25 000	–	–

- (d) The loan from L'amar (France) Pharmatec (Pty) Limited is unsecured and interest-free and there are no fixed terms of repayment.
- (e) This financial liability relates to a variable rate cumulative compulsory redeemable preference share investment entered into on 29 September 2006 between Inyanga Trading 386 (Pty) Limited and Depfin Investments (Pty) Limited, a subsidiary of Nedbank Limited. These preference shares have been accounted for as a financial liability as the group has an obligation to settle in cash both the redemption and servicing of the interest thereon. During the 2010 financial year, the A and B preference shares were settled in full and as at 31 December 2010, the preference shares in issue only consisted of C preference shares, which have a par value of 1 cent and a subscription price of R10 000 each.

The group has the right to redeem the issued C preference shares at any time, with compulsory redemption required on 30 May 2012. The redemption price is an amount equal to the subscription price. The preference shares bear interest at rates linked to the prime rate, payable bi-annually in arrears.

This facility is secured via a put option to Cipla Medpro South Africa Limited of Inyanga Trading 386 (Pty) Limited's obligations under the agreement with Depfin Investments (Pty) Limited and by the cession of the company's shareholding in Inyanga Trading 386 (Pty) Limited and the subsidiaries of Cipla Medpro Holdings (Pty) Limited.

As of year end there are only 3 450 (2009: 12 500) C preference shares in issue. Refer to the table below which sets out the issues and redemptions of the preference shares during the year.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<i>Compulsory redeemable preference shares</i>				
Par value: 1 cent each				
Subscription price: R10 000 each				
Opening balance including accrued interest	198 250	251 883	–	–
Interest capitalised				
A shares	1 007	4 894	–	–
B shares	1 245	4 104	–	–
C shares	7 279	12 004	–	–
Redemption of shares				
A shares	(35 000)	(35 000)	–	–
B shares	(34 270)	(15 200)	–	–
C shares	(90 500)	–	–	–
Repayment of interest				
A shares	(1 705)	(6 250)	–	–
B shares	(1 975)	(4 925)	–	–
C shares	(9 299)	(13 260)	–	–
	35 032	198 250	–	–
Interest disclosed in trade and other payables (note 13)	(532)	(3 980)	–	–
Closing balance excluding accrued interest	34 500	194 270	–	–

- (f) This refers to the long-term portion of forward exchange contracts as described in note 13.

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>13. TRADE AND OTHER PAYABLES, INCLUDING DERIVATIVES</b>				
Trade payables due to external parties	204 091	174 124	8 580	5 776
Other payables and accruals	46 590	30 422	30 350	8 713
Interest payable on R100 million loan facility	5 484	–	–	–
Interest payable on preference shares	532	3 980	–	–
<b>Trade and other payables held at amortised cost</b>	<b>256 697</b>	<b>208 526</b>	<b>38 930</b>	<b>14 489</b>
<i>Derivatives used for economic hedging</i>				
Forward exchange contracts	60 922	24 641	–	–
Fair value of interest rate swaps	5 237	3 009	–	–
	<b>322 856</b>	<b>236 176</b>	<b>38 930</b>	<b>14 489</b>
<i>Interest payable on preference shares</i>				
This relates to interest payable on variable rate cumulative redeemable preference shares in issue. Refer to note 12 (e) for the terms thereof.				
Arrear interest payable:				
A preference shares – 2009: 3 500 shares	–	835	–	–
B preference shares – 2009: 3 427 shares	–	680	–	–
3 450 C preference shares – 2009: 12 500 shares	532	2 465	–	–
	<b>532</b>	<b>3 980</b>	<b>–</b>	<b>–</b>
<b>Financial liabilities designated at fair value through profit or loss on initial recognition:</b>				
<i>Forward exchange contracts</i>				
The group uses forward exchange contracts to economically hedge its foreign currency risk. The table below sets out the revaluation of open forward exchange contracts at 31 December 2010:				
United States Dollar (USD'000)	118 300	56 250	–	–
Average forward exchange rate (ZAR/USD)	7,54	8,10	–	–
Forward ZAR value	888 462	456 419	–	–
Mark to market valuation	819 082	431 778	–	–
Recognised fair value loss	69 380	24 641	–	–
Dates of maturity:				
2010: 31 January 2011 to 30 May 2012				
2009: 29 January 2010 to 28 February 2011				
<i>Fair value of interest rate swaps</i>				
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 (Pty) 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. The interest rate swaps listed under (i) and (ii) below, reached their termination dates on 17 January 2011. At year end the fair values were as follows:				
(i) R75 000 000 fixed at 7,35%, linked to the three-month JIBAR, effective 16 January 2006 and expiring on 17 January 2011.	47	2	–	–
(ii) R125 000 000 fixed at 7,4%, linked to the three-month JIBAR, effective 16 January 2006 and expiring on 17 January 2011.	721	181	–	–
(iii) R100 000 000 fixed at 9,18%, linked to the three-month JIBAR, effective 30 April 2007 and expiring on 30 April 2012.	4 469	2 826	–	–
	<b>5 237</b>	<b>3 009</b>	<b>–</b>	<b>–</b>

# Notes to the annual financial statements

## for the years ended 31 December

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>14. PROFIT (LOSS) BEFORE FINANCE COSTS AND INCOME TAX</b>				
Profit (loss) before finance costs and income tax is stated after:				
<i>Income</i>				
Gain on disposals of property, plant and equipment	–	(41)	–	–
Gain on foreign exchange*	(4 871)	(8 173)	(3 402)	–
Fair value gain on listed investment	(2)	–	–	–
<i>Expenditure</i>				
Loss on disposals of property, plant and equipment	42	1 207	–	1 207
Depreciation	18 121	10 842	6 616	4 859
Amortisation	507	438	–	–
Loss on forward exchange contracts*	44 739	24 684	–	–
Loss on foreign exchange*	27 396	–	–	576
Staff costs	200 821	143 342	50 698	29 326
– equity-settled share-based payment transactions (refer to note 22 for detailed disclosure of share options)	–	–	–	47
– defined contribution costs	11 151	7 951	4 169	3 441
– directors' remuneration (refer to note 20 for detailed disclosure of emoluments paid to the company's directors)	39 535	26 221	12 043	5 467
– other staff costs	150 135	109 170	34 486	20 371
Auditors' remuneration	2 228	1 961	351	584
– audit fees	2 145	1 845	351	480
– other	83	116	–	104
Lease rentals	26 480	21 738	3 357	3 257
– premises	21 232	17 184	3 226	3 257
– equipment	5 248	4 554	131	–
Impairment losses on inventories	4 400	10 424	2 037	–

\* The disclosure of the foreign exchange loss of R16,5 million in the previous financial year, had inadvertently been disclosed inclusive of the effect of the loss on forward exchange contracts of R24,7 million, which had already been separately identified within this note. As such, the 2009 disclosure of the (gain)/loss on foreign exchange has now been correctly distinguished and disclosed accordingly. The 2009 financial results have not been restated, as this is merely a correction of the line item disclosed within this note.

	GROUP 2010 R'000	GROUP 2009 R'000	GROUP 2008 R'000
Loss (gain) on forward exchange contracts	44 739	24 684	(43)
Gain on foreign exchange	(4 871)	(8 173)	21 400
Loss on foreign exchange	27 396	–	–
<b>Net loss on forward exchange contracts/foreign exchange</b>	<b>67 264</b>	<b>16 511</b>	<b>21 357</b>

		GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>15. FINANCE COSTS AND FINANCE INCOME</b>					
Interest expense on financial liabilities measured at amortised cost		27 583	34 337	–	–
Fair value loss on interest rate swaps		2 228	2 457	–	–
Interest rate swap settlements		3 020	2 261	–	–
Interest expense on bank overdrafts		6 226	7 402	5 882	4 004
Notional interest on extended credit terms	(a)	16 894	15 096	–	–
Interest expense on finance leases		4 920	1 660	4 920	1 660
Other interest paid		37	477	36	137
		60 908	63 690	10 838	5 801
Borrowing costs capitalised	(b)	(323)	(35 463)	–	–
Finance costs		60 585	28 227	10 838	5 801
Dividend income	(c)	(8)	(11)	(8)	(4 086)
Interest rate swap refunds		(266)	(4 132)	–	–
Interest on bank balances		(2 381)	(882)	(222)	(308)
Other interest received		(175)	(329)	–	–
Finance income		(2 830)	(5 354)	(230)	(4 394)
Net finance costs and income		57 755	22 873	10 608	1 407

- (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 expense over the period of financing. The application of the circular has the effect of decreasing cost of sales and increasing finance costs by R16 894 142 (2009: R15 096 331).
- (b) During the year ended 31 December 2010, borrowing costs of R323 192 (2009: R34 463 043) qualifying for capitalisation in terms of IAS 23 Borrowing Costs, were capitalised at the group's weighted average cost of capital to the cost of the upgrade of the site and manufacturing facilities based at Mobeni, Durban.
- (c) In 2010, the company did not earn any dividend income from liquidations or deregistrations, whereas in 2009, the company's dividend income included a liquidation dividend from Universal Pharmaceuticals (Pty) Limited of R3 479 720 and a deregistration dividend from Zedchem (Pty) Limited of R595 515.

# Notes to the annual financial statements

## for the years ended 31 December

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>16. INCOME TAX EXPENSE</b>				
<i>Current tax expense</i>				
Current period	94 481	78 254	–	–
Adjustment for prior periods	–	(89)	–	–
	<b>94 481</b>	<b>78 165</b>	<b>–</b>	<b>–</b>
<i>Deferred tax expense (income)</i>				
Origination and reversal of temporary differences	11 247	23 364	12 001	16 946
Assessed loss created	(16 137)	(27 211)	(16 137)	(27 211)
Adjustment for prior periods	(1 835)	–	(1 835)	–
	<b>(6 725)</b>	<b>(3 847)</b>	<b>(5 971)</b>	<b>(10 265)</b>
<i>STC</i>				
Current period	2 689	2 100	1 736	–
<b>Total income tax expense (income)</b>	<b>90 445</b>	<b>76 418</b>	<b>(4 235)</b>	<b>(10 265)</b>
	2010 %	2010 R'000	2009 %	2009 R'000
<i>Reconciliation of effective tax rate</i>				
<b>GROUP</b>				
Profit for the year		199 303		162 086
Income tax expense		90 445		76 418
Profit before income tax		<b>289 748</b>		<b>238 504</b>
Income tax using the company's domestic tax rate	28,00	81 129	28,00	66 781
Non-deductible expenses net of tax-exempt income	2,92	8 462	3,20	7 626
STC	0,93	2 689	0,88	2 100
Current tax – prior period adjustments	–	–	(0,04)	(89)
Deferred tax – prior period adjustments	(0,63)	(1 835)	–	–
	<b>31,22</b>	<b>90 445</b>	<b>32,04</b>	<b>76 418</b>
<b>COMPANY</b>				
Loss for the year		(34 173)		(26 908)
Income tax expense		(4 235)		(10 265)
Loss before income tax		<b>(38 408)</b>		<b>(37 173)</b>
Income tax using the company's domestic tax rate	28,00	(10 754)	28,00	(10 408)
Non-deductible expenses net of tax-exempt income	(7,67)	2 948	(0,39)	143
STC	(4,52)	1 736	–	–
Deferred tax – prior period adjustments	(4,78)	1 835	–	–
	<b>11,03</b>	<b>(4 235)</b>	<b>27,61</b>	<b>(10 265)</b>

	GROUP 2010 R'000	GROUP 2009 R'000
<b>17. EARNINGS PER SHARE</b>		
<i>Basic earnings per share</i>		
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	195 403	159 904
<b>Weighted average number of ordinary shares:</b>		
Issued ordinary shares at 1 January	449 856 116	443 265 635
Effect of own shares held in the CMSA Share Option Trust (treasury shares) – included in opening balance	(7 729 072)	(3 251 091)
Shares issued to the CMSA Share Option Trust	4 170 439	6 590 481
Effect of own shares held in the CMSA Share Option Trust (treasury shares) – acquired during the year	(4 170 439)	(6 588 289)
Effect of share options exercised during the year	362 200	94 726
Weighted average number of ordinary shares	442 489 244	440 111 462
<b>Total basic earnings per share</b> (cents)	<b>44,2</b>	<b>36,3</b>
<i>Diluted earnings per share</i>		
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	195 403	159 904
<b>Weighted average number of ordinary shares (diluted):</b>		
Weighted average number of ordinary shares	442 489 244	440 111 462
Effect of share options in issue	4 751 675	962 328
Weighted average number of ordinary shares (diluted)	447 240 919	441 073 790
<b>Total diluted earnings per share</b> (cents)	<b>43,7</b>	<b>36,3</b>

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 2010 R'000	GROUP 2010 R'000	GROUP 2009 R'000	GROUP 2009 R'000
<i>Headline earnings per share</i>				
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.				
	<b>Gross</b>	<b>Net</b>	<b>Gross</b>	<b>Net</b>
<b>Reconciliation of headline earnings:</b>				
Profit attributable to ordinary equity holders of the parent		195 403		159 904
Add: Loss on disposals of property, plant and equipment	42	36	1 166	1 003
<b>Headline earnings</b>		<b>195 439</b>		<b>160 907</b>
<b>Total headline earnings per share</b> (cents)		<b>44,2</b>		<b>36,6</b>
<i>Diluted headline earnings per share</i>				
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.				
<b>Headline earnings</b>		<b>195 439</b>		<b>160 907</b>
<b>Total diluted headline earnings per share</b> (cents)		<b>43,7</b>		<b>36,5</b>

# Notes to the annual financial statements

## for the years ended 31 December

### 18. 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 risks 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 an individual or a legal entity, whether they are a wholesale, retail or end-user customers, geographic location, industry, 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 10 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 23.4 for further details).

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>18. FINANCIAL RISK MANAGEMENT</b> continued				
<b>Credit risk</b> continued				
<i>Exposure to credit risk</i>				
The carrying amount of financial assets represents the maximum credit exposure.				
The maximum exposure to credit risk at the reporting date was:				
Financial assets designated at fair value through profit or loss	6	4	–	–
Loans and receivables – other	7 709	5 162	29 375	25 466
Loans and receivables – trade	264 775	230 970	48 544	39 078
Loans and receivables – subsidiaries	–	–	799 911	799 911
Loans and receivables – cash and cash equivalents	46 448	3 683	167	160
	<b>318 938</b>	<b>239 819</b>	<b>877 997</b>	<b>864 615</b>

**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 12 and 23.4 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 and five years R'000	More than five years R'000
<b>GROUP</b>					
<b>31 December 2010</b>					
<b>Non-derivative financial liabilities</b>					
Secured bank loans	225 000	289 820	21 558	268 262	–
Other loans at amortised cost	1 758	1 758	1 758	–	–
Cumulative redeemable preference shares	34 500	38 654	2 502	36 152	–
Finance lease liabilities	59 066	67 878	18 964	48 914	–
Trade and other payables (excluding derivatives)	256 697	256 697	256 697	–	–
Bank overdrafts	71 296	71 296	71 296	–	–
	<b>648 317</b>	<b>726 103</b>	<b>372 775</b>	<b>353 328</b>	<b>–</b>
<b>Derivative financial liabilities</b>					
Interest rate swaps used for hedging	5 237	5 239	770	4 469	–
Forward exchange contracts used for hedging outflow	69 380	69 380	60 922	8 458	–
	<b>74 617</b>	<b>74 619</b>	<b>61 692</b>	<b>12 927</b>	<b>–</b>

# Notes to the annual financial statements

## for the years ended 31 December

	Carrying amount R'000	Contractual cash flows R'000	Less than 12 months R'000	Between one and five years R'000	More than five years R'000
<b>18. FINANCIAL RISK MANAGEMENT</b> continued					
Liquidity risk continued					
<b>GROUP</b>					
<b>31 December 2009</b>					
<b>Non-derivative financial liabilities</b>					
Secured bank loans	125 000	153 395	14 432	138 963	–
Other loans at amortised cost	462	462	462	–	–
Cumulative redeemable preference shares	194 270	237 890	16 285	221 605	–
Finance lease liabilities	35 074	43 234	11 068	32 166	–
Trade and other payables (excluding derivatives)	208 526	208 526	208 526	–	–
Bank overdraft	63 826	63 826	63 826	–	–
	627 158	707 333	314 599	392 734	–
<b>Derivative financial liabilities</b>					
Interest rate swaps used for hedging	3 009	3 009	–	3 009	–
Forward exchange contracts used for hedging outflow	24 641	24 641	24 572	69	–
	27 650	27 650	24 572	3 078	–
<b>COMPANY</b>					
<b>31 December 2010</b>					
<b>Non-derivative financial liabilities</b>					
Finance lease liabilities	58 404	67 216	18 302	48 914	–
Amounts due to subsidiaries	133 589	133 589	–	–	133 589
Trade and other payables (excluding derivatives)	38 930	38 930	38 930	–	–
Bank overdraft	58 221	58 221	58 221	–	–
	289 144	297 956	115 453	48 914	133 589
<b>COMPANY</b>					
<b>31 December 2009</b>					
<b>Non-derivative financial liabilities</b>					
Finance lease liabilities	35 074	43 234	11 068	32 166	–
Amounts due to subsidiaries	113 312	113 312	–	–	113 312
Trade and other payables (excluding derivatives)	14 489	14 489	14 489	–	–
Bank overdraft	50 028	50 028	50 028	–	–
	212 903	221 063	75 585	32 166	113 312

### 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, while 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 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 about 85 to 90 percent 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 at least 90 percent of all trade payables denominated in a foreign currency. The group uses forward exchange contracts to economically hedge its foreign currency risk, most with a maturity of less than one year from the reporting date. When necessary, forward exchange contracts are rolled over at maturity.

	USD '000	EUR '000	GBP '000	AUD '000	ZAR '000	Decrease in profit before taxation ZAR '000
<b>18. FINANCIAL RISK MANAGEMENT</b> continued						
<b>Market risk</b> continued						
<i>Currency risk</i> continued						
<i>Exposure to currency risk</i>						
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:						
<b>GROUP 2010</b>						
Trade payables – USD	31 144	–	–	–	203 059	(20 306)
Trade payables – EUR	–	3	–	–	26	(3)
Trade payables – GBP	–	–	62	–	636	(64)
<b>GROUP 2009</b>						
Trade payables – USD	21 090	–	–	–	155 644	(15 564)
Trade payables – EUR	–	89	–	–	946	(95)
Trade payables – AUD	–	–	–	1 807	11 998	(1 200)

The above sensitivity analysis assumes that all other variables, in particular interest rates, remain constant. The group hedges at least 90% of all trade payables denominated in a foreign currency. 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.

Refer to notes 12 and 13 for the group's exposure to foreign currency risk relating to USD denominated forward exchange contracts.

At year end there were no open forward exchange contracts 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.

	2010	2009
<b>GROUP</b>		
The following significant ZAR spot rates applied at reporting date for the group:		
USD	6,52	7,38
EUR	8,83	10,63
GBP	10,26	n/a
AUD	n/a	6,64

# Notes to the annual financial statements

## for the years ended 31 December

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>18. FINANCIAL RISK MANAGEMENT</b> continued				
<b>Market risk</b> continued				
<i>Interest rate risk</i>				
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 is achieved by entering into interest rate swaps to economically hedge against fluctuations in interest rates.				
<i>Profile</i>				
At the reporting date the interest rate profile of the group's interest-bearing financial instruments was:				
<i>Variable rate instruments</i>				
Financial assets	(47 448)	(6 683)	(167)	(160)
Financial liabilities	463 817	445 820	116 625	187 706
	416 369	439 137	116 458	187 546
<i>Interest rate sensitivity analysis</i>				
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 liabilities listed. This analysis assumes that all other variables remain constant.				
<i>Decrease in profit before taxation:</i>				
Compulsory redeemable preference shares	1 200	2 276	–	–
Five-year facility of R100 million	1 023	1 053	–	–
Five-year facility of R125 million (2009: R25 million)	320	11	–	–
Finance lease liabilities	519	133	519	133
	3 062	3 473	519	133

Refer to note 12 for more details relating to these financial liabilities.

### *Equity price risk*

The group is exposed to equity price risk from equity investments. Equity investments are for strategic rather than trading purposes. 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 expose 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.

### **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 2010 R'000	GROUP 2009 R'000
Loans and borrowings	328 782	354 806
Net cash and cash equivalents – overdrawn	24 848	60 143
Net debt	353 630	414 949
Equity	1 784 868	1 580 367
	2 138 498	1 995 316

**18. FINANCIAL RISK MANAGEMENT** continued**Capital management** continued

The gearing ratio determined as the proportion of net debt to equity was 19,8% at year end (2009: 26,3%). The board monitors the capital structure of the group by considering the cost of capital and the risks associated with each class of capital. 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.

The board has approved a dividend policy for 2010, whereby a dividend cover of between four and five times has been approved. 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 carried 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 rate 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.

**19. RELATED PARTIES**

CMSA is the ultimate holding company. Related party relationships exist between the group, 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 CMSA. The group's interests are as follows:

*Direct interest*

Cipla Medpro Manufacturing (Pty) Limited – 100%  
Galilee Marketing (Pty) Limited – 100%  
Inyanga Trading 386 (Pty) Limited – 100%  
Xeragen Laboratories (Pty) Limited – 100%

*Indirect interest through 100% held subsidiary Inyanga Trading 386 (Pty) Limited*

Cipla Medpro Holdings (Pty) Limited – 100%

*Indirect interest through 100% held subsidiary Cipla Medpro Holdings (Pty) Limited*

Agropharm (Pty) Limited (effective holding) – 100% (2009: 50%)  
Cipla Agricare (Pty) Limited – 100% (2009: 50%)  
Cipla Agrimed (Pty) Limited (effective holding) – 64,25% (2009: 75,25%)  
Cipla Consult (Pty) Limited (joint venture) – 50% (2009: 0%)  
Cipla Dibcare (Pty) Limited – 100% (2009: 67%)  
Cipla Health Care (Pty) Limited – 100%  
Cipla Life Sciences (Pty) Limited (effective holding) – 100%  
Cipla Medpro ARV (Pty) Limited – 100%  
Cipla Medpro Cardio Respiratory (Pty) Limited – 100%  
Cipla-Medpro Distribution Centre (Pty) Limited – 100%  
Cipla Nutrition (Pty) Limited (joint venture) – 50% (2009: 0%)  
Cipla Personal Care (Pty) Limited – 100%  
Cipla Vet (Pty) Limited – 75% (2009: 75%)  
Cipla-Medpro (Pty) Limited – 100%  
Gardian Cipla (Pty) Limited – 100%  
Medpro Gen (Pty) Limited – 100%  
Medpro Holdings (Pty) Limited – 100%  
Medpro Pharmaceutica (Pty) Limited – 100%  
Medpro Pharmaceutica Africa (Pty) Limited – 100% (2009: 50%)  
Medpro-On-Line (Pty) Limited – 100%  
Smith and Couzin (Pty) Limited – 100%

The group also includes the CMSA Share Option Trust.

# Notes to the annual financial statements

## for the years ended 31 December

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>19. RELATED PARTIES</b> continued				
<b>a) Transactions with related parties</b>				
The following transactions were carried out by Cipla Medpro South Africa Limited with related parties:				
<b>(i) Revenue</b>				
Cipla Medpro Holdings (Pty) Limited	–	–	(65 226)	(20 499)
<b>(ii) Management fees received</b>				
Cipla Medpro Holdings (Pty) Limited	–	–	(19 102)	(10 990)
<b>(iii) Interest on inter-company loan</b>				
Cipla Medpro Holdings (Pty) Limited	–	–	–	12 265
<b>b) Loans (to) from subsidiaries:</b>				
Cipla Medpro Holdings (Pty) Limited	–	–	(122 919)	(102 604)
Inyanga Trading 386 (Pty) Limited	–	–	799 911	799 911
Xeragen Laboratories (Pty) Limited	–	–	(10 670)	(10 708)
	–	–	666 322	686 599
Refer to Annexure A for the terms and conditions attached to the above balances.				
<b>c) Loan due from the CMSA Share Option Trust</b>				
CMSA Share Option Trust	–	–	29 328	23 304
<b>d) Trade receivable due from subsidiary</b>				
Cipla Medpro Holdings (Pty) Limited	–	–	12 162	775
<b>e) Issue of shares to the CMSA Share Option Trust</b>				
2010: 4 170 439 shares	–	–	–	–
2009: 6 590 481 shares	–	–	–	–

### Transactions with directors and key management personnel

#### a) Loans (direct/indirect)

Medpro Pharmaceutica (Pty) Limited, has a loan due to L'amar (France) Pharmatec (Pty) Limited of R1 757 986 (2009: R462 390). JS Smith and C Aucamp are both directors and hold an immaterial indirect interest in this company, as declared in terms of Section 234 of the Companies Act of South Africa.

Medpro Pharmaceutica (Pty) Limited, has a loan due from Cipla Consult (Pty) Limited of R3 265 284 (2009: Rnil). Cipla Consult (Pty) Limited is a jointly controlled entity of which Cipla Medpro Holdings (Pty) Limited shares control.

Medpro Pharmaceutica (Pty) Limited, also has a loan due from Cipla Nutrition (Pty) Limited of R1 631 597 (2009: Rnil). Cipla Nutrition (Pty) Limited is a jointly controlled entity of which Cipla Medpro Holdings (Pty) Limited shares control.

#### b) Property leases

For a portion of 2010, Medpro Pharmaceutica (Pty) Limited leased property from JSSTD Properties (Pty) Limited. JS Smith is a director of JSSTD Properties (Pty) Limited. JSSTD Properties (Pty) Limited sold all properties to independent third parties during the course of 2010. Lease rentals paid during the year amounted to R450 496 (2009: R749 419), with an amount of R1 666 735 (2009: R447 598) due from JSSTD Properties (Pty) Limited at 31 December 2010, which has subsequently been settled in full. The properties under question are now all leased from the independent third parties referred to above.

#### c) Royalties

During the year, Medpro Pharmaceutica (Pty) Limited incurred royalties amounting to R1 829 581 (2009: R864 279) due to L'amar (France) Pharmatec (Pty) Limited. JS Smith and C Aucamp are both directors and hold an immaterial indirect interest in this company, as declared in terms of Section 234 of the Companies Act of South Africa.

#### d) Rentals

During the year, Medpro Pharmaceutica (Pty) Limited chartered on an ad hoc basis for entertainment purposes, yachts owned by JS Smith (trading as Executive Waterfront Charter) and Ocean Adventurer World Explorer CC, in which JS Smith has a 50% indirect interest. Amounts paid during the year for the hire of the yachts amounted to R130 000 (2009: Rnil) and R571 404 (2009: R227 211) respectively.

#### e) Consulting fees

During the year, Medpro Pharmaceutica (Pty) Limited, paid consulting fees amounting to R400 000 (2009: Rnil) to Cipla Consult (Pty) Limited.

#### f) 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 22 for details of share options granted to these employees.

## 20. DIRECTORS' EMOLUMENTS

	Directors fees <sup>1</sup> R'000	Basic salary for manage- ment services R'000	Annual bonus R'000	Other benefits R'000	Retirement and medical benefits <sup>2</sup> R'000	Total remun- eration <sup>3</sup> R'000	IFRS 2 Share- based Payment expense R'000	Total package R'000
<b>31 DECEMBER 2010</b>								
<b>Executive directors</b>								
JS Smith (CEO)	–	9 350	2 389	1 052	93	12 884	8 515	21 399
C Aucamp (CFO)	–	3 015	1 181	241	65	4 502	1 963	6 465
<b>Total A</b>	<b>–</b>	<b>12 365</b>	<b>3 570</b>	<b>1 293</b>	<b>158</b>	<b>17 386</b>	<b>10 478</b>	<b>27 864</b>
<b>Non-executive directors</b>								
PCS Luthuli (Chairman)	719	–	–	–	–	719	–	719
MB Caga	238	–	–	–	–	238	–	238
JvD du Preez <sup>4</sup>	237	–	–	–	–	237	–	237
ND Mokone	104	–	–	–	–	104	–	104
MT Mosweu	218	–	–	–	–	218	–	218
SMD Zungu <sup>4</sup>	49	–	–	–	–	49	–	49
<b>Total B</b>	<b>1 565</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 565</b>	<b>–</b>	<b>1 565</b>
<b>Total directors' emoluments paid (A+B)</b>	<b>1 565</b>	<b>12 365</b>	<b>3 570</b>	<b>1 293</b>	<b>158</b>	<b>18 951</b>	<b>10 478</b>	<b>29 429</b>
Emoluments paid by:								
CMSA	1 565	–	–	–	–	1 565	10 478	12 043
Cipla Medpro	–	12 365	3 570	1 293	158	17 386	–	17 386
<b>31 DECEMBER 2009</b>								
<b>Executive directors</b>								
JS Smith (CEO)	–	8 048	1 887	724	100	10 759	3 139	13 898
C Aucamp (CFO)	–	2 373	964	432	40	3 809	1 003	4 812
<b>Total A</b>	<b>–</b>	<b>10 421</b>	<b>2 851</b>	<b>1 156</b>	<b>140</b>	<b>14 568</b>	<b>4 142</b>	<b>18 710</b>
<b>Non-executive directors</b>								
PCS Luthuli (Chairman)	509	–	–	–	–	509	–	509
MB Caga	177	–	–	–	–	177	–	177
JvD du Preez <sup>4</sup>	–	–	–	–	–	–	–	–
Dr GS Mahlati <sup>5</sup>	353	–	–	–	–	353	–	353
ND Mokone	92	–	–	–	–	92	–	92
MT Mosweu	194	–	–	–	–	194	–	194
SMD Zungu <sup>4</sup>	–	–	–	–	–	–	–	–
<b>Total B</b>	<b>1 325</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1 325</b>	<b>–</b>	<b>1 325</b>
<b>Total directors' emoluments paid (A+B)</b>	<b>1 325</b>	<b>10 421</b>	<b>2 851</b>	<b>1 156</b>	<b>140</b>	<b>15 893</b>	<b>4 142</b>	<b>20 035</b>
Emoluments paid by:								
CMSA	1 325	–	–	–	–	1 325	4 142	5 467
Cipla Medpro	–	10 421	2 851	1 156	140	14 568	–	14 568

1 Directors' fees include payments for attendance at board, Audit and Risk Committee, Remuneration Committee and Nomination Committee meetings, as well as retainer fees for the Chairman of the board.

2 These payments relate to the employer contributions to the defined contribution pension plan and medical aid.

3 Total remuneration 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; this refers to the amount recognised in the statement of comprehensive income in relation to share options that have been granted to the executive directors.

4 Appointed in March 2010.

5 Resigned in November 2009.

Refer to note 22 which provides further details of share options in issue to directors.

# Notes to the annual financial statements

## for the years ended 31 December

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>21. COMMITMENTS AND CONTINGENCIES</b>				
<i>Operating lease commitments (as lessee)</i>				
The future minimum lease payments under non-cancellable operating leases are as follows:				
– Less than one year	15 691	11 631	3 101	3 101
– Between two and five years	50 119	36 172	12 403	12 403
– More than five years	4 433	4 058	775	3 876
	<b>70 243</b>	<b>51 861</b>	<b>16 279</b>	<b>19 380</b>

The group leases certain factory facilities and property, plant and equipment under operating leases. The leases typically run for a period of ten 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 2010, R26,5 million (2009: R21,7 million) was recognised (straight-line) as an expense in the statement of comprehensive income in respect of operating leases.

#### *Capital commitments*

At 31 December 2010, R341 million (2009: R311 million) had been expended on the upgrade of the CMM site and manufacturing facilities. Subsequent to year end, R3,6 million (2009: R9,5 million) had been spent on the upgrade.

At year end Cipla Medpro South Africa Limited had outstanding orders for plant and machinery of R51 000 (2009: R26,1 million) which had been approved but not contracted for, whilst R30,6 million (2009: R2,1 million) had been contracted for.

#### *Contingencies*

The company is currently in an arbitration dispute with Reckitt Benckiser (SA) (Pty) Limited (RBSA), wherein RBSA claims damages from Cipla Medpro South Africa Limited arising from a manufacturing agreement at its factory in Durban. The claims instituted by RBSA are for approximately R300 million. Cipla Medpro South Africa Limited has counterclaimed damages from RBSA in the same arbitration dispute, totalling R298 million. No further progress has been made with regard to this dispute.

The company has also lodged a damages claim against Pfizer Limited and Pfizer Laboratories (Pty) Limited (Pfizer) arising from damages caused by Pfizer's incorrectly obtained interdict against Cipla Medpro South Africa Limited's amlodipine besylate products in 2003. The claim lodged is for approximately R198 million. This claim is still unresolved.

## 22. SHARE OPTIONS AND SHARE-BASED PAYMENTS

In May 2005, the company established a broad-based employee share plan that allows 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 which entitles directors and key management personnel to purchase shares in the company. Such share options are 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 478 000 (2009: R6 056 000) was recognised as the IFRS 2 expense during the 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 lattice method 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 either 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 4 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.

Also in terms of the new scheme, a maximum of 44 million shares have been 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 can be granted up to a maximum of 4,4 million shares (representing approximately 1% of the shares currently in issue).

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 lattice model. The assumptions used in determining the fair value of the options granted to directors and employees in each financial year are summarised below.

GROUP AND COMPANY	Number of options granted	Number of options out-standing 2010	Number of options out-standing 2009	Expected life of options	Share price at grant date	Exercise price	Expected volatility <sup>3</sup>	Expected dividend yield <sup>4</sup>	Risk-free rate <sup>5</sup>
Date of grant	'000	'000	'000	years	cents	cents	%	%	%
June 2005	2 651	–	878	2 – 5	120	100	25 – 29	–	7,08 – 7,60
December 2005 <sup>1</sup>	4 480	35	310	2 – 5	331	300	25 – 27	–	7,17 – 7,34
April 2008	1 000	91	1 000	1 – 4	302	306	33	–	9,16
May 2008	2 928	405	2 928	1 – 4	290	296	33	–	9,67
June 2009 <sup>2</sup>	3 711	1 882	3 711	1 – 4	385	354	38	–	8,43
November 2009	3 120	3 026	3 120	1 – 4	459	478	37	–	8,43
March 2010	1 000	1 000	–	1 – 4	582	531	37	1,9	8,00

- 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 rate is the GOVI index as supplied by the Bond Exchange as a proxy for the risk-free rate, or the continuously compounded zero coupon bond rate for a four to five-year government bond.

# Notes to the annual financial statements

## for the years ended 31 December

		GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>22. SHARE OPTIONS AND SHARE-BASED PAYMENTS</b> continued					
<b>Share options outstanding</b>					
The movement in the number of share options can be reconciled as follows:					
Outstanding at beginning of the year <sup>6</sup>	('000)	11 947	7 179	11 947	7 179
Granted during the year <sup>6</sup>	('000)	1 000	6 831	1 000	6 831
Unallocated options cancelled during the year <sup>6</sup>	('000)	(1 048)	–	(1 048)	–
Exercised during the year <sup>6,7</sup>	('000)	(5 460)	(2 063)	(5 460)	(2 063)
Outstanding at end of the year <sup>6</sup>	('000)	6 439	11 947	6 439	11 947
Exercisable at 31 December <sup>6</sup>	('000)	6 439	140	6 439	140
<sup>6</sup> 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)	348	274	348	274
Granted during the year	(cents)	531	411	531	411
Unallocated options cancelled during the year	(cents)	132	–	132	–
Exercised during the year	(cents)	320	299	320	299
Outstanding at end of the year	(cents)	435	348	435	348
Exercisable at 31 December	(cents)	435	300	435	300
		<b>Number of options exercised</b>	<b>Weighted average share price</b>	<b>Number of options exercised</b>	<b>Weighted average share price</b>
		2010	2010	2009	2009
<b>GROUP AND COMPANY</b>		'000	cents	'000	cents
<sup>7</sup> The weighted average share price at the date of exercise of these share options was:					
<b>Exercised during the year</b>					
April		(909)	714	–	–
May		(2 523)	718	–	–
June		(1 829)	715	–	–
November		(94)	710	–	–
December		(105)	745	(2 063)	474
		(5 460)		(2 063)	

## 22. SHARE OPTIONS AND SHARE-BASED PAYMENTS continued

### 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 Share Option Trust amounted to 1 000 000 (2009: 6 831 000). At 31 December 2010, 6 439 000 (2009: 11 947 000) share options were still outstanding, calculated as follows:

GROUP AND COMPANY Grantee	Options outstanding at 31 December 2010 '000	Options outstanding at 31 December 2009 '000	Options granted during 2010 '000	Options granted during 2009 '000	Exercise price cents	Vesting date
JS Smith	–	692	–	–	306	April 2009
JS Smith	–	1 920	–	–	296	May 2009
JS Smith	1 883	2 888	–	2 888	354	June 2010
JS Smith	2 345	2 345	–	2 345	478	November 2010
JS Smith	1 000	–	1 000	–	531	March 2010
C Aucamp	–	217	–	–	306	April 2009
C Aucamp	–	603	–	–	296	May 2009
C Aucamp	–	823	–	823	354	June 2010
C Aucamp	680	775	–	775	478	November 2010
	5 908	10 263	1 000	6 831		
Other key personnel	–	566	–	–		
Other ex-key personnel	531	70	–	–		
Unallocated options	–	1 048	–	–		
<b>Total</b>	<b>6 439</b>	<b>11 947</b>	<b>1 000</b>	<b>6 831</b>		

Note: On 28 March 2011, C Aucamp was granted 289 256 share options at a strike price of 726 cents per share, in terms of the new CMSA Employee Share Option Scheme.

# Notes to the annual financial statements

## for the years ended 31 December

	GROUP 2010 R'000	GROUP 2009 R'000	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>23. NOTES TO THE STATEMENTS OF CASH FLOW</b>				
<b>23.1 Cash generated (utilised) by operations</b>				
Profit (loss) before taxation	289 748	238 504	(38 408)	(37 173)
Adjustments for:				
Depreciation	18 121	10 842	6 616	4 859
Amortisation	507	438	–	–
Finance costs	60 585	28 227	10 838	5 801
Finance income	(2 830)	(5 354)	(230)	(4 394)
Loss on disposals of property plant and equipment	42	1 166	–	1 207
Fair value adjustment of listed investments	(2)	–	–	–
Fair value adjustment of forward exchange contracts	44 739	24 684	–	–
Equity-settled share-based payment expenses	10 478	6 056	10 478	6 056
<b>Operating profit before working capital changes</b>	<b>421 388</b>	<b>304 563</b>	<b>(10 706)</b>	<b>(23 644)</b>
(Increase) decrease in inventories	(107 988)	8 869	(10 801)	(7 713)
(Increase) decrease in trade and other receivables	(33 630)	(8 131)	(9 466)	29 382
Increase (decrease) in trade and other payables	34 687	(179 415)	24 405	(21 225)
	<b>314 457</b>	<b>125 886</b>	<b>(6 568)</b>	<b>(23 200)</b>
<b>23.2 Reconciliation of taxation (paid) refunded</b>				
Balance at beginning of the year	(9 208)	(11 706)	1 117	1 117
Statement of comprehensive income charge	(94 481)	(78 165)	–	–
Balance at end of the year	9 175	9 208	–	(1 117)
	<b>(94 514)</b>	<b>(80 663)</b>	<b>1 117</b>	<b>–</b>
<b>23.3 Reconciliation of STC paid</b>				
Balance at beginning of the year	(1 448)	(2 457)	–	–
Statement of comprehensive income charge	(2 689)	(2 100)	(1 736)	–
Balance at end of the year	95	1 448	–	–
	<b>(4 042)</b>	<b>(3 109)</b>	<b>(1 736)</b>	<b>–</b>
<b>23.4 Cash and cash equivalents</b>				
Bank balances	5 377	3 401	4	5
Call deposits	41 071	282	163	155
Cash and cash equivalents	46 448	3 683	167	160
Bank overdrafts used for cash management purposes	(71 296)	(63 826)	(58 221)	(50 028)
Cash and cash equivalents in the statements of cash flow	<b>(24 848)</b>	<b>(60 143)</b>	<b>(58 054)</b>	<b>(49 868)</b>

## 23. NOTES TO THE STATEMENT OF CASH FLOW continued

### 23.4 Cash and cash equivalents continued

Cipla Medpro South Africa Limited has a multi-option facility comprising overdrafts, letters of guarantee and letters of credit for an amount of R80 million (2009: R80 million), letters of guarantee amounting to R490 000 (2009: R490 000), an asset based finance facility of R72,5 million (2009: R72,5 million) and a derivative facility of R30 million (2009: R30 million) held with Nedbank Limited. These are secured in part through:

- Cross deed of suretyship by Cipla Medpro Holdings (Pty) Limited, Cipla Medpro Manufacturing (Pty) Limited and Cipla Medpro South Africa Limited.

The banking facilities of Inyanga Trading 386 (Pty) Limited, are secured as follows:

- Guarantee of the obligations of Cipla Medpro Holdings (Pty) Limited;
- Pledge and cession of Inyanga Trading 386 (Pty) Limited's shares;
- Pledge and cession of Inyanga Trading 386 (Pty) Limited's investment in and claims against Cipla Medpro Holdings (Pty) Limited; and
- Cession of Inyanga Trading 386 (Pty) Limited's trade debtors, deposits, cash, rights to insurances and government authorisations.

The R35 million (2009: R5 million) general banking facility comprising overdrafts, guarantees, Customer Foreign Currencies (CFCs) and letters of credit from ABSA Bank Limited granted to Medpro Pharmaceutica (Pty) Limited, a subsidiary company of Cipla Medpro Holdings (Pty) 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 (Pty) Limited; and
- The cession of the loan account by Cipla Medpro Holdings (Pty) Limited in Medpro Pharmaceutica (Pty) Limited.

Nedbank Limited has a reversionary right to the cash balances of the group.

## 24. ACQUISITIONS AND DISPOSALS OF BUSINESSES

During January 2009, the group acquired a 50% interest in Medpro Pharmaceutica Africa (Pty) Limited for five Rand. The total purchase consideration was settled in cash. On 3 June 2010, the group acquired an additional 50% interest in the company for a further five Rand, with the purchase consideration also settled in cash. Medpro Pharmaceutica Africa (Pty) Limited is now a wholly owned subsidiary of the group.

On 26 October 2010, the group acquired an additional 33% interest in Cipla Dibcare (Pty) Limited for R334, with the purchase consideration settled in cash. Cipla Dibcare (Pty) Limited is now a wholly owned subsidiary of the group.

On 3 June 2010, the group acquired an additional 50% interest in Cipla Agricare (Pty) Limited for five Rand, with the purchase consideration settled in cash. Cipla Agricare (Pty) Limited is now a wholly owned subsidiary of the group.

During the 2010 financial year the Jan Wentzel Familie Trust exercised its option to acquire 11 shares of Cipla Medpro Holdings (Pty) Limited's 43 shares in Cipla Agrimed (Pty) Limited. Cipla Medpro Holdings (Pty) Limited now effectively holds 64,25% (2009: 75,25%) in Cipla Agrimed (Pty) Limited.

On 1 March 2010 and 16 April 2010, the group acquired a 50% interest in Cipla Nutrition (Pty) Limited and Cipla Consult (Pty) Limited, respectively, for five Rand and fifty Rand, with the purchase considerations settled in cash. Both entities are jointly controlled by Cipla Medpro Holdings (Pty) Limited and outside parties and are classified as joint ventures.

# Notes to the annual financial statements

## for the years ended 31 December

### 25. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

#### 25.1 Standards, amendments and interpretations effective 1 January 2010 and adopted during the current financial year

During the current year, the group adopted the following new and amended standards and interpretations:

- IFRS 2 Share-based Payments (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies the scope of IFRS 2 by confirming that transactions related to business combinations within the scope of IFRS 3 (2008) Business Combinations are excluded from the scope of IFRS 2. As per IFRS 3, common control transactions and joint ventures for which control is not relevant are no longer explicitly included in the definition of business combinations and therefore IFRS 2 is applicable to transactions relating to business combinations of this type. This amendment did not have an impact on the financial position or performance of the group;
- IFRS 3 Business Combinations, IAS 27 Consolidated and Separate Financial Statements and IAS 28 Investments in Associates (all revised) (mandatory for business combinations in annual periods beginning on or after 1 July 2009). The more important revisions to the standards include:
  - Acquisition costs to be expensed;
  - Non-controlling interest to either be calculated at fair value or at their proportionate share of the net identifiable assets of the acquiree;
  - Goodwill is measured at the acquisition date as the difference between the acquisition date fair value of consideration paid, non-controlling interest and fair value of previous shareholding and the fair value of the net identifiable assets of the acquiree;
  - Goodwill is not subsequently remeasured and no gain or loss is recognised on subsequent changes in ownership interests that do not involve the loss of control. These changes are treated as transactions with owners and recognised directly in equity;
  - Consideration for an acquisition, including any contingent consideration, is measured at fair value at the acquisition date; and
  - The non-controlling parties' proportionate share of profit or loss is attributed to the non-controlling interest even if this results in the non-controlling interest having a deficit balance.

None of the revisions had an impact on the financial position or performance of the group, but resulted in additional disclosures with regards to the accounting policy (refer note 1. h) (i));

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 January 2010). The amendment clarifies the disclosures of non-current assets classified as held for sale or discontinued operations. The new wording addresses the uncertainty around the specific disclosures;
- IFRS 8 Operating Segments (effective for annual periods beginning on or after 1 January 2010). The amendment aims to eliminate the difference with the US standards on the presentation of segment disclosure, by requiring that both assets and liabilities of each segment be presented systematically;
- IAS 1 Presentation of Financial Statements (effective annual periods beginning on or after 1 January 2010). The amendment aims to provide clarification on the classification of the liability component of convertible assets as current or non-current: this component should not be classified as a current liability simply because it may be settled at any time at the option of the holder;
- IAS 7 Statement of Cash Flows (effective for annual periods beginning on or after 1 July 2009). The amendment states that cash flows arising from changes in level of control, where control is not lost, are equity transactions and should therefore be accounted for as cash flows from financing transactions;
- IAS 7 Statement of Cash Flows (effective annual periods beginning on or after 1 January 2010). The amendment states that only expenditure that results in the recognition of an asset are eligible for classification as investing activities in the statement of cash flows. This change aims to ensure consistency between the statement of financial position and the statement of cash flows;
- IAS 12 Income Taxes (effective for annual periods beginning on or after 1 July 2009). The amendment requires that a deferred tax asset should be recognised against goodwill (and profit or loss to the extent that it exceeds goodwill) if the deferred tax asset existed on acquisition date, but was not recognised by the subsidiary due to whatever reason and the asset became recognisable subsequently. This may only be done if it results from information that existed at acquisition date; and
- IAS 17 Leases (effective for annual periods beginning on or after 1 January 2010). When the length of a lease, containing a land element, is such that in substance, title passes to the lessee at the end of the lease term, such lease may be classified as a finance lease, as opposed to an operating lease. Retrospective application of this amendment is required on the basis of information available at the date of signature of the lease contract.

## 25. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS continued

### 25.1 Standards, amendments and interpretations effective 1 January 2010 and adopted during the current financial year continued

- IAS 28 Investments in Associates (effective annual periods beginning on or after 1 July 2009). When an investment in associate is reduced, but significant influence is retained, the amendment requires that a proportionate share of other comprehensive income must be reclassified to profit or loss;
- IAS 36 Impairment of Assets (effective for annual periods beginning on or after 1 January 2010). The application of IFRS 8 Operating Segments could have an impact on the determination of operating segments. The determination may lead to a revision of the allocation of goodwill to cash-generating units. IFRS 8 allows the aggregation of segments with similar economic characteristics. The amendment to IAS 36 states that the relevant segments for the allocation of goodwill are those existing before the aggregation;
- IAS 38 Intangible Assets (effective annual periods beginning on or after 1 July 2009). The amendment states that an identifiable intangible asset acquired in a business combination should be recognised separately from goodwill. The amendment also states that there are no specific measurement techniques required to be used for the measurement of intangible assets when no active market exists;
- IAS 39 Financial instruments: Recognition and Measurement (effective for annual periods beginning on or after 1 January 2010). The amendments clarify the scope exemption for business combination contracts and states that only forward contracts of which finalisation does not depend on the future actions of one or another party are excluded from the scope of IAS 39. The amendment also clarifies that amounts recognised in equity should be reclassified to profit or loss in the same period during which the hedged cash flow affects profit or loss. Finally, the amendment also explains that loan prepayment penalties should be recognised separately from the host contract, unless the option exercise price compensates the lender for the loss of interest income because the loan was repaid early;
- IFRIC 17 Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies that a dividend should only be recognised once it is appropriately authorised; the dividend payable should be measured at the fair value of the net assets to be distributed and the entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Further, the interpretation also requires an entity to provide additional disclosure if the net assets held for distribution to the owners meet the definition of a discontinued operation; and
- AC 503 Accounting for Black Economic Empowerment Transactions (effective for annual periods beginning on or after 1 July 2009). The definition of performance conditions has been amended to include a service requirement, in addition to performance targets, with regards to vesting conditions as per IFRS 2 Share-based Payments.

### 25.2 Standards, amendments and interpretations not yet effective for the current financial year, but effective for ensuing financial years

At the date of authorisation of these financial statements, the standards and interpretations listed below were in issue but not yet effective and have not been applied in preparing these consolidated group financial statements:

- IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2011). The amendment clarifies the requirements for risk disclosures. The adoption of this amendment is not expected to impact the results of the group, but may result in additional disclosure;
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2013). 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 adoption of this new standard is not expected to impact the results of the group, but will result in additional disclosure; and

- IAS 24 Related Party Disclosures (revised) (effective for annual periods beginning on or after 1 January 2011). This amendment clarifies the definition of a related party. In terms of the definition, the revision clarifies that joint ventures or associates of the same third party are related parties of each other. The adoption of this amendment is not expected to impact the results of the group, neither result in additional disclosure.

# Notes to the annual financial statements

## for the years ended 31 December

### 26. FINANCIAL INSTRUMENTS

#### 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 2010 R'000	GROUP 2009 R'000
<b>Financial assets measured at fair value</b>		
Listed shares (level 1)	6	4
<b>Financial liabilities measured at fair value</b>		
Forward exchange contracts (level 2)	69 380	24 641
Interest rate swaps (level 2)	5 237	3 009
	<b>74 617</b>	<b>27 650</b>

#### Categories of financial instruments and fair values

The group's financial instruments consist primarily of deposits with banks, short-term loans receivable, trade and other receivables, amounts due to and from subsidiaries and fellow subsidiaries, trade and other payables 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 (u) for a discussion of how fair values are determined. The fair values of financial assets and liabilities are as follows:

	GROUP 2010 R'000	GROUP 2009 R'000
<b>26. FINANCIAL INSTRUMENTS</b> continued		
<b>Financial assets</b>		
Financial assets designated at fair value through profit or loss	6	4
Listed equity securities	6	4
Loans and receivables	272 484	236 132
Trade and other receivables (excluding derivatives)	264 775	230 970
Short-term loans receivable	7 709	5 162
Cash and cash equivalents	46 448	3 683
<b>Financial liabilities</b>		
Financial liabilities designated at fair value through profit or loss	(74 617)	(27 650)
Forward exchange contracts	(69 380)	(24 641)
Interest rate swaps	(5 237)	(3 009)
Financial liabilities held at amortised cost	(577 021)	(563 332)
Secured bank loans	(225 000)	(125 000)
Other loans at amortised cost	(1 758)	(462)
Redeemable preference shares	(34 500)	(194 270)
Finance lease liabilities	(59 066)	(35 074)
Trade and other payables (excluding derivatives)	(256 697)	(208 526)
Bank overdrafts	(71 296)	(63 826)
	COMPANY 2010 R'000	COMPANY 2009 R'000
<b>Financial assets</b>		
Loans and receivables	909 104	895 729
Trade and other receivables (excluding derivatives)	48 544	39 078
Long-term loans receivable	829 239	823 215
Long-term unlisted investments	31 274	31 274
Short-term loans receivable	47	2 162
Cash and cash equivalents	167	160
<b>Financial liabilities</b>		
Financial liabilities held at amortised cost	(230 923)	(162 875)
Finance lease liabilities	(58 404)	(35 074)
Amounts due to subsidiaries	(133 589)	(113 312)
Trade and other payables (excluding derivatives)	(38 930)	(14 489)
Bank overdraft	(58 221)	(50 028)

# Annexure A

## 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 2010 %	Effective group holding 2009 %	Investment 2010 R'000	Investment 2009 R'000	Amounts due by (to) subsidiaries <sup>1</sup> 2010 R'000	Amounts due by (to) subsidiaries <sup>1</sup> 2009 R'000
<i>Direct holdings</i>								
Cipla Medpro Manufacturing (Pty) Limited	02/12/08	100	100	100	–	–	–	–
Galilee Marketing (Pty) Limited	02/10/06	100	100	100	–	–	–	–
Inyanga Trading 386 (Pty) Limited	15/12/05	100	100	100	–	–	799 911	799 911
Xeragen Laboratories (Pty) Limited	01/09/05	100	100	100	31 274	31 274	(10 670)	(10 708)
<b>Total direct holdings</b>					<b>31 274</b>	<b>31 274</b>	<b>789 241</b>	<b>789 203</b>
<i>Indirect holdings</i>								
Cipla Medpro Holdings (Pty) Limited	16/01/06 <sup>2</sup>	10	100	100	1 391 054	1 391 054	(122 919)	(102 604)
<b>Total indirect holdings</b>					<b>1 391 054</b>	<b>1 391 054</b>	<b>(122 919)</b>	<b>(102 604)</b>
<b>Total holdings</b>					<b>1 422 328</b>	<b>1 422 328</b>	<b>666 322</b>	<b>686 599</b>

- 1 All amounts due by (to) subsidiaries are unsecured and interest free (2009: R102,6 million loaned by Cipla Medpro Holdings (Pty) Limited to Cipla Medpro South Africa Limited bore interest at rates linked to the prime rate). There are no specific repayment terms attached to the above loans.
- 2 Cipla Medpro Holdings (Pty) 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 (Pty) Limited was purchased by Inyanga Trading 386 (Pty) Limited, both wholly owned subsidiaries of Cipla Medpro South Africa Limited. Refer to note 19 for the list of subsidiaries of which Cipla Medpro Holdings (Pty) Limited is the holding company.

# Analysis of shareholders<sup>1</sup>

Issued shares: 454 026 555 (2009: 449 856 116)

2010	Number of shareholders	Percentage of total shareholders	Number of shares	Percentage of total shareholding
<b>SHAREHOLDER SPREAD</b>				
1 – 1 000 shares	1 347	21,40	823 994	0,18
1 001 – 10 000 shares	3 607	57,30	15 422 696	3,40
10 001 – 100 000 shares	1 078	17,12	32 842 321	7,23
100 001 – 1 000 000 shares	200	3,18	70 666 526	15,56
1000 001 shares and over	63	1,00	334 271 018	73,63
<b>Total</b>	<b>6 295</b>	<b>100</b>	<b>454 026 555</b>	<b>100</b>
<b>PUBLIC/NON-PUBLIC SHAREHOLDERS</b>				
Non-public shareholders	7	0,12	109 226 742	24,05
Strategic holdings (more than 10%)	1	0,02	82 000 000	18,06
Directors of the company <sup>2</sup>	5	0,08	20 538 911	4,52
CMSA Share Option Trust	1	0,02	6 687 831	1,47
Public shareholders	6 288	99,88	344 799 813	75,95
<b>Total</b>	<b>6 295</b>	<b>100</b>	<b>454 026 555</b>	<b>100</b>
<b>BENEFICIAL SHAREHOLDERS HOLDING 3% OR MORE</b>				
Sweet Sensation 67 (Pty) Limited			82 000 000	18,06
Government Employees Pension Fund			30 785 749	6,78
Liberty Life Association of Africa Limited			17 913 803	3,95
STD Pharma Limited			17 892 857	3,94
JS Pharm Trust (JS Smith)			16 821 954	3,71

1 Representative of shareholders on the share register as at 31 December 2010.

2 The breakdown of directors' shareholdings can be found within the directors' report.

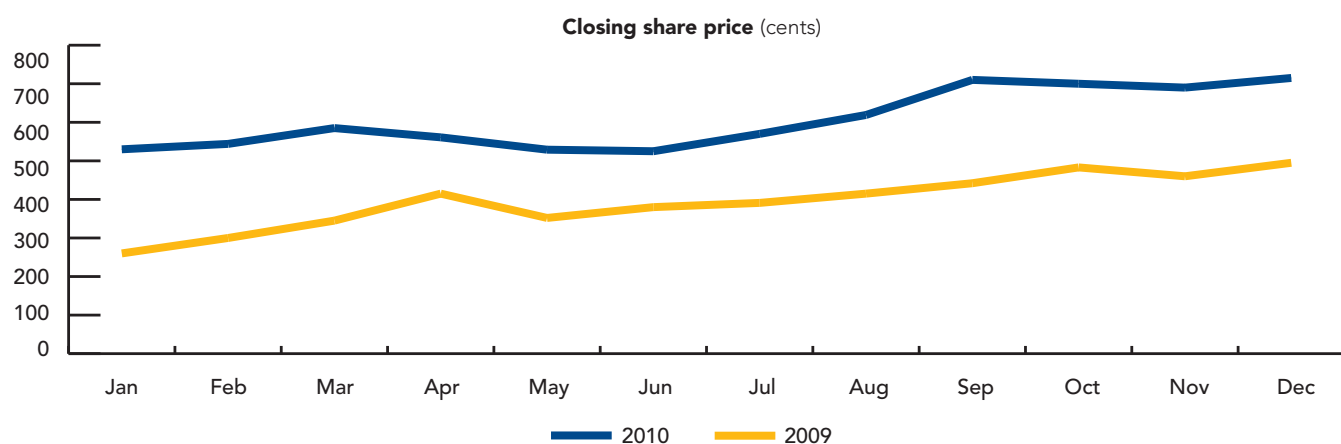
# Share trading statistics

## for the years ended 31 December

Issued shares: 454 026 555 (2009: 449 856 116)

2010 MONTHLY TRADING STATISTICS	High cents	Low cents	Close cents	Volume of shares	Value R	Number of transactions
January	550	500	530	10 806 085	55 651 163	1 034
February	550	505	544	6 736 290	35 105 157	681
March	600	536	585	10 067 154	56 607 383	1 642
April	594	555	561	9 151 251	52 593 483	1 194
May	580	510	529	10 453 924	57 567 860	1 286
June	555	506	525	8 091 954	42 821 322	708
July	570	490	570	12 018 400	62 703 573	1 119
August	619	550	619	11 797 476	69 131 422	1 869
September	730	620	710	13 827 362	93 658 340	3 514
October	779	690	700	11 374 639	82 404 558	2 912
November	735	680	690	18 996 773	134 295 359	2 827
December	730	670	715	13 693 363	97 176 094	2 698
				137 014 671	839 715 714	21 484

SHARE STATISTICS		2010	2009
High	(cents)	779	520
Low	(cents)	490	225
Year end	(cents)	715	495
Volume of shares traded		137 014 671	198 157 667
Volume as a percentage of the number of shares in issue	(%)	30,18	44,05
Value of shares traded	(R'000)	839 716	743 634
Number of transactions		21 484	15 835
Earnings yield at year end	(%)	6,2	7,3
Dividend yield at year end	(%)	1,5	n/a
Price earnings ratio at year end	(times)	16,2	13,6
Market capitalisation at year end net of treasury shares	(R'000)	3 200 250	2 188 529
Market capitalisation to shareholders' equity at year end	(times)	1,8	1,4



Source: Computershare

# 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")

Notice is hereby given that the annual general meeting of CMSA will be held at the Cipla Medpro Offices, Board Room number 1, Belvedere Office Park, Block F, Bella Rosa Street, Bellville, Cape Town at 14:00 on Wednesday, 25 May 2011 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 for the financial year ended 31 December 2010.

### 2. Ordinary resolution number 2

*Re-election of directors*

To re-elect directors of CMSA, namely:

2.1 Mrs ND Mokone;

2.2 Mrs MT Mosweu; and

2.3 Mr JS Smith,

who retire by rotation in terms of CMSA's Articles of Association but, all being eligible, offer themselves for re-election.

A brief curriculum vitae in respect of each director referred to in 2 above appears on pages 12 and 13 of this annual report.

As special business, to consider, and if deemed fit, to pass with or without modification the following ordinary and special resolutions.

### 3. Ordinary resolution number 3

*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, and that the directors be and are hereby authorised and empowered, subject to the provisions of the Companies Act No. 61 of 1973, as amended, or the Companies Act No. 71 of 2008, once effective ("the Companies Act"), the Articles of Association of CMSA and the Listings Requirements of the JSE Limited 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 2010 and will remain in place until the next annual general meeting of CMSA's shareholders."

### 4. Ordinary resolution number 4

*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 Articles of Association 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 otherwise agrees;
- 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 annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date that this authority is given;

# Notice of annual general meeting continued

- 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 per cent) 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 per cent) 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 4 is required, under the JSE Listings Requirements, to be passed by achieving a 75% majority of the votes cast in favour of such resolution by all members present or represented by proxy and entitled to vote, at the annual general meeting.

## 5. Ordinary resolution number 5

### *Reappointment of external auditors*

"To reappoint Mazars as the external auditors of CMSA for the ensuing year (the designated auditor being Mr Conrad Burger) and to authorise the directors to determine the remuneration of the auditors."

## 6. Ordinary resolution number 6

### *Remuneration of non-executive directors*

"Resolved that the remuneration of the non-executive directors for the year ending 31 December 2011 be approved on the following basis:"

Type of fee	Proposed fee in ZAR for the year ending 31 December 2011 R	Approved fee in ZAR for the year ending 31 December 2010 R	Proposed increase percentage for the 2011 year %
<b>Board</b>			
Chairperson	612 000*	576 000*	6,3
Member	34 950#	17 475#	100,0
<b>Audit and Risk Committee</b>			
Chairperson	42 000#	37 400#	12,3
Member	31 800#	31 200#	1,9
<b>Remuneration Committee</b>			
Chairperson	40 000#	37 400#	7,0
Member	20 000#	31 200#	(35,9)
<b>Nomination Committee</b>			
Chairperson	40 000#	37 400#	7,0
Member	20 000#	31 200#	(35,9)

\* Fee per year

# Fee per meeting

## 7. Ordinary resolution number 7

### *Appointment of Audit and Risk Committee members*

"Resolved that the members of the CMSA Audit and Risk Committee be appointed in accordance with the recommendations of King III, i.e. the Committee should be constituted of three independent non-executive directors. The membership, therefore, as proposed by the board of directors is:

- Mrs MT Mosweu (Chairperson) – Independent non-executive director;
- Mr JvD du Preez – Independent non-executive director; and
- Mr SMD Zungu – Independent non-executive director."

## 8. Special resolution number 1

### *Approval 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 sections 85(2) and 85(3) 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 Articles of Association 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 annual general meeting, 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 10% (ten 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 International Financial Reporting Standards, 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 per cent) of the initial number of the relevant class of securities, and for each 3% (three per cent) 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 1*

The reason and effect for special resolution number 1 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 1 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 1.

The JSE Listings Requirements require the following additional disclosure for purposes of this general authority, some of which is set out in the annual report of which this notice forms part:

- Directors – pages 12 to 13;
- Major shareholders of CMSA – page 89;
- Directors' interests in securities – page 36; and
- Share capital of CMSA – page 62.

# Notice of annual general meeting continued

## 9. Material change

There have been no material changes in the affairs or financial position of CMSA and its subsidiaries since the date of signature of the audit report and the date of this notice.

## 10. Directors' responsibility statement

The directors, whose names are given on pages 12 and 13 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to special resolution number 1 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 this resolution contains all such information.

## 11. Litigation statement

In terms of section 11.26 of the Listings Requirements of the JSE, the directors, whose names are given on pages 12 and 13 of the annual report 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, except for those detailed in note 21.

## 12. Ordinary resolution number 8

### *Directors' authorisation*

"Resolved that any director or the 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 above resolutions."

## 13. 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 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 annual general meeting, 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 (Pty) Limited, Ground Floor, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown, 2107) by no later than Monday, 23 May 2011.

By order of the board.



MW Daly  
Company Secretary

Durban  
15 April 2011

## Terms and abbreviations

AGM	Annual general meeting	GOVI index	The government bond index is a notional non-investable index that measures the performance of bonds issued by the South African government
ARV	Antiretrovirals, used in the treatment of HIV/AIDS	HEPS	Headline earnings per share
AUD	Australian Dollar	HR	Human resources
BBBEE	Broad-based black economic empowerment	IAS	International Accounting Standards
BEE	Black economic empowerment, as defined in the Broad-based Black Economic Empowerment Act, 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	IFRIC	International Financial Reporting Interpretations Committee
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 the South African Institute of Chartered Accountants	IFRS	International Financial Reporting Standards
CEO	Chief Executive Officer	IMS	IMS Health is an international company that supplies the pharmaceutical industry with statistical sales data and consulting services
CFC	Customer Foreign Currency	IOD	Injury on duty
CFO	Chief Financial Officer	JIBAR	Johannesburg Interbank Agreed Rate
cGMP	Current Good Manufacturing Practice	JSE	Johannesburg Stock Exchange
Cipla India	Cipla Limited (registration number 11-2380), a public company incorporated in India	King II	King Committee Report on Corporate Governance 2002
CME	Continuing medical education	King III	King Committee Report on Corporate Governance 2009
Cipla Medpro	Cipla Medpro Holdings (Pty) Limited (registration number 2000/018468/07), a private company situated in Cape Town, and its group of subsidiaries	MCC	Medicines Control Council of South Africa
CMM or Cipla Medpro Manufacturing	The division commonly referred to as "the factory" whose place of operation is in Moberi, Durban	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
CMSA or group	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).	OTC	Over-the-counter products, i.e. available without prescription
CMSA Share Option Trust	Cipla Medpro South Africa Limited Share Option Trust (trust deed number 865/2005)	PIC/S	Pharmaceutical Inspection Convention/Pharmaceutical Inspection Cooperation Scheme
COIDA	Compensation for Occupational Injuries and Diseases Act, 1993	Prime rate	Lending rate used as a basis by financial institutions
The Companies Act of South Africa	Companies Act No. 61 of 1973, as amended or the Companies Act, No. 71 of 2008 once effective.	Pty	Proprietary
CSI	Corporate social investment	QA	Quality assurance
Empowerdex	Empowerdex (Pty) Limited (registration number 2001/027963/07), an economic empowerment rating agency	Risk-free rate	Theoretical rate of return of an investment with zero risk
EPS	Earnings per share	SA GAAP	South African Generally Accepted Accounting Practice
EUR	Euro	SENS	The Stock Exchange News Service provided by the JSE to JSE-listed companies
EV	Evolution Index	SEP	Single exit price, the price determined by regulation, at which medicines may be offered for sale on the South African private market
FDA	Food and Drug Administration	SHE	Safety, health and environment
FEC	Forward exchange contract	SPE	Special-purpose entity
GBP	Pound Sterling	STC	Secondary taxation on companies
		TPM	Total Private Market
		UOP	Units of Production, a method of depreciation based on use or output of the asset
		USD	United States Dollar
		WHO	World Health Organisation
		ZAR	South African Rand



# 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)

("CMSA")



For use by shareholders that hold shares in certificated form ("certificated shareholders") or shareholders who have dematerialised their shares ("dematerialised shareholders") and registered with "own-name" registration only, at the annual general meeting of shareholders of CMSA to be held at the Cipla Medpro Offices, Board Room number 1, Belvedere Office Park, Block F, Bella Rosa Street, Bellville, Cape Town at 14:00 on Wednesday, 25 May 2011.

Dematerialised shareholders holding shares other than with "own-name" registration, must inform their CSDP or broker of their intention to attend the annual general meeting and request their CSDP or broker to issue them with the necessary Letter of Representation to attend the annual general meeting in person and vote or provide their CSDP or broker with their voting instructions should they not wish to attend the annual general meeting 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 Chairperson of the annual general meeting,

as my/our proxy to act for me/us at the annual general meeting 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 – re-election of directors			
2.1 To re-elect as a director, Mrs ND Mokone who is retiring by rotation			
2.2 To re-elect as a director, Mrs MT Mosweu who is retiring by rotation			
2.3 To re-elect as a director, Mr JS Smith who is retiring by rotation			
3. Ordinary resolution number 3 – control of authorised but unissued shares			
4. Ordinary resolution number 4 – approval to issue shares for cash			
5. Ordinary resolution number 5 – reappointment of external auditors			
6. Ordinary resolution number 6 – remuneration of non-executive directors			
7. Ordinary resolution number 7 – appointment of Audit and Risk Committee members			
8. Special resolution number 1 – approval to repurchase shares			
9. Ordinary resolution number 8 – directors' authorisation			

Signed at \_\_\_\_\_ on \_\_\_\_\_ 2011

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 Chairperson of the annual general meeting". 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 meeting will be entitled to act as proxy to the exclusion of those whose names follow.
4. 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 annual general meeting as he/she deems fit in respect of all the shareholder's votes.
5. A vote given in terms of an instrument of proxy shall be valid in relation to the annual general meeting 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 annual general meeting.
6. 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 annual general meeting be proposed, the proxy shall be entitled to vote as he/she thinks fit.
7. The Chairperson of the annual general meeting may reject or accept any form of proxy which is completed and/or received other than in compliance with these notes.
8. 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.
9. 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 Chairperson of the annual general meeting.
10. 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.
11. Where there are joint holders of shares:
  - Any one holder may sign the form of proxy;
  - 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).
12. Forms of proxy should be lodged with or mailed to Computershare Investor Services (Proprietary) Limited:

<b>Hand deliveries to:</b> Ground Floor, 70 Marshall Street Johannesburg, 2001	<b>Postal deliveries to:</b> PO Box 61051 Marshalltown, 2107
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to be received by no later than Monday, 23 May 2011 (or 48 hours before any adjournment of the annual general meeting which date, if necessary, will be notified in the press).
13. 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**  
MW Daly CA (SA)

**Registered office**  
1474 South Coast Road  
Mobeni, Durban, 4052  
PO Box 32003, Mobeni, 4060

**Contact numbers**  
Tel: +27 31 451 3800  
Fax: +27 31 451 3889  
www.ciplamedsa.co.za

**Attorneys**  
Deneys Reitz Incorporated  
Registration number: 1984/003385/21  
3 Pencarrow Crescent, La Lucia Ridge  
Durban, 4051  
PO Box 5003, Pencarrow Park, 4019

**Transfer secretaries**  
Computershare Investor Services (Pty) 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**  
Mazars  
Mazars House  
Rialto Road, Grand Moorings Precinct  
Century City, 7441  
PO Box 2785, Cape Town, 8001

**Commercial bankers**  
Nedbank Limited  
ABSA Bank Limited

## Shareholders' diary

Annual general meeting	25 May 2011
Interim reporting period	30 June 2011
Interim report	August 2011
Financial year end	31 December 2011



Contact us:  
PO Box 1096, Durbanville, 7551  
[www.ciplamedsa.co.za](http://www.ciplamedsa.co.za)

