

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011



- HEPS and EPS of 42,5 cents – increased by 73%
- Normalised HEPS and EPS of 26,8 cents – increased by 25%
- Revenue of R842,8 million – increased by 18%
- Interim dividend of 6,5 cents (2010: 5,0 cents) per share and a possible share buy-back
- Third largest pharmaceutical company by value
- Evolution Index (EV) of 105,3 – highest of the top 20 pharmaceutical companies in South Africa (Source: IMS South Africa)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Unaudited 6 months ended 30 June 2011 R'000	Unaudited 6 months ended 30 June 2010 R'000	Audited Year ended 31 December 2010 R'000
Revenue	842 812	714 335	1 446 979
Gross profit	490 250	401 303	898 087
Other income	79 712	9 923	6 614
Other operating expenses	(268 647)	(216 545)	(557 198)
Profit before finance costs and income tax	301 315	194 681	347 503
Finance costs	(31 030)	(35 125)	(60 585)
Finance income	4 131	539	2 830
Profit before income tax	274 416	160 095	289 748
Income tax expense	(81 803)	(50 354)	(90 445)
Profit for the period	192 613	109 741	199 303
Profit attributable to:			
Equity holders of the parent	190 084	108 733	195 403
Non-controlling interest	2 529	1 008	3 900
Profit for the period	192 613	109 741	199 303
Other comprehensive income for the period (net of income tax)	-	-	-
Total comprehensive income for the period	192 613	109 741	199 303
Total comprehensive income attributable to:			
Equity holders of the parent	190 084	108 733	195 403
Non-controlling interest	2 529	1 008	3 900
Total comprehensive income for the period	192 613	109 741	199 303
Number of shares ('000)			
In issue (including treasury shares)	454 027	449 856	454 027
Weighted average (basic)	447 587	442 135	442 489
Weighted average (diluted)	450 055	445 236	447 241
Earnings per share (cents)			
Basic	42,5	24,6	44,2
Diluted	42,2	24,4	43,7
Reconciliation of headline earnings			
Profit attributable to equity holders of the parent	190 084	108 733	195 403
Adjusted for:	(64)	37	36
(Gain) loss on disposals of property, plant and equipment	(74)	43	42
Total tax effects of adjustments	10	(6)	(6)
Headline earnings	190 020	108 770	195 439
Headline earnings per share (cents)			
Basic	42,5	24,6	44,2
Diluted	42,2	24,4	43,7

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited 6 months ended 30 June 2011 R'000	Unaudited 6 months ended 30 June 2010 R'000	Audited Year ended 31 December 2010 R'000
Cash flows from operating activities	147 905	121 154	150 940
Cash flows from investing activities	(59 127)	(40 882)	(98 226)
Cash flows from financing activities	(24 729)	(17 704)	(17 419)
Net increase in cash and cash equivalents	64 049	62 568	35 295
Cash and cash equivalents at beginning of the period	(24 848)	(60 143)	(60 143)
Cash and cash equivalents at end of the period	39 201	2 425	(24 848)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent						Non-controlling interest R'000	Total equity R'000
	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		
Balance at 31 December 2009 (audited)	450	1 040 924	(23 304)	15 613	542 862	1 576 545	3 822	1 580 367
Total comprehensive income for the period	-	-	-	-	108 733	108 733	1 008	109 741
IFRS 2 Share-based Payments	-	-	-	8 216	-	8 216	-	8 216
Dividend paid	-	-	-	-	-	-	(250)	(250)
Balance at 30 June 2010 (unaudited)	450	1 040 924	(23 304)	23 829	651 595	1 693 494	4 580	1 698 074
Total comprehensive income for the period	-	-	-	-	86 670	86 670	2 892	89 562
Issue of share capital	4	22 201	-	-	-	22 205	-	22 205
Share issue expenses	-	(27)	-	-	-	(27)	-	(27)
Shares issued from the Share Option Trust	-	-	17 490	-	-	17 490	-	17 490
Shares acquired by the Share Option Trust	-	-	(22 205)	-	-	(22 205)	-	(22 205)
IFRS 2 Share-based Payments	-	-	-	2 262	-	2 262	-	2 262
Dividends paid	-	-	-	-	(22 493)	(22 493)	-	(22 493)
Balance at 31 December 2010 (audited)	454	1 063 098	(28 019)	26 091	715 772	1 777 396	7 472	1 784 868
Total comprehensive income for the period	-	-	-	-	190 084	190 084	2 529	192 613
IFRS 2 Share-based Payments	-	-	-	165	-	165	-	165
Dividends paid	-	-	-	-	(27 242)	(27 242)	(500)	(27 742)
Balance at 30 June 2011 (unaudited)	454	1 063 098	(28 019)	26 256	878 614	1 940 403	9 501	1 949 904

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Unaudited 30 June 2011 R'000	Unaudited 30 June 2010 R'000	Audited 31 December 2010 R'000
ASSETS			
Non-current assets	1 974 426	1 879 073	1 923 821
Property, plant and equipment	435 049	404 303	420 125
Intangible assets	1 507 557	1 448 275	1 475 470
Other investments	6	4	6
Loans receivable	-	47	-
Deferred tax assets	31 814	26 444	28 220
Current assets	805 316	527 326	609 335
Inventory	317 370	191 888	289 661
Income tax receivable	926	1 137	742
Trade and other receivables	363 635	271 076	264 775
Loans receivable	7 891	2 000	7 709
Cash and cash equivalents	115 494	61 225	46 448
Total assets	2 779 742	2 406 399	2 533 156
EQUITY AND LIABILITIES			
Capital and reserves	1 940 403	1 693 494	1 777 396
Non-controlling interest	9 501	4 580	7 472
Total equity	1 949 904	1 698 074	1 784 868
Non-current liabilities	315 685	337 938	326 770
Loans and borrowings	296 999	322 697	314 428
Deferred tax liabilities	18 686	15 241	12 342
Current liabilities	514 153	370 387	421 518
Bank overdrafts	76 293	58 800	71 296
Loans and borrowings	10 054	16 808	17 354
Income tax payable	29 118	61 540	10 012
Trade and other payables	398 688	233 239	322 856
Total liabilities	829 838	708 325	748 288
Total equity and liabilities	2 779 742	2 406 399	2 533 156

CONDENSED CONSOLIDATED SEGMENTAL REPORT

	Unaudited 6 months ended 30 June 2011 R'000	Unaudited 6 months ended 30 June 2010 R'000	Audited Year ended 31 December 2010 R'000
Segment revenue – external customers			
Non-factory	833 386	698 391	1 417 678
Factory	9 426	15 944	29 301
Total	842 812	714 335	1 446 979
Inter-segment revenue – factory	75 541	16 383	65 226
Segment result			
Non-factory	323 420	236 028	399 766
Factory	(9 781)	(29 556)	(29 025)
Head office	(12 324)	(11 791)	(23 238)
Total	301 315	194 681	347 503
Segment assets			
Non-factory	3 096 997	2 607 502	2 812 126
Factory	1 375 520	1 269 570	1 296 527
Eliminations	(1 692 775)	(1 470 673)	(1 575 497)
Total	2 779 742	2 406 399	2 533 156

COMMENTARY OVERVIEW

We are pleased to present a solid set of results for the six months ended 30 June 2011 despite the slow rate of new product registrations at the Medicines Control Council (MCC) and no Single Exit Price (SEP) increase granted for 2011. The positive impact of the weak US Dollar on our 2011 interim results can be seen through the unrealised gains made on forward exchange contracts (FECs) of R28,6 million (2010: R22,4 million), compared to the loss of R44,7 million for the year ended 31 December 2010. Our gross profit margins continue to benefit from the weak US Dollar, but not quite to the same extent that was seen in the 2010 financial year, due to certain factors that will remedy in the second half.

The case against Pfizer Limited and Pfizer Laboratories (Pty) Limited, arising from damages caused by Pfizer's incorrectly obtained interdict against Cipla Medpro's amlodipine besylate products in 2003, has been settled in our favour. This has positively affected the earnings per share (EPS) and headline earnings per share (HEPS) calculations. The settlement income has been accounted for in our statement of comprehensive income, however, the terms thereof remain confidential.

REVIEW OF OPERATIONS

Cipla Medpro Holdings (Pty) Limited (Cipla Medpro)
The business continues its growth and by June 2011 was ranked third largest pharmaceutical company, by value, for the 12 months and third largest for the month of June 2011. Cipla Medpro has an EV of 105,3 (Rands) and 103,5 (Units) (IMS, June 2011). The EV of 105,3 is the highest of the top 20 pharmaceutical companies in South Africa.

The total private pharmaceutical market grew by 6,3% in Rands and 2,4% in units. Cipla Medpro's performance outstripped the market, growing by 11,9% in Rands and 5,6% in units.

We remain focused on growing our brands in over-the-counter (OTC) medicines, particularly at retail level, and SEP. There is still a huge gap between ourselves and the top two pharmaceutical companies in South Africa. Serious opportunity for growth still exists at pharmacy and doctor level. Our top three SEP brands contributed to sales (12 months) of R182 million into the private sector and still have growth potential. Lexamil is performing at an EV of 107. Of our top ten OTC products, seven have EVs of over 100, with Airmune tracking to do significant turnover in the next 12 months. Our OTC business grew by 8,9% during the six-month period and this excludes sales into retail.

We are excited to announce the launch of our oncology division on 15 September 2011. Our business unit manager and six experienced sales people have been appointed to launch the first six products. Stock is in South Africa already. We believe that, with further registrations due soon, Cipla Medpro will become a significant supplier of oncology medicines to the population of South Africa.

The Cipla Vet (small animal) business grew by 11% to R10,9 million and Cipla Agrimed (large animal) grew by 32% to R34,0 million for the six months. Cipla Agrimed has landed a Government contract worth R100,0 million over two years at acceptable margins.

Cipla Medpro Manufacturing division (CMM)

CMM achieved a turnover of R85,0 million (2010: R32,3 million) for the period, before eliminating inter-company revenue of R75,5 million (2010: R16,4 million), an increase of 163,2%, and posted a loss before finance costs and income tax of R10,1 million (2010: loss of R27,4 million) before inter-company eliminations, an improvement of 63,1%. The group was awarded R633 million (including VAT) over two years of the ARV tender R71-2010 in December 2010, but this only materialised into significant sales for CMM from April 2011 due to the lead times of raw materials being imported, as well as the finalising of any product validations that were still required. The benefit from the award will continue to flow through to CMM and the positive trend in the results is expected to continue. We have made a number of senior appointments of late and we are confident that improved leadership will deliver the rewards we seek and expect.

REVIEW OF RESULTS

Statement of comprehensive income

Cipla Medpro South Africa Limited (CMSA or the group) is pleased to report an increase of 74,7% at the headline earnings level to R190,0 million (2010: R108,8 million) for the six-month period ending 30 June 2011, translating into an increase of 72,8% to 42,5 cents (2010: 24,6 cents) in HEPS. This is based on 447,6 million (2010: 442,1 million) weighted average number of shares in issue for the 2011 period (before the effects of dilution are taken into account). The reconciliation to headline earnings includes the gain (2010: loss) on disposals of property, plant and equipment, net of tax.

There was also an improvement of 72,8% in EPS to 42,5 cents (2010: 24,6 cents). After adjusting for the settlement income received, the full effect of the fair value adjustment on the interest rate swaps, interest rate swap settlements and the FEC gains, normalised HEPS and EPS increased by 25,2% to 26,8 cents (2010: 21,4 cents).

Revenue increased by 18,0% to R842,8 million (2010: R714,3 million) and the gross profit margin improved to 58,2% when compared to 56,2% at 30 June 2010. However, our gross profit margin has reduced from the unusually high level of 62,1% for the full 2010 financial year, and continues to be influenced by the exchange rate. The gross profit margin of 58,2% has been achieved in spite of no SEP increase given in 2011.

Profit before finance costs and income tax for the period increased by 54,8% to R301,3 million (2010: R194,7 million), even though operating expenses increased from R216,5 million at 30 June 2010 to R268,6 million for the current period.

Net finance costs reduced to R26,9 million (2010: R34,6 million) mainly as a result of the settlement of the preference share liability, the effects of which are included in the analysis below:

- fair value gain on interest rate swaps of R2,6 million (2010: loss of R1,6 million);
- a decrease of R6,5 million in interest on preference shares;
- increased swap settlements of R2,6 million (2010: R1,3 million); and
- an increase of R3,2 million in interest on the Nedbank loan facilities.

Currently the interest cover is at a very healthy level of 9,7 times (2010: 5,5 times).

Profit after tax for the period was R192,6 million (2010: R109,7 million). This was achieved after an improvement in the effective tax rate to 29,8% (2010: 31,5%). The effective tax rate continues to improve since the majority of interest on third party debt is now tax deductible, but still remains higher than the statutory tax rate due to the following factors:

- STC of R3,0 million (2010: R0,8 million);
- non-deductible preference share interest of R1,0 million (2010: R7,5 million); and
- non-deductible IFRS 2 Share-based Payment expenses of R0,2 million (2010: R8,2 million).

The IFRS 2 Share-based Payment expense has reduced significantly as many of the previously issued options have vested, whilst the options issued to staff during 2011, which are in terms of the newly approved CMSA Employee Share Option Scheme, vest over a five-year period. This expense will increase in the future but is not likely to reach the levels seen in the 2010 financial year.

Statement of financial position

Excluding the effects of cash on hand, interest-bearing borrowings have decreased by R69,2 million to R267,9 million (2010: R337,1 million) and the gearing ratio has reduced to 13,7% (2010: 19,9%). After paying the final dividend of R27,2 million in May 2011 and the first provisional tax payment of R45,3 million on 30 June 2011, the group's positive net cash position was R39,2 million (31 December 2010: overdrawn by R24,8 million and 30 June 2010: positive balance of R2,4 million).

Debtors days have increased slightly to 67 days (31 December 2010: 63 days and 30 June 2010: 67 days). Creditors days have remained stable and are currently at 185 days (31 December 2010: 186 days and 30 June 2010: 166 days). The inventory days of 156 days (31 December 2010: 157 days and 30 June 2010: 114 days) is still considered too high and management is focused on reducing the inventory days to a more acceptable level.

Statement of cash flow

Cash flows generated from operating activities are R147,9 million (2010: R121,2 million), after adjusting for the non-cash flow effects of depreciation of R11,5 million (2010: R8,7 million), IFRS 2 Share-based Payment expenses of R0,2 million (2010: R8,2 million) and FEC gains of R28,6 million (2010: R22,4 million). The final dividend of R27,2 million was also paid to shareholders during May 2011 (30 June 2010: Rnil).

Investing activities resulted in outflows of R59,1 million (2010: R40,9 million), mainly due to acquisitions of property, plant and equipment and intangible assets. A net R24,7 million was utilised for financing activities (2010: R17,7 million), mainly for the voluntary full settlement of R34,5 million of the preference shares to Nedbank. This was offset by the net reduction of R16,2 million on the working capital and instalment sale facilities at the factory and draw downs of R26,0 million on the Nedbank loan facilities.

BASIS OF PREPARATION

The condensed consolidated interim financial results have been prepared in accordance with the recognition and measurement criteria of all applicable standards and interpretations of International Financial Reporting Standards (IFRS), the disclosure requirements as set out in IAS 34 Interim Financial Reporting, the Companies Act of 2008, as amended, where applicable the AC 500 standards as issued by the Accounting Practices Board or its successor and the Listings Requirements of the JSE.

The accounting policies and methods of computation applied in the preparation of these consolidated interim financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2010, except for the adoption of new/amended standards and interpretations becoming effective since January 2011.

The condensed consolidated interim financial results for the six months ended 30 June 2011 have not been audited or reviewed by the group's external auditors.

DIRECTORATE

There have been no changes to the board and it continues to function in accordance with its approved charter.

AUDIT AND RISK COMMITTEE

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

SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance which is material to the financial affairs of the group, which has occurred subsequent to 30 June 2011, that has not been otherwise dealt with in the consolidated financial statements.

PCSLuthuli
PCSLuthuli
Chairman

JS Smith
JS Smith
Chief Executive Officer

25 August 2011

DECLARATION OF ORDINARY DIVIDEND
Notice is hereby given that an interim cash dividend (dividend number 3) of 6,5 cents per share has been declared in respect of the six months ended 30 June 2011. The company is also considering a possible share buy-back under its general authority that was obtained at the last annual general meeting.