

ONDERSTEPOORT BIOLOGICAL PRODUCTS SOC Ltd

ANNUAL REPORT

2015 • 2016



ONDERSTEPOORT
BIOLOGICAL PRODUCTS

**CULTIVATING GROWTH
DEVELOPING A NATION**



INNOVATION
BIO-SCIENCE



CULTIVATING GROWTH DEVELOPING A NATION





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COMPANY OVERVIEW

Onderstepoort Biological Products SOC Ltd (OBP) was corporatised in 2000 under the Onderstepoort Biological Products Incorporation Act 1999 (Act 19 of 1999). The primary objective of the corporate conversion was to create a favourable environment for the organisation to build capacity in manufacturing technologies, infrastructure and the development of new products – the critical success factors in the development of profitable products.

Vision

To be a recognised global biotech manufacturer of animal health products, founded upon a team of skilled, innovative and passionate professionals.

Mission

To translate science into exceptional biological health products and technologies that will result in improved animal and human health thereby providing food security for all stakeholders.

Mandate

OBP's mandate is the prevention and control of animal diseases that impact food security and human health and livelihood. This mandate is delivered through the continued development of innovative products and efficient manufacturing processes that ensure vaccine affordability and accessibility through diversity of distribution channels.

Values

OBP conducts its business in such a way as to ensure:

- A high level of integrity
- A high level of ethical standards
- High standards of quality
- Excellence in everything that we do

We Accept That

- Our employees are our enduring advantage.
- As a State-Owned Company (SOC), we have a responsibility to provide for the public as stakeholders.
- We have a responsibility to society and to the environment.

Key Strategic Goals

- Build a successful, high performance organisation.
- Improve business processes and management practices.
- Build a profitable and sustainable company.

ORGANISATIONAL STRUCTURE



PLEASE NOTE THAT THIS STRUCTURE HAS BEEN APPROVED BY THE BOARD, BUT HAS NOT BEEN IMPLEMENTED.



LETTER TO THE MINISTER OF AGRICULTURE, FORESTRY & FISHERIES

The Honourable Mr. Senzeni Zokwana
Minister of Agriculture, Forestry and Fisheries
Private Bag x100
Pretoria
0001

Dear Minister,

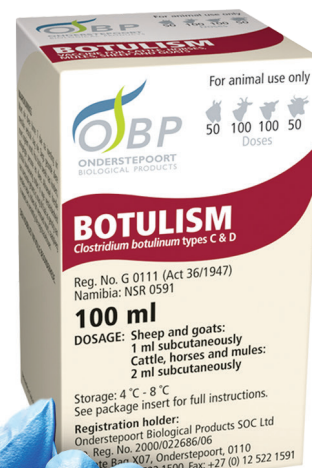
I have the honour of presenting to you the 2015/2016 Annual Report of Onderstepoort Biological Products SOC Ltd, for submission to Parliament as required by the Public Finance Management Act 1999 (Act 1 of 1999).

The Report covers the operations of Onderstepoort Biological Products SOC Ltd for the financial year 1 April 2015 to 31 March 2016.

Yours faithfully,



Dr JH Adams
Onderstepoort Biological Products SOC Ltd | **Board Chairperson**





CHAIRPERSON'S OVERVIEW

It is that time of the year when I take the opportunity to present our Annual Report for the 2015/2016 financial year.

First and foremost, I would like to thank my fellow colleagues, the Directors, for heeding the call for duty with such pride and commitment. Their dedication, expertise and hard work brought to bear on the important deliberations which added a lot of depth and value. I thank you once again for your dedication and for being part of a team that guides OBP.

I would like to express my gratitude to the Minister of Agriculture, Forestry and Fisheries, Mr Senzeni Zokwana, and his deputy, General Bheki Cele, the Director General, Mr Michael Mlengana and DAFF officials for their continued support to the company during the year under review.

There have been a number of interesting developments that directly impacted OBP. Our performance improved immensely. The company achieved a target of 66% against a target of 80% as set in the shareholder's compact.

There is also improvement on our financial performance. Revenue improved from R81,7 million to R92,7 million. Cost of sales reduced from R32 million to R22,9 million. This means that our gross profit improved from R49,7 million to R69,8 million.

With regards to the GMP upgrade of our facility, the company is on track with the implementation of the project. Specialist consultants have designed plans of the infrastructure. Phase 2 of the planning is completed and has been submitted to the Tshwane municipality for approval.

I furthermore would like to extend my appreciation and gratitude to the CEO, Dr Steven Cornelius and the members of the ExCo, for the vast role they have played in the positive reports and developments. Your efforts do not go unnoticed. Last, but certainly not least, I would like to thank each and

every employee of the OBP workforce for their dedication, commitment and hard work during the year under review. You remain our enduring advantage.

Once again, I am extremely pleased to report that OBP has achieved a clean audit opinion for the 2015/2016 financial year.



Dr JH Adams
Onderstepoort Biological Products SOC Ltd | **Board Chairperson**





BOARD OF DIRECTORS



From Left To Right | **Dr MR Mashego** (Independent Non-Executive), **Dr ST Cornelius** (Chief Executive Officer), **Ms Z Mobeng** (Company Secretary)
Dr JH Adams (Chairperson), **Ms KT Mdlulwa** (Independent Non-Executive), **Dr JM Mashaba** (Non Executive)
Dr ME Mogajane (Non-Executive)



REPORT OF THE CORPORATE GOVERNANCE

Introduction

An excellent governance framework plays an important role in helping the Board benefit from a better understanding of its role. It is imperative that an organisation's governance processes and practices are reviewed on a regular basis to ensure that they are in line with best operating practices to address the constantly changing business climate and increasingly complex corporate governance challenges.

Onderstepoort Biological Products SOC Ltd (OBP) views good corporate governance practices as integral to good performance. In fulfilling its shareholder mandate, OBP adhered to the statutory duties and responsibilities as outlined by the Companies Act of 2008 and Public Finance Management Act (PFMA) of 1999. OBP also adhered to the guidelines as set out in the Report on Corporate Governance in South Africa 2009 (King III) as well as the Protocol on Corporate Governance in the Public Sector 2002.

The year under review saw marked improvement in performance as OBP achieved 66% of its annual targets.

Shareholding and Shareholder's Compact

The sole shareholder of OBP is the government of the Republic of South Africa. The Minister of the Department of Agriculture, Forestry and Fisheries (DAFF) is the Shareholder representative.

Annually, OBP's accounting authority, in consultation with the Minister of Agriculture, Forestry and Fisheries sign a shareholder's compact which governs the Board and Shareholder's role and responsibilities on OBP's mandate and key objectives.

Board Composition

OBP has a unitary board structure which consists of five non-executive directors and one executive director. The Minister of Agriculture, Forestry and Fisheries is responsible for the appointment of all the directors. They bring varied and diverse experience to the Board.

Board meetings are scheduled annually and special meetings are convened as and when necessary to address urgent and specific matters.

Delegation of Authority

OBP is managed under the authority and direction of the Board of Directors. The Board's role is to oversee the management and governance of the Company and to monitor senior management's performance. To ensure that the Board leads in an efficient manner, the following governance structures are in place: Committees of the Board, Executive Committee (ExCo) and a Management Committee (ManCo).

Board Appraisal and Performance

The Board appraisal is conducted at the end of the financial year (FY). The Board's performance and that of its committees is evaluated according to their terms of reference.

Induction of Board Members

New board members undergo an induction programme to improve their understanding of OBP's operations. Board members attend various types of training necessary to adequately address the needs of the Board. During the year under review, board members attended courses offered by the Gordon Institute of Business Science (GIBS).

Director's Remuneration

The directors' remunerations are set out in the annual financial statements (See page 108).

Secretariat Function

The company secretary ensures that the organisation complies with relevant legislation and regulation, keeps board members informed of their legal responsibilities and provides directors with guidance on their duties, responsibilities and powers while ensuring that directors are aware of all laws and regulations relevant to the Company.



Directors may seek independent professional advice at OBP's expense should they deem this necessary. The company secretary and those responsible for the assurance functions monitor OBP's compliance in line with the Companies Act of 2008, PFMA of 1999 and other relevant legislation and report to the Board on these issues.

Board Committees

Board committees assist the Board in carrying out its responsibilities. Each committee operates within terms of reference that set out the composition, roles, responsibilities and delegated authority of the committee. All committees comprise a majority of independent non-executive directors.

Audit, Risk and IT Committee

The committee comprises three independent non-executive directors. The committee ensures that internal control is maintained to protect OBP's interests and assets.

The Committee reviews:

- Accounting and auditing concerns raised by internal and external audits.
- Annual financial statements and interim reports.

The committee also ensures that an effective internal audit function is in place and that the roles and functions of the external audit are sufficiently clarified and co-ordinated to provide an objective overview of the operational effectiveness of the Company's systems of internal control, risk management, governance and reporting.

The committee has to assess the performance of the internal audit function and the adequacy of available internal audit resources.

The committee considers and makes recommendations on the appointment and retention of the external auditors, the fees paid and the terms of engagement.

The committee reviews the accuracy, reliability and credibility of statutory financial reporting.

The Internal auditors (Nkonki Incorporated) and the external auditors (Auditors General) have unrestricted led access to the chairperson of the audit, IT & Risk and the Board respectively. Seven meetings were held during the year under review of which three were special Audit meetings. The committee considers and makes recommendations on the appointment and retention of the external auditors, the fees paid and the terms of engagement. The committee reviews the accuracy, reliability and credibility of statutory financial reporting.

Four scheduled meetings and three special meetings were held during the year under review.

Remuneration, Human Resources, Social & Ethics Committee

The committee comprises three independent directors and the Chief Executive Officer (CEO). The committee makes recommendations on:

- Human Resources Strategy and Policies.
- Succession Planning
- Remuneration
- Training
- Governance of Ethics
- Performance Management

The committee also oversees the annual review of salaries of the Board and all employees. The committee ensures that the management of human resources and statutory reporting are in line with all applicable legislation.

Four scheduled meetings and five special meetings were held during the year under review.

Research Development and Operations Committee

The committee comprises of four independent directors. The committee reviews and makes recommendations on:

- The development of strategies, policies and standards related to the Research and Development and Operations (RDO) committee functions.

REPORT OF THE CORPORATE GOVERNANCE

- The establishment of process for the support of the core mandate of the organisation.
- The facilitation of collaborations and partnerships with respect to the RDO functions of the organisation.
- Mobilisation of resources.

The committee further oversees the development of the research agenda for the institution. It ensures that all intellectual property is managed in accordance with the Intellectual Property Policy.

Four meetings were held during the year under review.

Attendance of Meetings

Board, Committee and Executive Committee Attendance during the Year under Review

	Board	Special Board	Audit, Risk & IT	Special Audit Risk & IT	Research Development Operations	Human Resources Remuneration and Ethics	Dr JH Adams (Chairperson), Remuneration and Ethics
Directors	No of Meetings						
	3	5	4	3	4	4	5
*Dr JH Adams	3	4	N/A	N/A	0	N/A	N/A
Dr ST Cornelius	3	4	3	1	3	3	4
Dr MR Mashego	3	4	4	2	4	N/A	N/A
**Dr MJ Mashaba	3	4	3	2	3	3	4
***Ms TK Mdlulwa	3	4	2	3	N/A	4	4
****Dr ME Mogajane	2	4	N/A	N/A	4	4	5

Legend

- * Chairperson of the Board
- ** Chairperson of Audit, Risk & Information Technology (IT) committee
- *** Chairperson of Remco, HR & Ethics committee
- **** Chairperson of Research, Development & Operations (RDO) committee

	Exco	Special Exco		Exco	Special Exco
Executive Management	No of Meetings		Executive Management	No of Meetings	
	21	14		21	14
Dr ST Cornelius	19	9	Mr MJ Gololo	21	13
Ms DN Mobeng	18	12	Dr MB Nthangeni	20	13
Dr J Modumo	19	13	Mr LH Serfontein	18	13
Ms MV Ramutle	21	13	Mr SV Ntombela	5	3



REPORT OF THE CHIEF EXECUTIVE OFFICER

OBP's financials reflect an improved performance as compared to 2014/2015. Revenue improved from R81,7 million to R92,7 million and cost of sales went down from R32 million to R22,9 million, which means that gross profit improved from R49,7 million to R69,8 million. Operating expenses were kept the same with a slight increase in administrative expenses and this ultimately reduced the operating loss from R37,7 million in 2014/2015 to R17,7 million in 2015/2016. The investment income changed this loss to a profit of R18,7 million.

The Company is continuing with the upgrades to the current facility and the building of the new plant. The new plant has been designed to be Good Manufacturing Practice (GMP) compliant. This certification will allow OBP to access previously inaccessible international markets. A GMP facility requires specialised infrastructure, and updated/current processes, which suit the facilities and staff who are appropriately and sufficiently trained to work within this environment. Phase two of the planning was completed and submitted to the local authority for approval.

Upgrading and purchasing new equipment for the current facility remains a priority. The main production equipment is more than 40 years old and therefore affects the efficiency of the plant and the availability of products. Although OBP has done much in this regard (80% of the allocated funding has been utilised) there is still much to be done.

The troubleshooting process, which started in the previous FY improved product availability. This was achieved through rigorous analysis of processes and instituting corrective measures. All products could be manufactured except for three which have since been resolved. This is reflected in the increased sales figures.

The performance information indicates that more than 66% of the targets were fully or partially met. Some of the highlights and lowlights during this period are as follows:

- The organisational performance for the FY 2015/2016 is in accordance with the strategic goals and Annual Performance Plan for the 2015/2016 FY.

- Performance during the 2015/2016 FY showed significant improvement from the previous year. There is remarkable improvement in the achievement of annual targets across most areas of the organisation.
- OBP generated net sales (after discount) of R92,7 million, compared to the budget of R97 million. There was an under-performance of 7%.





- Key successes achieved during this period are increased exports and Government sales, a slight increase in local sales compared to the previous FY, new export markets gained, improvements to our stakeholder engagements, equipment upgrades in the current facility, International Organisation Standardisation (ISO) accreditation, maintenance and support to Cooperatives (Co-ops) and emerging farmers.
- The percentage achievement for the FY is 66%. There were 38 deliverables identified for the year, of which 25 were achieved, including 11 targets that were over achieved.
- The overall achievement variance is -14%, as the agreed achievement rate for OBP with the Honourable Minister of Agriculture, Forestry and Fisheries is 80%. This is a huge improvement compared to the achievement rate of 33% during the previous FY. OBP continues to focus its energies on ensuring that production is taking place and is in line with the needs of the market.
- Considerable effort has gone into forecasting sales for 2016/2017 to ensure that products are available when the market needs them.
- The Corporate Plan for 2016/2017 to 2018/2019 was developed and approved in this period and it takes cognisance of the requirements for implementation. To that extent, the organisational structure is being reviewed and aligned to ensure delivery of the new strategic objectives for the new financial period. The focus for the 2016/2017 financial period is on building relationships with OBP clients in order to implement OBP's new distribution strategy which involves distributing directly to its clients.
- OBP is proud of the new external markets that have been captured. There has been significant increase in generation of export revenue, due to new markets.

The organisation has progressed significantly since the production problems experienced in 2014. This is due to the efforts of the executive team, management and support of all OBP staff.



Dr Steven T. Cornelius
Onderstepoort Biological Products SOC Ltd
Chief Executive Officer



EXECUTIVE COMMITTEE



From Left To Right | Mr S Ntombela, Ms Z Mobeng, Dr J Modumo, Dr ST Cornelius, Dr B Nthangeni, Mr L Serfontein, Mr M Gololo, Ms M Ramutle

REPORT OF THE SECRETARIAT



RISK MANAGEMENT

Risk is ingrained in Onderstepoort Biological Products SOC Ltd (OBP), due to its business lines, processes and industry. The biopharmaceutical industry is challenged with many systemic risks. Effectively defining and identifying the risks with their mitigation approaches, by incorporating OBP's strategic vision and stakeholders' interest, are the prerequisites to remain globally competitive.

Risk management has been a culture and an on-going process, which was used to evaluate key risks on monthly and quarterly basis. The assessment of the business performance and operations were as follows:

- We conducted a risk management workshop to review the overall strategic risks of the business.
- We conducted operational risk reviews which were focused on the hub of each business operations.
- A project risk assessment was conducted to evaluate the key risks which could cause business functions to fail.
- We were committed to good business ethics and all applicable sovereign regulations and laws, and therefore assessed compliance risk to discourage unlawful and irresponsible conduct by employees at all levels of business operations.





OBP's Risk Management charter, together with its core values sets out an approach to risk mitigation, with relevant key responsibilities.

Our annual business plan and budgeting process incorporated, identified risks during the risk management process. Residual risks were defined and identified as remaining risks after mitigation approaches were been applied to the primary and secondary risks, by considering the effectiveness of the risk mitigation approaches.

The risk mitigation actions are developed to bring the risks to a tolerable level. The risk management champion(s) together with the Risk Steering Committee (RSC), ExCo, IRAC of the Board review OBP's risk profile annually to identify emerging Strengths, Weaknesses, Opportunities and Threats (SWOT) in both internal and external environments of the company.

The result of end of the year 2014/2015 review captured the key risks as listed in Table 1. These risks were identified as the key risks that, if not mitigated could affect OBP's business and performance for the 2015/2016 Financial Year. In addition, the table shows progress made on key risks in 2015 and their mitigation strategies.

Figure 1 below shows only those risks that were classified in the 5 point rating scale risk matrix as "medium" or "high" that were included to show residual risk ratings of our key risks. Also included in the matrix are the changes from 2014. The sequence in which the risks are enlisted does not imply any order of significance.

Figure 1: Key Risk Matrix - Residual Risks



REPORT OF THE SECRETARIAT

Table 1: Key Risks for 2015/16

Risk no	Strategic Objective	Risk Name	Mitigation Strategy	Progress in 2015	Change from 2014
1	Build a global high-performing organisation equipped with modern technology and expertise to develop and manufacture competitive products to achieve financial sustainability	Poor ethics and business conduct	Code of conduct enforced The use of corporate ethical policy	Climate survey has been conducted Newsletters and internal communication Internal branding activities Corporate plan finalised There are approved institutional values Code of conduct planned for Q1 2016/2017	↑
2		Inability to generate sufficient revenue from business operations	Request for funding from DAFF to fund orphan vaccines Vaccine reserve and small holder development New distribution model that will reduce the impact of the discount on costs	Annual increases are approved by the Board Only funded and critical posts are filled Procurement policy Budgets allocated and monitored by the Finance department 1. Process to request funding will start again in the 2016/2017 FY as it was not successful for the year under review 2. The action depends on the funding from risk one above 3. Distribution channels developed	New



Risk no	Strategic Objective	Risk Name	Mitigation Strategy	Progress in 2015	Change from 2014
2	Build a global high-performing organisation equipped with modern technology and expertise to develop and manufacture competitive products to achieve financial sustainability	Inability to generate sufficient revenue from business operations	<p>Implementation of the Board approved R&D strategy</p> <p>Reduction of COS and all other costs</p> <p>Production operational plan</p> <p>Development of equipment and maintenance strategy</p>	<p>4. There is on-going R&D strategy Implementation</p> <p>5. Finance is actively monitoring costs in line with the budget</p> <p>6. Production is working according to an operational plan informed by the forecast and budget</p> <p>7. Engineering Maintenance and Utilities (EMU) equipment maintenance plan to be completed by the 2016/2017 FY</p>	New
3		Salary Bill versus Revenue	<p>Micro organisational structure updated to ensure alignment</p> <p>Micro organisational structure implemented</p>	<p>Annual increases are approved by the Board. Only funded posts are filled</p> <p>Inflation based salary increases</p> <p>Recruitment policies and procedures are in place</p> <p>Skill audit has been conducted</p> <p>Staff replacement policy</p> <p>Skills audit implemented</p> <p>Early retirement Proposed</p> <p>Organisational structure approved by RemCo</p> <p>Implementation of structure to take place during 2016/2017 FY</p>	↑

REPORT OF THE SECRETARIAT

Risk no	Strategic Objective	Risk Name	Mitigation Strategy	Progress in 2015	Change from 2014
4	Build a global high-performing organisation equipped with modern technology and expertise to develop and manufacture competitive products to achieve financial sustainability	Availability (disruptions of product supply)/2016	<p>Business Continuity Planning (BCP) in place to ensure supply of products</p> <p>Identification of multiple sources of quality raw materials</p> <p>Testing of raw material quality before production</p> <p>Equipment maintenance plan developed</p> <p>Development of cell culture competence</p> <p>Upgrade of facility and equipment</p>	<p>There are contingency products during upgrades</p> <p>Service Level Agreements (SLA) are in place for offsite seed stock storage</p> <p>There is access controls to seed stock</p> <p>BCP in place for supply of products</p> <p>Testing of critical raw material to determine alternative suppliers has commenced</p> <p>Maintenance plan to be completed in 2016/2017</p>	↓
5		Loss of seed stock	<p>Upgrade of current facility to be more in line with GMP practices in terms of personnel access and flows</p>	<p>Temperature with SMS notification</p> <p>Testing and validation of seed stock</p> <p>Ownership of seed stock</p> <p>SLA are in place for offsite seed stock storage</p> <p>Access controls to seed stock</p> <p>Offsite storage work in progress.</p> <p>Floor plans completed</p>	↑

REPORT OF THE SECRETARIAT

Risk no	Strategic Objective	Risk Name	Mitigation Strategy	Progress in 2015	Change from 2014
6	Build a global high-performing organisation equipped with modern technology and expertise to develop and manufacture competitive products to achieve financial sustainability	Ability of the plant and structural technology to meet business needs	<p>1. Current facility process flows to be improved providing a more GMP environment for personnel and material flow</p> <p>2. Fermenter panels to be upgraded and hardware overall to ensure reliable fermenters</p> <p>3. Freeze Dryers being maintained properly and investigate the procurement of a possible new small freeze dryer</p>	<p>Development of maintenance plans has commenced and they will be completed in the 2016/2017 FY</p> <p>SLA are in place with service providers to maintain plant</p> <p>GMP concept drawings have been completed</p> <p>Introduction of cGMP principles observation in manufacturing processes and operations</p> <p>Funding has been secured for upgrades and expansion</p> <p>Turnaround strategy has been developed and implemented</p> <p>Current Facility: Modification of freeze dryer after Factory Acceptance Test (FAT) was completed</p> <p>Fermenter control panels upgraded, process studies started for programming</p> <p>Architecture appointed for freeze dry area</p> <p>Clean steam generator ordered and 90% completed due for delivery for Q1</p> <p>Freeze dryer area construction will start in Q1</p> <p>New Facility: Concept design completed, value engineering and basic design to start in Q1</p>	↔



Risk no	Strategic Objective	Risk Name	Mitigation Strategy	Progress in 2015	Change from 2014
7	Improve stakeholder relationship management and communications	Insufficient brand exposure	Brand perception survey to be conducted Brand management strategy development	Corporate brand - launched Needs to be measured Customers and clients identified Survey report developed	New Risk
8	Facilitate more aggressive national and international market access and implement an effective distribution strategy	Competitiveness and market share	Taking advantage of bilateral relations to increase our product portfolio	Approved sales and marketing strategy is implemented There are four captured and newly identified markets	↓
9		Outbound supply chain performance	Access to customer database The concept plan of new distribution channel is being implemented	SLA are in place Distribution strategy approved by the Board Distribution channel established and extended to include Veterinarians, wholesalers, and Coops by activating credit applications	↑
10	Facilitate more aggressive national and international market access and implement an effective distribution strategy	Product accessibility	Appointment of 2 distributors for emerging markets	Target districts identified by Provincial Government. Identification of new small distributors. Distribution channel extended to include Veterinarians, wholesalers, Coops and emerging farmers by activating credit applications	↓
11	Contribute to government priorities with respect to provision of support to emerging farmers, food security, and economic growth	Ability to access government and or alternative support/funding	Lobby government for support Participate in the budgetary process and submit requests to DAFF and Treasury	Self -funding to support government initiatives The action plan will be continued in 2016/2017	↔

REPORT OF THE SECRETARIAT

Risk no	Strategic Objective	Risk Name	Mitigation Strategy	Progress in 2015	Change from 2014
12	Contribute to government priorities with respect to provision of support to emerging farmers, food security, and economic growth	Profitability of OBP (funding)	Approaching DAFF and Treasury for support Upgrade, modernization and GMP plan See also mitigation plans on other risks	Budget allocation to Corporate Social Initiative (CSI) strategy in place The action plan will be continued in 2016/2017	New Risk
↑		↓		↔	
Control effectiveness has increased from the previous reporting period – Residual risk decreased		Control effectiveness has decreased from the previous reporting period, Residual risk increased		Residual risk/ Control effectiveness has remained the same from the previous reporting period	New Risk

Overall management assessment of opportunities and risks

The overall risk assessment is based on consolidated views of all key risk management champions. During the year under review, OBP's risk management was an on-going process. The effectiveness of the risk management process in the current year has improved as against the base years' risk management reports. The residual risks in the current year's risk management report show that, the residual risks were brought to the risk appetite levels of stakeholders.

In addition, five emerging strategic risks were identified and added to the base year's strategic risk register. The 2015/2016 Risk Management Reports shows that 53% of the two high risks identified had risk mitigation actions progress in relation to the target dates.

Finally, the 2015/2016 Risk Management Report guarantees the going concern of the company.

Communication

Communication goes beyond conversations. Understanding the benefits of effective communication helps companies place a focus on developing a workforce that is rich in diversity.

Internal communications is so much more than simply providing information. It ensures that an open and comfortable working environment is established and maintained between management and staff.

External communication is just as important because an organisation is only as good as its external publics. Maintaining good communication across the board; be it internal or external, helps to reduce any barriers erected therefore making it imperative.

During the year under review, continuous efforts have been made to improve on the already well established communication channels put in place for both internal and external publics. Through the ever improving quarterly magazine Zwahashu,



constant information updates via notice board messages and emailed communication, the Communications department ensures that transparency thrives between all the internal publics.

Print media such as the Farmer's Weekly magazine and some newspapers provide an excellent platform for communication with our external public and stakeholders. Keeping the lines of communication open at all times helps alleviate problems that may arise. The Communications department will continue in its efforts to improve the organisation's communication tools, sharpening them whenever possible.

Corporate Social Investment

As a good corporate citizen, OBP realises the importance of giving back to communities in which the Company operates, mostly those in rural and underdeveloped areas, through development of knowledge and skills either in monetary form or in kind.

Primary focus areas are:

- Health – Focussing on HIV/AIDS
- Education – Focussing on Science and Technology
- Job creation – Focussing on vegetable gardens
- Ad hoc CSI projects

As part of the organisation's primary CSI focus, employees were encouraged to donate non-perishable foodstuff and clothing in an effort to drive the government and UN millennium development goal of food security.

The following organisations benefited from the initiative:

- Care-Net Development and Organisation
- Korwe Multipurpose Centre

OBP joined its Shareholder in partnership with the Eastern Cape Department of Rural Development and Agrarian Reform, the Bizana Local Municipality and the Food and Agriculture Organisation (FAO) of the United Nations (UN) and other countries around the world in commemorating World Food Day.

The event provided an occasion to highlight the plight of 923 million undernourished people in the world. Most of them live in rural areas where their main source of income is agriculture. The main objective of World Food Day is to create awareness around issues of global food insecurity and the eradication of hunger. The theme for 2015 was "Social Protection and Agriculture: Breaking the Cycle of Rural Poverty".

OBP's secondary CSI is aligned to the core of the business, which is to develop and uplift emerging farmers within the country to enable them to be viable commercial farmers who will contribute to the country's economy.

OBP engages with emerging farmers through:

- Training on livestock vaccinations
- Training on preventative care measures
- Donation of vaccines
- Training on inoculation of livestock animals
- Partnering with farmers' associations

OBP participated in the governments' initiatives (Drought Intervention program) in partnership with the DAFF, where the CSI department donated over 300 vaccines to emerging farmers.

The following provinces benefited from the initiatives:

- Northern Cape
- Mpumalanga
- Free State
- KwaZulu-Natal

OBP interacted with famers during exhibition at events arranged by DAFF in the following areas:

- IDAM Launch
- Abhor Week
- Ministers Budget Vote Speech
- Agro-processing Summit



REPORT OF THE HUMAN RESOURCES EXECUTIVE

Introduction

The Human Resources (HR) department is responsible for rendering human resources management and development, labour relations, organisational development as well as providing security management solutions to OBP.

The aim of the department is to partner and empower line function departments to recruit, develop and retain skilled, committed, engaged and accountable employees within OBP.

OBP recognises that it will not be able to execute the organisation's strategy without the right number of employees with the right skills and attitudes. To achieve this, OBP continuously revises

its people management strategies to align to the needs of the Company and labour market conditions.

During 2015/2016, the Remuneration committee approved a new performance management policy, retention strategy and succession planning policy to ensure achievement of strategic goals through efficient and effective people management.

The macro organisational structure was also revised to ensure improved efficiencies within the Company.

Workforce Profile

OBP's staff complement as at 31 March 2016 stood at 188 employees, compared to 193 as at 31 March 2015.





There has been a drive within the Company to maintain the wage bill, hence the decline in the number of employees.

part of the management category and 161 employees who form part of the Bargaining unit.

The workforce of OBP is made up of 27 employees who form

Below is the profile of employees within OBP in terms of race, gender and levels as at 31 March 2016:

Table 1: Race and Gender Profile of Employees

Occupational Levels	Male				Female				Foreign Nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	0	1	0	0	0	0	0	0	0	0	1
Executive management	4	0	0	1	2	0	0	0	0	0	7
Management	6	2	1	3	7	0	0	0	0	0	19
Skilled employees	27	1	0	2	30	1	2	5	0	0	67
Semi-skilled employees	27	0	0	2	23	0	0	6	0	0	58
Basic – skilled employees	14	0	0	0	7	0	0	0	0	0	21
TOTAL PERMANENT	78	4	1	8	69	0	2	11	0	0	173
Temporary employees	7	0	0	0	7	0	0	0	1	0	15
GRAND TOTAL	85	4	1	8	76	0	2	11	1	0	188



Gender Distribution | ExCo

71 % Male
29 % Female



Race Distribution | ExCo

72% African
14% White
14% Coloured
0% Indian



Gender Distribution | ManCo

63% Male
37% Female



Gender Distribution | OBP

53% Male
47% Female



Race Distribution | ManCo

68% African
11% White
11% Coloured
5% Indian



Race Distribution | All Staff

86% African
10% White
2% Coloured
2% Indian

The workforce population distribution is based on the Quarterly Labour Force Survey (QLFS) published by Statistics South Africa on the Economically Active Population (EAP). The EAP includes people from 15 to 64 years of age, who are either employed or unemployed, and who are seeking employment.

- African employees represent 86% of OBP's workforce.
- Female employees represent 47% of OBP's workforce.
- Female employees at management level (ExCo and ManCo) represent 35% of employees.
- Representation of employees living with disabilities is 1.5% of the total workforce. This is considerably lower than the target of 2%.

Age Profile

The age profile of OBP employees is as follows:

Table 2: Age Profile

Age Category	Total No. of Employees
Below 30 years	18
Age 30 to 39	51
Age 40 to 49	63
Age 50 to 54	25
Age 55 to 59	16
Total	173

REPORT OF THE HUMAN RESOURCES EXECUTIVE

23% of OBP employees are within the 50 to 59 year age bracket and could be considered a retirement risk.

Succession plans have been put in place for all other positions. In some instances, interns and learners have been appointed and are undergoing training (see below).

Recruitment

OBP recruited nine employees during the 2015/2016 FY. Only critical positions were filled during the 2015/2016 FY.

Table 3: Recruitment for the period 1 April 2015 to 31 March 2016

Occupational Levels	Male				Female				Foreign Nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	0	0	0	0	0	0	0	0	0	0	0
Executive management	1	0	0	0	0	0	0	0	0	0	1
Management	0	0	0	0	0	0	0	0	0	0	0
Skilled employees	2	0	0	0	1	0	1	0	0	0	4
Semi-skilled employees	1	0	0	0	0	0	0	0	0	0	1
Basic – skilled employees	0	0	0	0	0	0	0	0	0	0	0
TOTAL PERMANENT	4	0	0	0	1	0	1	0	0	0	6
Temporary employees	1	0	0	0	2	0	0	0	0	0	3
GRAND TOTAL	5	0	0	0	3	0	1	0	0	0	9



Filled Position Per Band

- 45% Skilled/Advanced Operational
- 33% Temporary employees
- 11% Executive management
- 11% Semi-skilled
- 0% Top management
- 0% Management
- 0% Basic skilled



Terminations

A total of 16 employees exited OBP, due to retirement, resignation or end of contract. The breakdown is indicated below:

Table 4: Terminations for the period 1 April 2015 to 31 March 2016

Occupational Levels	Male				Female				Foreign Nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	0	0	0	0	0	0	0	0	0	0	0
Executive management	0	0	0	1	0	0	0	0	0	0	1
Management	0	0	0	1	0	0	0	0	0	0	1
Skilled employees	0	0	0	1	1	1	0	1	0	0	4
Semi-skilled employees	2	0	0	0	2	0	0	0	0	0	4
Basic – skilled employees	3	0	0	0	1	0	0	0	0	0	4
TOTAL PERMANENT	5	0	0	3	4	1	0	1	0	0	14
Temporary employees	1	0	0	0	0	0	0	1	0	0	2
GRAND TOTAL	6	0	0	3	4	1	0	2	0	0	16

Employee Turnover

As of 31 March 2016, the turnover rate was 8, 5%. This is within the norm of between 4% and 12%. OBP's resignation rate is 5%. OBP conducts exit interviews to establish reasons why employees are leaving the organisation. This information is used to improve the conditions of service and working environment in order to improve OBP's ability to retain skilled employees.

In order to ensure retention of employees in 2015, the Board approved a retention strategy. The retention strategy is currently being implemented.

The top four reasons are indicated in Table 5 >>>

Table 5: Termination Reasons

Termination Reason	Number of Employees
Death	1
Retirement	5
Resignation	9
Expiry of Contract	1



Terminations Per Bands



Training and Development

A total of 106 employees attended internal and external training programmes. This translates to an attendance rate of 56%. OBP's holistic approach to training entails attendance of in-house and external training programmes, bursaries for formal courses at tertiary institutions, internships and learning.

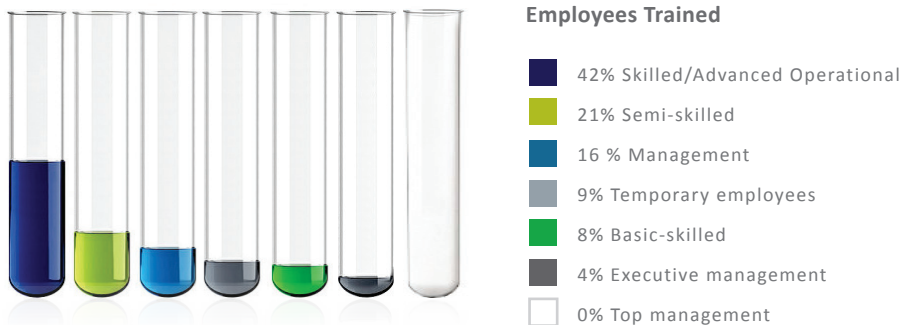
The company has complied fully with the requirements of the Skills Development Act, as well as the Employment Equity (EE) Act. OBP has already submitted the EE Report to the Department of Labour, which was due at the end of January 2016 and has also submitted the Workplace Skills Plan and Training Report for the 2016/2017 FY.

Table 6: Employees trained from 1 April 2015 to 31 March 2016

Occupational Levels	Male				Female				Foreign Nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	0	0	0	0	0	0	0	0	0	0	1
Executive management	1	0	0	1	2	0	0	0	0	0	4
Management	5	2	1	3	6	0	0	0	0	0	17
Skilled employees	17	1	0	2	20	0	2	3	0	0	45
Semi-skilled employees	9	0	0	1	10	0	0	2	0	0	22
Basic – skilled employees	7	0	0	0	1	0	0	0	0	0	8
TOTAL PERMANENT	39	3	1	7	39	0	2	5	0	0	96
Temporary employees	6	0	0	0	4	0	0	0	0	0	10
GRAND TOTAL	46	3	1	7	43	0	2	5	0	0	106



The breakdown of the employees who attended training is as follows:



The training programmes that the employees attended were informed by the training plan which was developed based on the training needs of the business units.

Performance Management

All employees signed performance agreements outlining their key performance areas and outputs to enable OBP to achieve its strategic objectives. OBP remains committed to continue facilitating a dynamic performance driven culture through employees committing to individual targets.

During the 2015/2016 FY, employees who achieved a satisfactory performance rating were awarded a pay progression of 1%. The 1% pay progression was not paid to management.

No bonuses were paid as the Company did not declare profits for the year under review. The incentive scheme is self-funding.

Labour Relations

There are currently two recognised unions, namely, the National Education Health and Allied Worker's Union (NEHAWU) and Solidarity. Issues of mutual interest are negotiated in the bargaining forum and the unions mentioned above bargain with OBP on behalf of their members.

Three cases of misconduct and two grievances were reported during the 2015/2016 FY.

No disputes were referred to the Commission for Conciliation, Mediation and Arbitration (CCMA) and Labour Court.

Employee Wellness

OBP provides therapeutic services for employees on-site. A total of 113 employees were serviced at OBP's On-Site Clinic. There were no formal referrals.

The most pertinent areas that were addressed are the following:

- Relationship problems
- Marital problems
- Financial problems
- Work related problems
- Health related problems
- Bereavement

The most prevalent cases in the Company involved relationship problems – either by the spouse, children or significant others such as a boyfriend or girlfriend. The second ranked problem in the Company is marital problems and the third ranked is financial problems. Many employees are in debt, and some are in debt review.



REPORT OF THE HUMAN RESOURCES EXECUTIVE

The following therapeutic services were provided:

- **Individual therapy:** The therapist provided counselling services to clients who had some personal issues to work through. Individual sessions were conducted and the focus was to collaborate with the clients to manage to solve the problems experienced. The following therapeutic techniques were utilised:
 - Cognitive Behavioural therapy
 - Psychodynamic therapy
 - Solution focus therapy
 - Reality therapy
- **Couples' therapy:** The therapist conducted two joint therapies with the client and their spouse. Due to confidentiality the therapist conducted these services at her own consultation rooms. This was done on a Saturday in order to accommodate the clients' spouse. This has yielded positive results as the client's relationship has improved.
- **Bereavement:** Bereavement counselling was provided to the staff who have lost their loved ones.
- **Financial advice:** The therapist has advised clients regarding financial management. Most of the clients were referred to Careways for further assistance as the therapist is not a financial expert.

Code of Conduct

One of the foundations of a high performance culture is sound ethical conduct. OBP has reviewed its code of conduct to ensure alignment with best practice and to ensure sound ethical conduct throughout the organisation. The code of conduct is currently being presented to employees in order to ensure common understanding.

Declaration of Interest

The annual declaration of interest is a tool that OBP uses to ensure ethical conduct. All employees who were required to declare their financial interests submitted these.

Security and Facilities Management

OBP still operates under the National Key Point (NKP) and the security department is responsible for ensuring that OBP complies with the NKP Act 102 of 1980 as reaffirmed in 2003.

To realise this, the security department is supported by a private security service provider responsible for the static protection of OBP staff, premises and assets.

Force multipliers are used to further enhance security capabilities in the form of a Closed Circuit Television (CCTV) system and electronic access control system.

For compliance, the security department is supported by the State Security Agency and the South African Police Force (SAPS) NKP Regulator.

Emergency services such as Disaster Management and the local Fire and Emergency Services ensure that OBP is prepared for emergencies.

The facilities (offices and laboratories) are maintained by a cleaning service provider and their staff members are specifically trained in the prescriptions that entail the cleaning of said laboratories.



REPORT OF THE GMP PROJECT MANAGER

Background

Good Manufacturing Practices (GMP) is becoming very important in the production of medicine and active pharmaceutical products. Knowing this, OBP has from as early as the 1980's, started to look at upgrading the facility in order to become GMP compliant. The lack of funding prevented improvements to the plant and equipment from taking place and as a result upgrading became immensely overdue – to a point that costs to upgrade escalated dramatically as the condition of the equipment continued to deteriorate while GMP requirements, and now current Good Manufacturing Practices (cGMP), became increasingly stringent.

With the approval from Treasury to provide funding for the upgrade of the OBP facility, upgrading finally became a reality and work to improve the current facility began, while the options to move toward becoming a GMP compliant facility were considered. The prospect of shutting down the facility for a couple of years in order to upgrade the current facility was not feasible. Market loss and income loss needed to be considered. It was therefore decided that an all new facility would be developed. With the dawn of 2014/2015 a Projects team was established and planning for the new facility commenced.

GMP, What Is It?

The formal definitions for GMP are as follows:

- GMP refers to the practices required in order to conform to guidelines recommended by agencies that control the authorisation and licensing for the manufacture and sale of food, drug products and active pharmaceutical products.
- GMP is a system for ensuring that products are consistently produced and controlled according to quality standards. It is designed to minimise the risks involved in any pharmaceutical production that cannot be eliminated through testing the final product.
- GMP covers all aspects of the facility from the physical premises and equipment to production and staff.

Each of these is further elaborated on in the following paragraphs.

Premises (physical structure):

- The facility must be designed to allow for logical and practical flow of personnel, material product, air etc.
- The facility must control access to and from production areas in accordance with individuals allowed in those areas.





- The environment in each room must be controlled to ensure both the safety of the product and that of personnel. This includes cleanliness of air, air flow patterns, temperature, room pressure etc.
- Products and grouping of products need to be considered in the design of the facility to accommodate product (groups) that cannot be produced in the same area with the same equipment as other products.

Equipment:

- Equipment must be designed in accordance with GMP guidelines.
- Safety of product, personnel, environment and end-user needs must be considered in the equipment design.
- The equipment must be easy to clean which points to a reduction in exposed surfaces.
- The equipment must be reliable.
- Interface between different systems/equipment.
- All actions must be auditable.

Production:

- Detailed, written procedures are essential for each process that could affect the quality of the finished product. The Standard Operating Procedures (SOPs) need to be tested (validated), and challenged to ensure repeatability of the process.
- There must be systems in place for the provision of documented proof that correct procedures are consistently followed step-by-step in the manufacturing process – every time a product is made.
- SOPs will cover how and when areas need to be cleaned, what clothes must to be worn, how to enter certain areas, how to operate and maintain equipment etc.

Personnel:

- Personnel must be trained in the use and practical implementation of the SOPs; from the cleaning staff who ensures that the plant is cleaned according to the requirements, to the operator that works on the filling machine – including managers and ExCo members.

Training entails:

- * General practices in a clean room environment (this training should apply to all levels in the Company).
- * Specific training based on activities.
- * Process and documentation training.

Why GMP?

Moving over to a cGMP compliant facility is a very exciting and challenging exercise; with all the aspects mentioned above and more, which still need to be considered.

Obtaining GMP certification will have the following benefits to OBP:

- It will open international markets for OBP that are currently difficult to penetrate as they require GMP certification to import.
- Validation will result in improvement of SOPs and controls. Through this, process repeatability will be proven and there should be very few, if any, failures 'in process' or in final product. This will result in reduced production costs and increased efficiency.
- Batch failures, even in production, should be such a rare occurrence that any failure should be investigated to determine the cause and source of the failure. Through this, problems should be picked up at the early stages and not as was recently experienced with the cell and viral production.

Qualification and Validation

Qualification is the action of proving that any premises, systems and items of equipment work correctly and actually lead to the expected results.

- Qualification is more focused on the physical items, building, equipment, etc.
- The objective of Qualification is to prove that the facility and equipment can do what it was designed to do but not linked to a specific product. For example a filling machine must be able to fill the desired number of vials to the desired accuracy levels, repeatedly.



REPORT OF THE GMP PROJECT MANAGER

Validation is the action of proving, in accordance with the principles of GMP, that any procedure, process, equipment, material, activity or system actually leads to the expected results.

- In this step the focus moves to the product.
- The product must be produced using the SOPs reliably, and repeatedly.

Qualification and Validation forms an integral part of the project and should be considered from its inception. Validation will also continue far beyond the life cycle of the project itself.

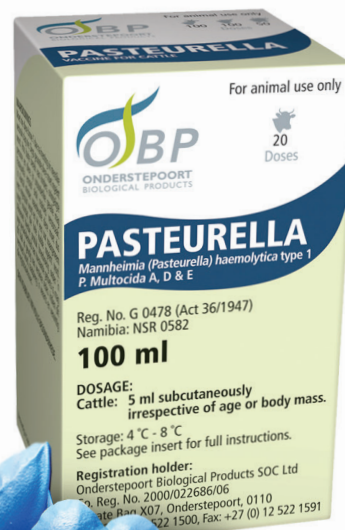
New cGMP Facility Development Status

In order to execute a project of this magnitude and complexity a professional team needed to be contracted to manage the project. This team was appointed towards the end of 2014. In 2015 the concept designs were completed and approved. The detail design stage has been entered into starting off with value engineering. The value engineering process resulted in some changes and exclusions on the initial design in order to work within the allocated budget. These changes included a phased approach in populating the facility.

To date the geotechnical, typographical and traffic impact study surveys have been completed as well as an environmental impact study. The environmental impact study has also been approved by the Tshwane Municipality. The Environmental impact study resulted in the relocation of the facility in order to stay clear of a wetland area identified during the study.

The site development plan was also submitted to the Tshwane Municipality. The initial feedback on the submission was that OBP needed to change the zoning of the land from Agricultural to Government. This change was necessary because OBP would not have been allowed to construct a new facility under the current zoning. The process to change the zoning has been started and a consultant was appointed to drive the process.

With Qualification and Validation being an integral and important aspect of the design and construction of a vaccine manufacturing facility, OBP now needs to engage in getting this aspect addressed in order to progress further with the detail design stage.





Current Facility Upgrade Status

In the 2015/2016 FY the two major items attended to were the procurement of a new freeze dryer and the overall upgrading of the production fermenters.

A new freeze dryer which will be able to handle small and half batches was procured in mid-2015. The factory acceptance tests successfully took place in November 2015. It was established that additional capacity could be built into the freeze dryer increasing its capacity by 30%. The order was amended resulting in a delay on the delivery of the unit. The unit is now expected to be delivered at OBP during July 2016. In the meantime, an extension to the current freeze drying area has been designed and should also be completed towards end of July 2016.

Major work was done on the fermenters to improve their integrity and mechanical condition. The work included replacement of mechanical seals, valves, etc. All control sensors were also calibrated. Towards the end of the FY, one fermenter has been put back into production with very good results. By the end of the FY, the other two production fermenters were in the final stages of testing.

The control panels of the fermenters are very old and spare parts became a problem. A company was appointed through a tender process to upgrade these panels. With this upgrade the fermenters will also be connected to one another through the programming in order to improve automation of the process. This upgrade will take place in the 2016/2017 FY.

In order to comply with GMP, the concept designs on the current facility rearrange some of the process flows to a more practical flow of personnel, equipment and product. The main focus however is to introduce personnel entry areas and material transfer areas and to remove all offices and document storage areas from the production areas, reducing the number of personnel moving through the production area and in return reducing risk of contamination. Changes to the facility will commence in 2016/2017.

Other items planned for the 2016/2017 year are:

- Upgrading of autoclaves to improve sterilisation processes reporting.
- Upgrading of formulation areas.
- Upgrading of bulk media plant.
- Introducing steam cleaning to more of the process steps.

Going Into 2016/2017

Going into the new FY it is foreseen that there will be many changes which will impact current production, improving the process flow as well as cultivating a GMP culture within personnel. We also hope to see the beginning of the construction of the new facility towards the middle of the 2016/2017 FY.

Engineering and Maintenance Department

It was a very challenging but also rewarding year for the EMU team. A number of changes were made to the operations of the team that improved their availability to do physical work. Some of these changes include:

- Improving the interaction between stores and EMU.
- Establishing of standard spare levels in the stores.
- Improving the completion and motivation of items to be procured in order to reduce time spent on these.

The year was also rewarding as the team saw an improvement in the outcome of the work as some focus could be moved to preventative rather than reactive maintenance. The fermenters will be operational and back in production in a better condition than they previously were. Many other achievements through team work and dedication left the EMU staff motivated.

Going into the New Year, EMU will focus on the implementation of properly scheduled and preventative maintenance. The capacity of the team also needs to be improved in the New Year, by expanding on the number of technicians as well as an administrative assistance to ease the workload of the technicians' paperwork and other departmental administrative duties.



REPORT OF THE ACTING QUALITY EXECUTIVE

Quality Assurance Department

The Quality Assurance (QA) department is responsible for managing the quality system at OBP. OBP is currently an ISO 9001:2008 compliant company. One of the important factors of ISO 9001 is the maintenance of the Quality Management System (QMS). For OBP to meet its goal and improve the effectiveness of the QMS it is imperative that we fulfil the needs of our customers through consistent products and services that meet customer expectations. This requires continual planning and improvements of the QMS for which ISO 9001 provides.

There was a reduction in customer complaints and only 21 customer complaints were received for this FY.

Non-conformance increased, the main cause of which continues to be the replacement of aging of equipment. A total of 277 non conformances were received. QA conducted investigations on some of the non conformances to eliminate waste costs and rejected products. Training was provided to Production in terms of non conformances and deviations.

Two South African Bureau of Standards (SABS) audits were conducted and the certification was retained. A total of four supplier audits were conducted for this period. A total of 44 internal audits were conducted.

A total of 634 documents were reviewed for the quality management system. A total of 3018 batch documents were issued and a total of 834 were reviewed for this FY.





QA was involved with the upgrading of the new facility and embarked on validating new equipment and reviewing all packaging material.

Quality Control and Experimental Animals Department

Quality Control (QC) is a system of maintaining standards in manufactured products by testing a sample of the output against set specification albeit international specifications or internal specifications to meet the quality requirements of the customer.

The QC department in conjunction with the Experimental Animal department are responsible for ensuring that products comply with these set standards thereby ensuring that

customers receive quality products which can safely and effectively be used for their intended purpose.

The testing of products increased by 15% and 4906 tests were performed collectively for this period (at 97% efficiency). There were a number of challenges within the company and these two departments still achieved their objectives even though they lost a number of staff members due to retirement, death and resignations. This problem was partially solved by employing and training interns, thus ensuring that the level of testing is maintained within the company.

There was also a drive to have all our staff fully trained and a number of staff members attended various training courses relating to the job function. This training played a critical role in these departments and helped them achieve their objectives.



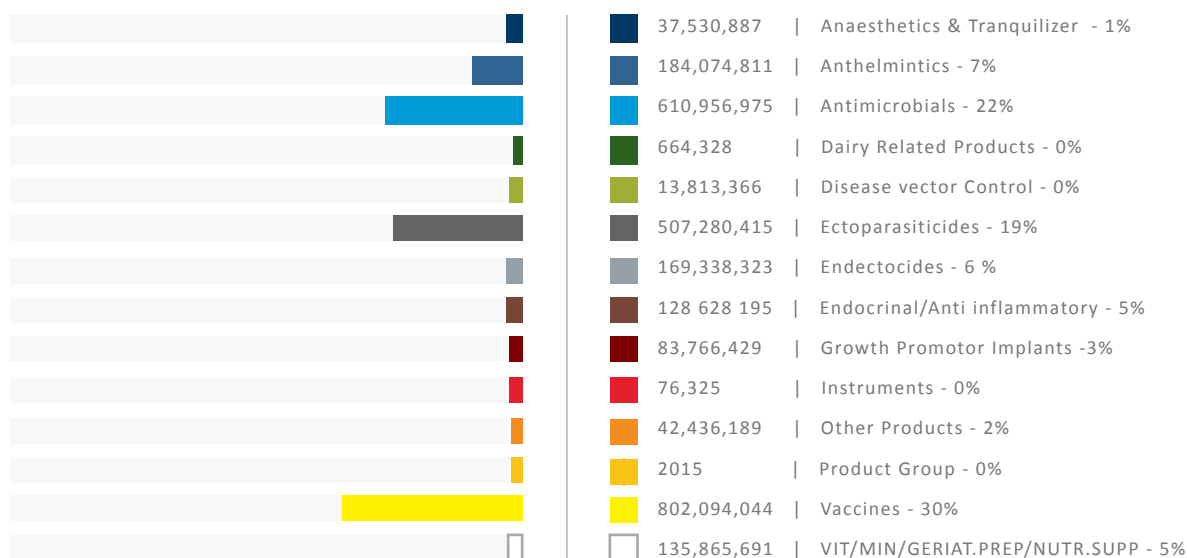
REPORT OF THE BUSINESS DEVELOPMENT OFFICER

Industry Analysis

Statistic South Africa reported that the South African economy did not perform very well and only grew by less than 0.8% by the 2015/2016 financial year end. The Agricultural sector was the worst performer due to drought conditions that affected the whole of the Southern African region (Zimbabwe, Botswana, Namibia, Zambia and South Africa). More than 60% of farming sectors in South Africa were affected by this drought and livestock farmers were forced to sell their stock while government introduced drought relief packages for farmers who were severely affected. Provinces such as Free State, Northern Cape, KwaZulu-Natal, Limpopo and the North West were amongst those experienced the worst affected.

Despite the drought condition in the country, the animal health industry grew by 8.5% from R2,5 billion to R2,7 billion which is the current estimated market size. Figure 1 below shows the total market size in rand value and other segments.

Figure 1: Total value in Rand of the South African pharmaceutical animal health industry



Source: South African Animal Health Association (SAAHA) figures 2015

Figure 1 above also shows that the vaccine segment grew by 27% while the livestock sub-segment grew by 14.4%. These figures clearly demonstrated that the vaccine market segment grew despite drought conditions. These conditions also created opportunities for OBP's bacterial vaccines in which there was a high demand for vaccines against bacterial spore forming diseases. OBP's market share within the Total Animal market, vaccine and livestock segments was 2.03%, 7% and 15% respectively. In all these segments OBP's market share grew by 1% – 3% as compared to the 2015/2016 FY. Table 1 below summarises the value of different segments within the industry and OBP's market share.





Table 1: OBP's Total Market share per sector

	2014	2015	%Growth
Total Animal Market	2 504 171 085	2 716 525 977	8.5%
Market share	1.75%	2.05%	0.3%
Total Vaccine Segment	700 040 602	802 094 044	27%
Market share	6%	7%	1%
Livestock Vaccines Sub	270 443 121	309 260 964	14.4%
Market share	12%	15%	3%

According to the 2015/2016 SAAHA figures, Merck Sharp & Dohme (MSD), Virbac, Zoetis, Elanco and Bayer are the top animal health companies with MSD still ranked as number one.



REPORT OF THE BUSINESS DEVELOPMENT OFFICER

OBP Performance

The Company's sales revenue performance increased by 10% as compared to 2014/2015 with exports achieving sales records of 57% above 2014 and 10% above budget. The domestic market was 10% behind 2014 and almost 38% behind budget. The overall performance was better than the previous year considering drought conditions that impacted negatively on high valued viral vaccines.

Table 1: 2015/16 Performance

Sector	% variance (2014 vs 2015)
Domestic	-10%
Exports	57%
Total	10%

An analysis of OBP's top clients is made up of Bayer animal health, export clients and government. The three contribute 70%, 25% and less than 5% to the overall sales revenue respectively. Key regions within the Export department were Europe, South African Development Community (SADC), North East Africa and Middle-east. Table 2 below depicts top performing products and their sales contribution to the total revenue.

Table 2: Top performing products

Product	% Contribution
BLUE TONGUE 100ml	22%
LSD 100ML 50DOS	21%
AHS 12 DOSE PACK	18%
RVF LIVE 100ml	14%

Product	% Contribution
PAST (SHEEP) 100ml	12%
BOTULISM 100ml	9%
PAST (CATTLE) 100ml	7%
LSD 50ML 25DOS	4%
RVF INACT 100ml	3%
PK (ALUM) 100ml	3%
B-PHEM 10 DOSE	3%
GALLSICKNESS 5ml	2%
REDWATER ASIATIC 5ml	2%
BRUCELLA S19 20xD 2ml	2%
HEARTWATER 9ml	1%

It can be seen from Table 2 that viral vaccines were the highest contributor of sales revenue with Blue Tongue (BT), Lumpy Skin Disease (LSD), African Horse Sickness (AHS) and Rift Valley Fever (RVF) being the top contributors. Below is a summary of activities according to the Company's strategic plans (2015/2016).

Domestic Analysis

Market and Customer research survey

An online market survey was conducted to determine the customer satisfaction and analysis of the results proved that OBP's clients need direct engagement and that dissatisfaction with product availability came out on top.

Sales Revenue and market share

Although the Company did not achieve its financial goals, the



Company managed to grow its revenue by more than 5% as compared to the 2014/2015 FY. The Company further managed to recapture its lost market share and grew by 3% as stated above.

Stakeholder engagement

The department managed to engage with and participate in key events held by OBP's key stakeholders. The Company continued to develop relationships with key stakeholders such as South African Veterinary Association (SAVA), Livestock Health & Production Group (LHPG), Meat Producers Organisation (MPO), Red Meat Producers' Organisation (RPO), National Animal Health Forum (NAHF), National Wool Growers Association (NWGA), National Emergent Red Meat Producers Organisation (NERPO), African Farmers' Association of South Africa (AFASA), Co-ops and veterinarians. Support to these stakeholders was through sponsorship and exhibitions.

Government support

OBP supported government initiatives in developing emerging farmers by contributing 500 000 more doses of vaccines to provinces than in 2014/2015. This was further supported by holding 24 farmers' days against a target of 20 farmers' days. As part of the Company's strategy to involve new and young

entrepreneurs from disadvantaged communities within the animal health sector, two companies were targeted for further support in the 2016/2017 FY.

Export department

An analysis of the Export department showed that it performed very well achieving sales revenue of 10% above target. This performance success was brought about through activities in Eastern Europe – mostly Greece and Cyprus – and in SADC. Below are key regions in which the Export department focused its strategy:

- Eastern Europe
- North East Africa
- Middle East
- SADC

Conclusion

OBP's recent performance demonstrates that the company is now in a trajectory phase with sales revenue continuing to improve year by year. Demand for OBP's bacterial products during periods of drought clearly confirmed that OBP's products are still trusted to be effective against most African diseases. Our performance in the export market was another milestone for the Company proving that South African vaccines are still highly regarded in improving national bio-security globally. The department is of the opinion that the Company will perform far better than in 2015/2016 when the new distribution strategy will be implemented in the new FY.





REPORT OF THE OPERATIONS EXECUTIVE

The Operations division is responsible for the efficient manufacturing of high quality vaccines in accordance with best business practices that will ensure timely stock availability and the competitiveness of OBP. The division comprises various production departments supported by the EMU Department to ensure its targets are met.

The 2015/2016 reporting period comes after a period of acute stock shortages in 2014 which were due to critical equipment breakdowns and utility supply disruptions. As a result, the majority of the 2015/2016 period was dedicated to the maintenance of critical equipment, with minimal disruptions,

to ensure timely product availability of viral and bacterial vaccines.

Production Overview

A. Bacterial and viral production

Following the troubleshooting exercise into production issues that resulted in product supply disruptions; the focus for the reporting period was on the production of critical antigens in the Viral and Bacterial Vaccines departments to ensure availability of product that was in short supply or unavailable. This approach has satisfied the market demand for viral





products and ensured stockpiling of bacterial antigens. The implementation of routine plant maintenance and a quick response to breakdown maintenance on the critical equipment and the water plant has contributed to the overall operational efficiency of the division.

In the 2015/2016 FY, a total of 223 batches were produced which was a mere 18 batches short of the annual target of 240 batches. This is an improvement of 166% when compared to a total of 134 batches produced in the 2014/2015 FY as per Table 1 >>>

Table 1: Annual Batch Production Summary

Financial Year	2013/2014	2014/2015	2015/2016
Batches Produced	178	134	223
Annual % Variance	-	- 24.7%	+ 166.4%





B. Batch failure

The overall annual production batch failure rate for the 2015/2016 reporting period was 12% due to contamination challenges in intermediate production that resulted in a spike in batch failures. Measures were put in place to minimise and avoid contamination. The current results indicate that the worst is over and we are seeing a marked improvement which will be carried through to the next FY (2016/2017).

C. Product availability

Despite the challenges, Production Divisions produced all the products that were in short supply and made the following

products available to the market: Brucella S19; Pasteurella Ovine and Bovine; B-Phemeral; Blue Tongue (BT); African Horse Sickness (AHS); Calf-Paratyphoid; Lumpy Skin Disease (LSD) and Leukopast.

By focusing on producing critical antigens, the Operations Division is confident that there will be sufficient product to supply and satisfy the market demand for 2017 and beyond. At the end of 2015/2016 period, Viral Vaccine Production was between 80% – 90% ready to supply the winter products with sufficient stock of BT, AHS and B-Phemeral to last throughout the winter season when these products will be required.



REPORT OF THE OPERATIONS EXECUTIVE

D. Equipment maintenance/breakdowns

Whilst the department has implemented planned/preventative maintenance on all equipment, some breakdown maintenance could not be avoided and had to be carried out.

The following equipment underwent maintenance in this period:

- DCU Fermenters
- Cell Incubators
- B&S Filling Lines
- Freeze Driers





REPORT OF THE OPERATIONS EXECUTIVE

Conclusion

The period of 2016/2017 will see the water plant undergoing a planned maintenance shutdown to ensure the plant is working optimally and that there are no unforeseen disruptions.

The period of 2015/2016 has been a success when compared to the previous period both in terms of products produced and production disruptions. As a result, OBP will be able to supply the market with products that were previously unavailable and/or in short supply in a timely manner.





REPORT OF THE CHIEF SCIENTIFIC OFFICER

Research and Development

The process of developing vaccines is complex, costly, time consuming, and for some diseases, the development process may take up to over a decade. The highlight for the 2015/2016 FY was the approval of the Research and Development (R&D) strategy by the Board. The strategy aims to build competencies that will lay a solid foundation for development of differentiated, innovative and effective animal health products. The competence areas addressed by the strategy encompass attainment of different goals pertaining to culture collections, product development platforms, bio processing technologies, clinical and regulatory affairs excellence.

The R&D unit is working on a number of pipeline concepts with several projects towards improved products and processes. Two of these projects were advanced to pre-clinical validation stages and one to vaccine clinical testing stage. A number of production processes were brought into R&D from the

Production departments for process optimisation and improved production process. Three projects have been advanced to the technology transfer stage from R&D to production. The R&D unit continued to benefit from collaborations with external stakeholders as research collaborators; notably the Technology Innovation Agency (TIA) who is funding certain R&D projects, Agricultural Research Council – Onderstepoort Veterinary Institute (ARC-OVI), the Council for Scientific and Industrial Research (CSIR) and Universities of Pretoria and North West. The two collaboration projects with external collaborators were advanced to the technology transfer stage. The R&D division continued to invest in infrastructure and investigations on the use of new technology platforms to fast track vaccine development.

During the year under review, OBP submitted three new applications to Act 36/1947 for approval. Two of these applications are for dose reductions of existing vaccines while the third application is for a new combination vaccine for sheep.





REPORT OF THE CHIEF SCIENTIFIC OFFICER

One new application for a combination vaccine for cattle was submitted in the previous FY, this application is still pending. As part of OBP's strategy of expanding its customer base, various technical documents were submitted to foreign customers for possible registration of various vaccines, these countries include SADC, Kuwait, Greece, Israel and Netherlands. OBP was granted marketing authorisation for the OBP LSD vaccine in Kuwait.

One intern was trained in the division and one staff member completed an MSc degree at the University of Pretoria. Two staff members registered for PhD's with the University of Pretoria and North West University, and another staff

member is continuing an M.Sc degree with the University of Cape Town. Two appointments were made of experienced research scientists holding PhD qualifications. Furthermore members of R&D attended various workshops and conferences internationally.

Scientific Outputs:

Kidanemariam Gelaw A, Bihon W, Faranani R, Mafofo J, Rees J, Madoroba E. 2015. Complete genome sequence of Mannheimia haemolytica strain Mh10517, isolated from sheep in South Africa Genome Announc 3(2):e00129-15. doi:10.1128/genomeA.00129-15.





REPORT OF THE CHIEF FINANCIAL OFFICER

Introduction

The vaccines market continued to be under pressure during the current FY, with slow growth experienced by the industry players year on year and in addition OBP's challenges related to ageing equipment continued to affect our overall performance. The equipment needs urgent replacement going forward.

Competition has also increased over the period under review and has taken over some of OBP's market share together with other industry players.

During the 2012/2013 FY the Shareholder approved the funding of R492 million over the Medium Term Expenditure Framework

(MTEF) period for modernisation of the current facility; of which R492 million was transferred by the Shareholder to the Company to date. The cash injection by the Shareholder will bring some production stability to the organisation and position OBP as force to be reckoned with in the market by claiming back lost market share through improved economies of scale.

Finance

The Finance department is responsible for the financial management, Supply Chain Management (SCM) and IT sections within OBP. It strives for effective and efficient financial management and internal controls in alignment with the strategic objectives of the organisation.





The department is guided by the following statutes in the execution of its duties:

- PFMA
- Treasury Regulations
- Preferential Procurement Policy Framework
- Income Tax Act 58 of 1962
- VAT Act 89 of 1991

Financial Management

This section focuses on maintaining and implementing sound financial management processes and controls, and ensuring compliance to all relevant legislation. Key functions of the department include financial administration, accounting, treasury management and reporting. The finance, sales and procurement Enterprise Resource Planning (ERP) system modules have been fully operational during the current FY. The response to the system by users has been positive and the improved reporting process is evident.



REPORT OF THE CHIEF FINANCIAL OFFICER

Supply Chain and Distributions

The SCM division is made up of three departments namely; Procurement, Production Planning and Distribution (Dispatch). The main role of the division is to provide an integrated Supply Chain through effective planning, sourcing, manufacture and delivery of OBP products, that is underpinned by a strong technology platform. OBP's SCM division is corporately mandated to work closely with other key functions in the Company in ensuring that these functions are fully supported. One of the key functions of the procurement sub-division is the management of a supplier base and inventory to ensure

continuous supply of quality materials to the production functions. Also key to the procurement function is the compliance to relevant Treasury Regulations and PFMA.

OBP achieved an average of 86% procurement spend on Black Economic Empowerment (BEE) individuals/organisations for the year under review. The procurement policy has been updated and approved by the Board during the year under review.

We have embarked on a project of updating the supplier database with all the necessary supplier information i.e. BEE certificates, Tax clearance certificates etc. The Company is in the





process of obtaining the BEE certification from the accredited agency Empower Logic.

Information Technology

The section focuses on IT governance, security and support of users within the organisation. IT is a critical department within the organisation in ensuring that the business meets its objectives through utilisation of technology.

The IT Strategy and Governance Framework were developed and concluded during the period under review.

The IT Steering committee became fully-functional with its Terms of Reference, IT Governance Charter and Governance Framework developed.

IT management change and IT security groups were constituted as part of the governance processes.

As part of the short-term strategy, the department successfully implemented the IT infrastructure upgrade project to enhance the capacity and performance of the application systems. This project included initiatives such as Internet capacity upgrade and server upgrades

The Storage Area Network (SAN) and the associated back-up and archiving solutions were also replaced with improved, more effective and efficient solutions. New network security solutions were implemented during this reporting period to further mitigate the risks associated with cyber security.

Results from Operations

The financial performance of the Company has been under pressure in light of the production challenges and tough market conditions. Our international sales have exceeded the target in line with our strategic view that export is our future.

	2016	% Change	2015
Revenue	92 699 421	12%	81 713 623
Expenditure	99 000 942	4%	95 162 858
Plant Investment	148 349 470	11%	132 392 956
Cash Equivalent	456 350 095	53%	216 184 281

Revenue

Revenue increased to R92,7 million from R81,7 million for the year under review. The 12% increase realised is mainly attributable to increase in production of finished products compared to the prior year. During the 2014/2015 FY we saw most of our products not being able to be produced. The trouble shooting exercise reported in the prior year began to show positive results.

The favourable market conditions internationally and rand devaluation against our major trading partner currencies also contributed positively to our revenue growth. International markets for our products continue to be our strategic route in diversification.

Gross margin

Gross margin of 75% was realised compared to gross profit of 61% for the same period last year. The increase in gross profit by 14% is mainly due to product mix with higher margin products being sold, for example, AHS, BT, international sales (Dollar and Euro denominated) and cost control relating to direct input costs.

Other income

Other income amounted to R11 million for the year under review. The amount exceeded the prior year by R3 million. The substantial increase arose mainly due to a license agreement worth R2,5 million for sale of seed stock material.

REPORT OF THE CHIEF FINANCIAL OFFICER

The performance of the South African rand against major trading currencies has been under tremendous pressure during the year under review and the foreign exchange gain is attributable to natural hedging through our Euro and US Dollar dominated accounts.

Operating and administrative expenses

The overall business expenditure increased by 4% year on year. The biggest contributor is personnel costs amounting to R60 million for the year under review. The personnel costs increase of 3% is mainly attributed to inflationary salary increases.

Investment income

Investment income increased to R288 million in the current FY compared to R12 million reported during the prior year, and the increase is attributable to positive cash inflow from National Treasury for recapitalisation and upgrades. During the FY under review OBP received R268,4 million in ring-fenced capital injections.

Organisational Performance

Figure 1.5 (A) Five Year Financial Performance of OBP

FINANCIAL PERFORMANCE

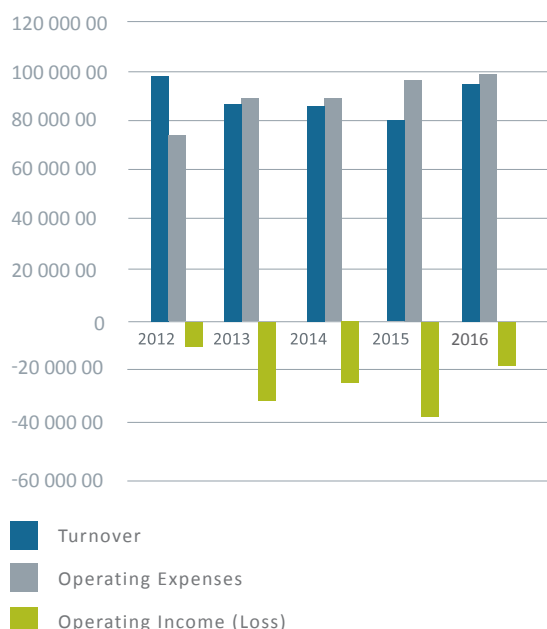


Figure 1.5 (B) Five Year Financial Position of OBP

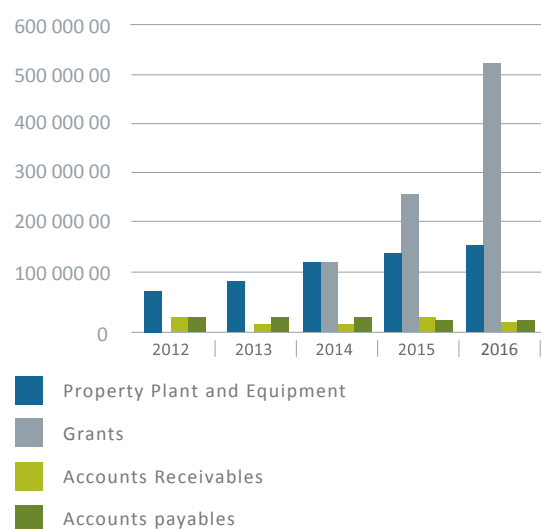
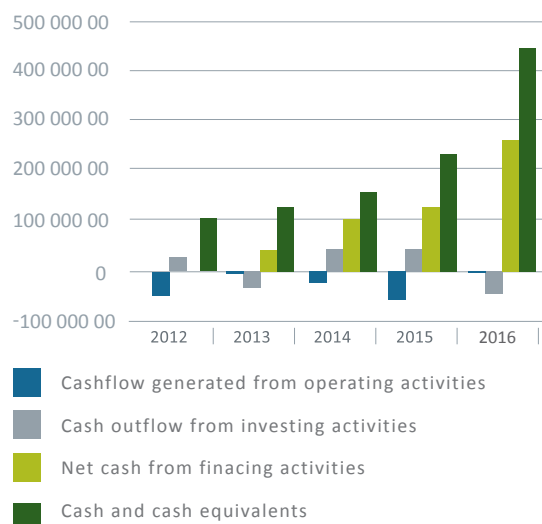


Figure 1.5 (B) Five Year Cash Flows and Cash Reserves of OBP

CASHFLOW AND CASH RESERVES





Financial Position

Our financial position improvement during the period under review is primarily due to the cash injection by the Shareholder for the plant recapitalisation programme.

Net cash balances at 31 March 2016 of R456 million represent an improvement of R240 million over the period under review.

Our strong financial position allows us to build a GMP Facility to access the international markets and pursue growth opportunities across Africa and the rest of the world when they arise.

Delivering Value To Stakeholders

We return value to our Shareholder in the form of ensuring that government priorities are met, especially by helping to alleviate poverty through food security.

Issues Going Forward

We remain cognisant of the need to continually deliver to our stakeholders by improving operational performance and pay attention to efficiency, revenue maximisation, cutting costs and affordable pricing of our products. We also recognise the need for increased production of sufficient doses to cater for local and export markets.

Key Financial Risks

Significant machinery acquisition from overseas suppliers is envisaged over the MTEF. Exchange rate risk will be managed through awareness of currency risk related transactions. The Company has a formal foreign exchange policy approved by the Board, which guides currency risk management carried out by the business. Currency risks are partially hedged through a set-off effect of foreign currency assets and liabilities and by means of forward exchange contracts.

Figure 1.5 (C) Five Year Key Ratios of OBP

	2012	2013	2014	2015	2016
Gross margins	73%	61%	70%	74%	75%
Current ratio	4.40	7.11	4.62	7.34	22.01
Quick ratio	3.93	5.85	0.90	1.38	3.14
Return on asset	12%	-1%	-13%	-10%	-3%

MANAGERS





PERFORMANCE REPORT

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PERFORMANCE REPORT

ANNUAL PERFORMANCE TARGETS 2015/2016

1. Strategic Goal 1 and Objective Annual Targets for 2015/2016

Strategic Goal 1	Build a global high-performing organisation equipped with modern technology and expertise to develop and manufacture competitive products to achieve financial sustainability.
Objective statement	To attain a high-performance organisation underpinned by appropriate structures, institutional stability, competitive products, shared values and financial sustainability.
Outputs	<ul style="list-style-type: none"> 1.1 Alignment of structure to strategy 1.2 Institutional stability 1.3 Performance management 1.4 Financial sustainability 1.5 Production efficiency 1.6 Quality products 1.7 A GMP compliant facility as detailed in the approved plan
Baseline	<ul style="list-style-type: none"> • OBP currently has a workforce that requires further skills enhancement to align to changing technology, processes and quality standards and to have increased ability to innovate • Staff turnover rate of above 12% • Performance management system implemented in 2011 • Reliance on manual processes and reporting • Outdated production systems, processes, facilities and equipment • ISO 9001:2008 certified • Inadequate budgets for plant upgrade and new GMP facility • Current product portfolio • Declining market share • Unfunded vaccine reserve
Justification statement	<p>Optimal organisational performance is dependent on an enabling environment, which is underpinned by behavioural standards agreed upon by all employees. Comprehensive organisational design can only become a reality when a desired organisational culture has been defined and articulated across the organisation. With the preceding in mind, there is a need to introduce significant changes in the organisational culture, mind-set and performance of employees to enable the organisation to adapt to changes in quality, production and industry trends and technology. This will ensure that we reap the benefits of an engaged and diverse workforce.</p> <p>There is a critical need to reduce costs, increase yields, and improve efficiencies and productivity across the organisation. Improved profitability and sustainability of the organisation and ensuring value-add will go a long way towards increasing OBP's competitiveness and shareholder satisfaction. For this to happen consistently, improved business processes must be implemented and business practices must allow access to critical information that guides decision making in the short- and long-term.</p>

PERFORMANCE REPORT

KEY PERFORMANCE INDICATORS

Strategic Goal 1 | Build a global high-performing organisation equipped with modern technology and expertise to develop and manufacture competitive products to achieve financial sustainability

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	2014/2015	Annual Performance Target 2015/2016	Actual Annual Performance	Variance / Comments	Reason for Variances
1.1 Alignment of structure to strategy	New organisational structure aligned to strategy approved & implemented	Current organisational structure	1. Review and align to new strategy 2. Cost implication & impact of structure 3. Board approval of newly aligned structure 4. Implement	Approve organisational structure aligned to the new strategy	Macro organisational structure reviewed and aligned to strategy approved by Remuneration Committee	Achieved None	N/A
1.2 Institutional stability	Maintain staff turnover rate between 4% & 12%	1. Current staff turnover rate is >12% 2. Succession planning policy in place	1. Training and development framework defined by end of Q1 2. Training/development implemented according to framework & skills required	1. Turnover rate between 4% and 12%	1. Turnover rate of 8.5%	Achieved	N/A
				2. Define and implement career ladders for core business	2. Career ladders for core business defined	Not Achieved Career ladders for core business not implemented	Career ladders can only be implemented after the organisational structure is implemented
				3. Develop & approve a succession planning policy	3. Succession planning policy developed & approved	Achieved None	N/A
				4. Develop and approve a retention strategy	4. Retention strategy developed & approved	Achieved None	N/A



PERFORMANCE REPORT

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	2014/2015	Annual Performance Target 2015/2016	Actual Annual Performance	Variance / Comments	Reason for Variances
1.3 Develop Performance Management System	New performance management system implemented	Current performance management policy		1. Review performance management system and policy 2. Submit for approval	1. Performance management policy reviewed and aligned to market trends. Policy has been approved by Remuneration committee	Achieved None	N/A
1.4 Financial sustainability (source Finance)	1. Annual sales revenue increased by 8% (international and national)	R87 million	Increase sales revenue to R98 million and market share to 15% to ensure long-term viability	R97 million	R92,7 million	Not Achieved -R4,3 million	Cancellation of orders Backorders that could not be supplied due to product unavailability
	2. Total value of exports increase in Rand	R30 million gross	R35 million	R41 million	R52,7 million	Over Achieved +R11,7 million	Opportunistic sales due to outbreaks in Europe
	3. Total value of vaccine sales to provinces increased to R2 million by 2017/2018	<R1 million	None	R1 million	R3,2 million	Over Achieved +2,2 million	Execution of Government orders that were ordered during the previous FY

PERFORMANCE REPORT

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	2014/2015	Annual Performance Target 2015/2016	Actual Annual Performance	Variance / Comments	Reason for Variances
1.4 Financial sustainability (source Finance)	4. 3% annual increase on the number of doses sold to export market	Total number of doses sold in 2014	None	3%	23%	Over Achieved +20%	Opportunistic sales due to outbreaks in Europe
	5. Reduced costs & expenses by 2% per annum in relation to sales revenue	Current level of production cost	None	2% per annum	Costs reduced by 20% in relation to sales revenue	Over Achieved +18%	Increase in sales revenue & reduction of production failure rate
1.5 Production Efficiency	1. Monthly number of intermediary & final batches produced	Current number of batches produced per annum	220 batches per annum	240 batches per annum	223 batches produced	Not Achieved -18 batches	Critical equipment breakdown which limited production capacity. (fermenters) & delayed servicing of filling equipment



PERFORMANCE REPORT

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	2014/2015	Annual Performance Target 2015/2016	Actual Annual Performance	Variance / Comments	Reason for Variances
1.5 Production Efficiency (continued)	2. Reduced intermediary & final batch failures: 1. Virology <10% 2. Bacterial <5% 3. Water for injection <5%	Current rate of intermediary & final batch failures for virology & bacterial (<20 per month)	Monthly number of batch failures at <24 (combined)	Intermediate & final batch failure rate: 1. Virology <10% 2. Bacterial <5% 3. Water for injection <5%	1. Virology: 14/68 = 20,6%	Not Achieved -11%	Contaminations due to delayed servicing of filling equipment
					2. Bacterial: 9/69 = 13%	Not Achieved -9%	Contaminations due to delayed servicing of filling equipment
					3. Water for injection: 4/86 = 4,7%	Achieved	N/A
	3. Reduce production down times to <5% by 2017/2018	Current level of production down times & reaction rate	Above 50%	<15% production downtime	Production downtime baseline established to be 32% production downtime	Not Achieved -18%	Critical equipment breakdown which impacted on production downtime (fermenters)
	4. Increased monthly overall equipment effectiveness to optimum level per machine	Current level of equipment breakdowns & failures Current system for logging events is not adequate	None	75% equipment operating capacity	Equipment operating capacity established at 43% equipment operating capacity	Not Achieved -32%	Critical equipment breakdown

PERFORMANCE REPORT

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	2014/2015	Annual Performance Target 2015/2016	Actual Annual Performance	Variance / Comments	Reason for Variances
1.6 Quality products	1. Two internal quality audits conducted annually	Outcome of external audit findings	None	Two internal audits annually	Two internal audits conducted	Achieved None	N/A
	2. Maintain ISO accreditation	9001:2008 accreditation	Pass the 6-month audit	Maintain ISO accreditation	ISO accreditation maintained	Achieved None	N/A
1.7 A GMP compliant facility as per approved plan	1. Upgrading of current facility	Current facility. 80% of equipment upgrade budget (R33,5 million) spent or committed	80% of equipment upgrade budget (R33, 5 million) spent or committed	1. 70% of layout plans completed	100% layout plans completed. 15% changes implemented	Over Achieved +30% layout plans 15% changes implemented	N/A
				2. All identified equipment procured	56% of identified equipment procured	Not Achieved -44%	Drafting of technical specifications took longer than anticipated
	2. New facility for GMP production constructed by 2017/2018	Final site identified & estimated costing done Concept design	Draft GMP building plan concluded Down payment for the new building	2. Phase 1 100% completed	Phase 1 100% completed (stage 1 to 3 of the project)	Achieved	N/A



PERFORMANCE REPORT

2. Strategic Goal 2 and Objective Annual Targets for 2015/2016

Strategic Goal 2	Improve stakeholder relations management and communications.
Objective statement	To improve the relations with all stakeholders through the use of effective stakeholder relations management and communication strategies.
Outputs	<ul style="list-style-type: none"> 2.1 Improved customer and stakeholder satisfaction 2.2 A communications strategy implemented 2.3 Stakeholder management plan developed and implemented 2.4 A brand management framework developed and implemented
Baseline	<ul style="list-style-type: none"> • The only formal indicator is the Customer Satisfaction Index results from the survey conducted in 2010, but customer feedback exists from different stakeholders • Current level of customer and market perception based on Q4 2014/2015 on-line customer satisfaction survey • OBP currently has a Communications and Public Relations policy • The stakeholder database
Justification statement	The key requirement for the success of the organisation is its engagement with stakeholders to achieve mutual goals. Stakeholders have been identified. The OBP website facilitates some interface with customers, but it has not resulted in a meaningful interaction or significant customer satisfaction.

PERFORMANCE REPORT

Strategic Goal 2 | Improve Stakeholder Relations Management and Communications

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	2014/2015	Annual Performance Target 2015/2016	Actual Annual Performance	Variance / Comments	Reason for Variance
2.1 Improved customer & stakeholder satisfaction	10% increase in client & stakeholder satisfaction by 2017/2018	Current level of customer & market perception based on 2014/2015 on-line customer satisfaction survey	1. Identify critical areas for improvement & initiate a 2 year programme to address these & to retain our high-level scores 2. Implement elements of the improvement programme	1. Develop & implement the approved marketing strategy	1. Marketing strategy developed, approved & implemented	Achieved None	N/A
				2. Develop and implement Customer Relations Management (CRM) strategy	2. Draft CRM strategy developed & partly implemented	Not Achieved CRM strategy developed	On-line survey took longer than anticipated
2.2 Communications strategy implemented	Improve on level of communication & awareness	Internal communications policy	1. Obtain approval for communications strategy & policy 2. Implement communications strategies	Communications strategy developed & implemented	Communications strategy & policy developed	Not Achieved Communications strategy not implemented	On-line survey took longer than anticipated
2.3 Stakeholder management plan developed & implemented	Stakeholder management plan developed & implemented	Stakeholder database	None	Stakeholder management framework developed & implemented	Stakeholder management framework developed and implemented	Achieved None	N/A
2.4 A brand management framework developed & implemented	10% increase in brand awareness	2014/2015 online customer satisfaction survey on brand awareness	None	Brand awareness strategy developed & implemented	Brand awareness strategy developed	Not Achieved Brand awareness strategy not implemented	On-line survey took longer than anticipated



PERFORMANCE REPORT

3. Strategic Goal 3 and Objective Annual Targets for 2015/2016

Strategic Goal 3	Facilitate more aggressive national and international market access and implement an effective distribution strategy.
Objective statement	To grow into a sustainable organisation with sufficient levels of profitability to provide adequate support, government food security programmes and economic growth.
Outputs	<ul style="list-style-type: none"> 3.1 Develop new markets 3.2 Current markets maintained 3.3 Distribution strategy implemented
Baseline	<ul style="list-style-type: none"> • Declining market share • Low presence in foreign markets • Some market segments we do not operate in • Current product portfolio • Products in declining phase of the product lifecycle • Unfunded vaccine reserve
Justification statement	<p>There is a need to increase and grow local and export market share to ensure the sustainability of the organisation and to ensure that our growth strategy is implemented in a socially and environmentally responsible manner.</p> <p>OBP exports vaccines mostly to SADC and Africa and to a limited extent to the rest of the world. If one considers the world's livestock numbers and the future need for protein then there is potential to grow OBP's business.</p>

PERFORMANCE REPORT

Strategic Goal 3 | Facilitate a more aggressive national and international market access and implement an effective distribution strategy

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	2014/2015	Annual Performance Target 2015/2016	Actual Annual Performance	Variance / Comments	Reason for Variances
3.1 Develop new markets	1. Two new markets per annum (internationally)	Current segments and territories	None	1. Two new markets per annum (internationally)	1. Four markets captured	Over Achieved +2 new markets	Opportunistic sales due to outbreaks in Europe
	2. Five lost markets captured			2. Five lost markets recaptured	2. Six lost markets recaptured	Over Achieved +1 lost market recaptured	Appointment of new agent
3.2 Current markets maintained	Increase in annual sales volume – number of doses sold increased by 3% per annum	R-value and total number of doses sold in 2014/2015	None	3%	-14%	Not Achieved -17%	Loss of market share within the domestic markets
3.3 Distribution strategy developed & implemented	Distribution strategy implemented	Current distribution channel	Distribution options	Distribution strategy & implementation plan approved	Distribution strategy developed & implemented	Achieved None	N/A



PERFORMANCE REPORT

4. Strategic Goal 4 and Objective Annual Targets for 2015/2016

Strategic Goal 4	Continuously review research and development strategies in line with market trends
Objective statement	To improve current product portfolio and increase critical product mix by increasing the number of products based on market demand.
Outputs	<ul style="list-style-type: none"> 4.1 Improved products and processes 4.2 New generation products 4.3 Modern technology implemented
Baseline	<ul style="list-style-type: none"> • Current product portfolio • Products in declining phase of the product lifecycle • Current production technologies
Justification statement	There is a critical need to increase product use and improve production efficiencies. For this to happen consistently, improved production processes must be realised through employment of modern and high yielding technologies.



PERFORMANCE REPORT

Strategic Goal 4 | Continuously review of research and development strategies in line with market trends

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	2014/2015	Annual Performance Target 2015/2016	Actual Annual Performance	Variance / Comments	Reason for Variances
4.1 Improved products and processes	1. New product dossiers submitted to the Registrar	Current product portfolio	None	2	One product dossier submitted to Registrar	Not Achieved -1 production dossier submission	Lengthy technology transfer negotiations with international partners
	2. Amended dossiers on production processes submitted to Registrar	Current processes	None	1	Two dose reduction applications submitted to Registrar	Over Achieved +1 dose reduction application submitted to Registrar	Research results achieved earlier than anticipated
4.2 New generation products	Dossiers based on new generation technologies by 2017/2018	Current product portfolio	None	0	N/A	N/A	N/A
4.3 Modern technology	GMP aligned production processes	Current production processes	None	1	One production process aligned to GMP	Achieved None	N/A

PERFORMANCE REPORT



5. Strategic Goal 5 and Objective Annual Targets for 2015/2016

Strategic Goal 5	Contribute to government priorities in respect to emerging farmers, food security and economic growth.
Objective statement	Contribute and support emerging farmers, food security and economic growth through government programmes.
Outputs	<ul style="list-style-type: none"> 5.1 Support to the smallholder and emerging farmers' market 5.2 Support to government initiatives 5.3 Support agricultural small businesses 5.4 Social responsibility support
Baseline	<ul style="list-style-type: none"> 1. Current economic growth is at 2.5%. Agriculture's contribution to the Gross Domestic Product (GDP) is approximately 3.5% and the livestock industries contribute approximately 60% of this total 2. The total value of agricultural exports as OBP's share of the vaccine market is approximately R20 million 3. OBP's current declining vaccine sales and market share is a reflection of the number of farmers it is affecting. The sales figures and market share among smallholder farmers are much less than for commercial farmers. No jobs have been created or funding facilitated for smallholder and emerging farmers
Justification statement	<p>Sustainable processes in support of food security will ensure economic growth and the ability to explore growth possibilities previously ignored. There is a need to develop new and improved quality third-generation or combination vaccines to meet the livestock market needs in South Africa and Africa.</p> <p>The organisation needs to operate within the strategies and initiatives of government and to ensure operations contribute to a sustainable environment, i.e. as OBP we have to operate within a framework that is seen to support and promote relevant national outcomes.</p>

PERFORMANCE REPORT

Strategic Goal 5 | Contribute to government priorities in respect to emerging farmers, food security and economic growth.

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	2014/2015	Annual Performance Target 2015/2016	Actual Annual Performance	Variance / Comments	Reason for Variances
5.1 Support the smallholder and emerging farmers' market	Support three projects with emerging farmer associations per annum	Zero	None	Support three projects with emerging farmer associations per annum	Four projects supported	Over Achieved +1 project	Identification of projects aligned to OBP
5.2 Support government initiatives	Facilitated 22 training sessions/ events with small holder farmers and technicians per annum	20	20 training session/events with small holder farmers per annum	22 training sessions/events with small holder farmers per annum	22 training sessions/events with small holder farmers held	Achieved None	N/A
5.3 Support agricultural small businesses	Six agricultural Co-ops as defined by the Department of Trade and Industry (DTI) in rural areas supported by 2017/2018	1 Co-op	1	Two agricultural Co-ops (as defined by DTI) in rural areas supported	Four Co-ops supported	Over Achieved +2 Co-ops	Implementation of the new distribution strategy
5.4 Social Responsibility support	Increase supply of vaccines to smallholder farmers by 500 doses annually	1 000 doses	20 000 doses	1 500 doses	88 600 doses	Over Achieved +87 100 doses	Increase in Government events where OBP could participate



CULTIVATING GROWTH
DEVELOPING A NATION



CALF
HORSE

RCF CLONE 13

BRUCELLA

FOUL TYPHOID

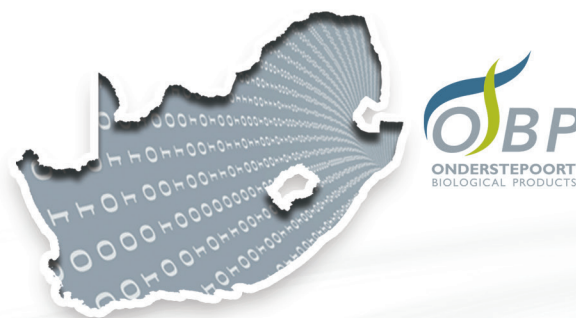


PARATYPHOID
SICKNESS
RIFT VALLEY FEVER
S19 LUMPY SKIN DISEASE
BRUCELLA REV.1





FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Statement of the Directors' Responsibility

Accounting Authority's Responsibilities and Approval

The Accounting Authority is required by the Public Finance Management Act (Act 1 of 1999) to maintain adequate accounting records, and is responsible for the content and integrity of the annual financial statements and related financial information presented in this annual report. It is the responsibility of the Accounting Authority to ensure that the annual financial statements fairly represent the state of affairs of the public entity as at the end of the Financial Year, and the results of its operations and cash flows for the period then ended.

The Accounting Authority's responsibility for the financial affairs of the entity is supported by the entity's external auditors.

The annual financial statements have been prepared in accordance with the International Financial Reporting Standards, including any interpretations, guidelines and directives issued by the Accounting Standards Board. The annual financial statements are based upon appropriate accounting policies consistently applied, and are supported by reasonable and prudent judgements and estimates. The Auditor General as external auditor was given unrestricted access to all financial records and related data to facilitate an independent review and report on the entity's annual financial statements and to express an independent opinion on the annual financial statements.

The Accounting Authority acknowledges that it is ultimately responsible for the system of internal financial control established by the entity, and places considerable importance on maintaining a strong control environment. The fulfilment of this responsibility is discharged through the establishment and maintenance of sound management and accounting systems and through setting standards for internal control which include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties aimed at reducing the risk of error or deficit in a cost effective manner.

These controls are monitored throughout the entity and management and employees are expected to operate within a framework requiring compliance with all applicable laws and maintenance of the highest integrity in the conduct of all aspects of the business. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Authority is committed to ensuring good governance and compliance with all relevant legislation and regulations applicable to OBP.

The Accounting Authority is of the opinion that, based on the information and explanations given by management, the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable and not absolute assurance against material misstatement or deficit.

The going concern basis has been adopted in preparing the financial statements. The Accounting Authority has reviewed the entity's cash flow forecast for the year to 31 March 2016 and, in the light of this review and the current financial position, is satisfied that the entity has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements, which have been prepared on the going concern basis, were approved by the Accounting Authority on 31 July 2016 and were signed on its behalf by:

Dr JH Adams | Chairperson of the Board



FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Certificate by the Company Secretary

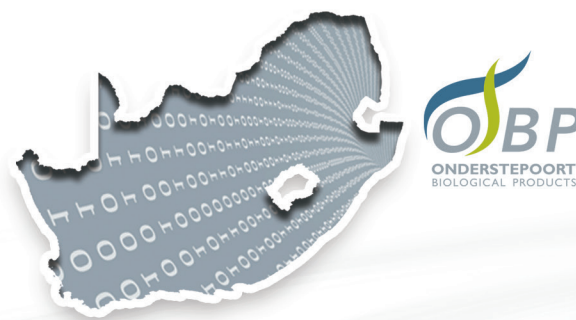
For the year ended 31 March 2016

I hereby confirm, in terms of the Companies Act, 2008 as amended, that for the year ended 31 March 2016 the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this act and that all such returns are true, correct and up-to-date.



Mrs ND Mobeng
Company Secretary

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

OBP Audit Committee Report

1. Audit Committee Members and Attendance

Name *Dr MJ Mashaba (Chairperson), *Ms KT Mdlulwa, *Dr MR Mashego

*Respective membership of the Audit and Risk committees from 1 April 2014 to 31 March 2015 comprised of the members listed below. The Audit committee should meet four times per annum as per its approved terms of reference. During the current year (2015/16) the Audit committee met five times with attendance as follows:

Schedule of attendance at Audit Committee meetings

1 April 2015 - 31 March 2016	04 May 2015	27 May 2015	14 Jul 2015	31 Jul 2015	20 Oct 2015	26 Jan 2016	09 Mar 2016
Dr MJ Mashaba (Chairperson)	A	A	P	P	P	P	P
Ms KT Mdlulwa	P	P	P	P	P	A	P
Dr MR Mashego	P	P	P	P	P	P	A

2. The Effectiveness of Internal Control

The Audit Committee is committed to ensuring good governance and full compliance with relevant legislation and regulations as well as improvement in internal controls and the quality of reporting.

3. Internal Audit

The internal audit function of OBP was conducted by Nkonki for the period ending 31 March 2016. During the current financial year the function has been fully operational.

4. Risk Management

The committee is satisfied that OBP has an ongoing risk management process focused on identifying, assessing, managing and monitoring all known forms of significant risks across all operations. This has been in place for the year under review and up to the date of approval of the annual financial statements.

5. Evaluation of Financial Statements

The Audit Committee has evaluated the annual financial statements of OBP for the year ended 31 March 2016, and based on the information provided to the Audit and Risk Committee, considers that it complies in all material respects with the requirements of the various acts governing disclosure and reporting on the annual financial statements.

6. The Audit Committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the Auditor-General and Nkonki internal auditors.
- Reviewed the Auditor-General of South Africa's management letter and management's response thereto.
- Reviewed changes in accounting policies and practices.
- Reviewed the entities compliance with legal and regulatory provisions.
- Reviewed significant adjustments resulting from the audit.

The Audit Committee concurs with and accepts the Auditor-General of South Africa's report of the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and be read together with the report of the Auditor-General of South Africa.

On behalf of the Audit Committee

Dr JM Mashaba | Chairperson of the Audit Committee



FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Report of the Auditor-General to Parliament

Report on the financial statements

Introduction

1. I have audited the financial statements of the Onderstepoort Biological Products SOC Ltd set out on pages 87 to 117, which comprise the statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa, 2008 (Act No 71 of 2008) and the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. 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.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Onderstepoort Biological Products SOC Ltd as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with the IFRS and the requirements of the PFMA and the Companies Act.

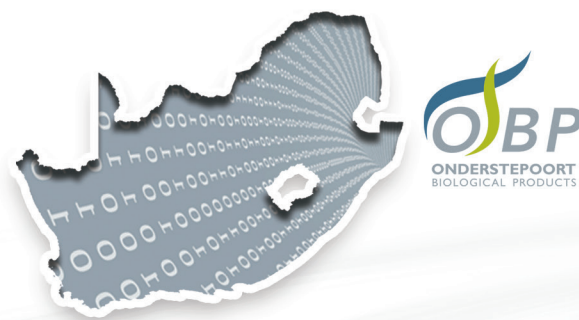
Additional matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter

Other reports required by the Companies Act

8. As part of our audit of the financial statement for the year ended 31 March 2016, we have read the Directors' Report, Audit Committee's Report and the Certificate of the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between the reports and the audited

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Report of the Auditor-General to Parliament

financial statements in respect of which we have expressed an unqualified opinion. We have not audited the reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

9. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on thereon.

Predetermined objectives

10. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected strategic goals presented in the annual performance report of the public entity for the year ended 31 March 2016:

- Strategic Goal 1: Build a global high-performing organisation underpinned by appropriate structures, institutional stability, competitive products, shared values and financial sustainability on pages 59 to 64
- Strategic Goal 3: Facilitate a more aggressive national and international market access and implement effective distribution strategy on pages 67 to 68
- Strategic Goal 5 : Contribute to government priorities in respect to emerging farmers, food security and economic growth on pages 71 to 72

11. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

12. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

13. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following strategic goals:

- Strategic Goal 1: Build a global high-performing organisation underpinned by appropriate structures, institutional stability, competitive products, shared values and financial sustainability.
- Strategic Goal 3: Facilitate a more aggressive national and international market access and implement effective distribution strategy.
- Strategic Goal 5 : Contribute to government priorities in respect to emerging farmers, food security and economic growth.

Additional

14. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected strategic goals, I draw attention to the following matter:



FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Report of the Auditor-General to Parliament

Achievement of the planned targets

15. Refer to annual performance report pages 58 to 72 for information on the achievement of the planned targets for the year.

Compliance with legislation

16. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

17. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Auditor-General

Pretoria
31 July 2016



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

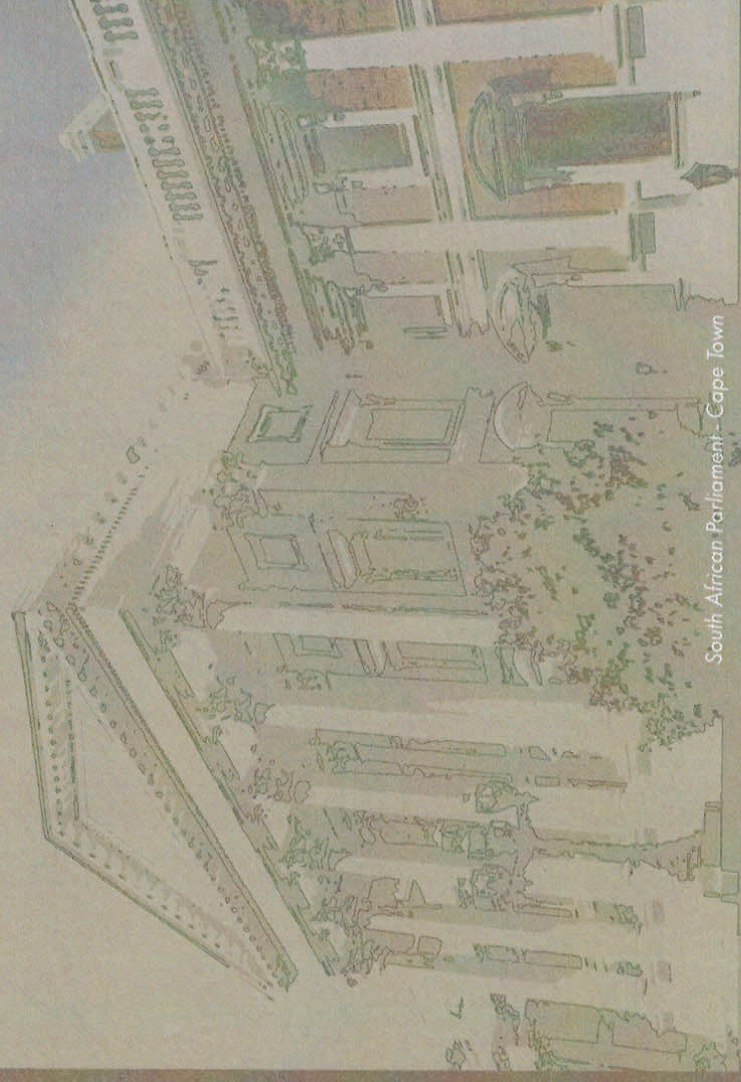
Certificate of *EXCELLENCE*



Auditing to build public confidence

Awarded to

Onderstepoort Biological Products SOC LTD
(OBP)



for achieving a clean audit opinion - 2015-16

5 August 2016

DATE

[Signature]

SIGNATURE



FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Directors' Report

1. Presentation

The Directors present their annual report, which forms part of the audited financial statements of Onderstepoort Biological Products SOC Ltd for the year ended 31 March 2016.

2. Nature of business

OBP is a public company that operates in the bio-technical industry and is wholly owned by the Government of South Africa. The company manufactures vaccines for the animal health care industry, primarily in South Africa and Africa as well as a number of other countries. Sales volume is correlated to disease outbreak, preventative and legislated vaccination programs. OBP produces the widest range of products for livestock in Africa and competes with large multinational pharmaceutical companies for local and foreign business.

3. Dividends

In view of the need to retain cash for the planned upgrade of manufacturing facilities no dividend has been declared and none is recommended.

4. Share Capital

The authorised and issued share capital is 1000 ordinary shares of R1 each. There has been no change in the authorised and issued share capital during the year under review R 1000 (2015: R1000).

5. Ownership

The company is wholly owned by the government which is represented by the Minister for Agriculture, Forestry and Fisheries of South Africa as Executive Authority.

6. Board of Directors

During the year under review the following Directors were in office:

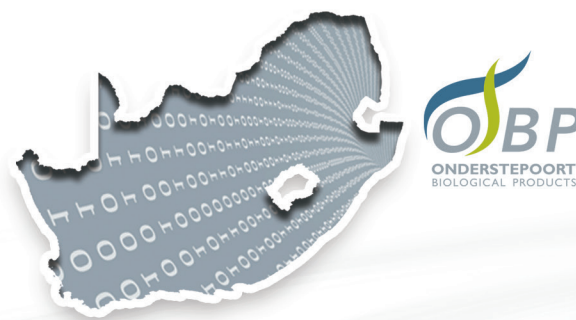
Name	Designation	
Dr. Adams, JH	Independent Non-Executive (Chairperson)	Re-appointed 1 August 2014
Dr. Mogajane, ME	Independent Non-Executive	Appointed on 15 May 2014
Dr. Mashaba, MJ	Independent Non-Executive	Appointed on 15 May 2014
Dr. Mashego, MR	Independent Non-Executive	Appointed on 15 May 2014
Ms Mdlulwa, K	Independent Non-Executive	Appointed on 15 May 2014
Dr. Cornelius, ST	Executive (CEO)	

Directors are appointed for a three year term and can be re-appointed by the Shareholder for a second three year term. Details of Directors' remuneration are set out in Note 18 of the Annual Financial Statements on pages 108 & 109.

7. Company Secretary

The secretary of the company is Ms ND Mobeng of:

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Directors' Report

Business Address 100 Old Soutpan Road
Onderstepoort
0110

Postal Address Private Bag x 07
Onderstepoort
0110

8. Company Domicile and Address of Registered Office

The domicile and registered address of Onderstepoort Biological Products Ltd is:
100 Old Soutpan Road
Onderstepoort
0110

9. Auditor

The Auditor General of South Africa was appointed as external auditors for the period under review in accordance with Section 270(2) of the Companies Act, 71 of 2008.

10. Special Resolutions

There was no special resolution passed by the Accounting Authority during the year under review.

11. Amendment of Articles of Association

The Memorandum of Incorporation (MOI) has been reviewed, finalised and lodged with CIPC to comply with the new Companies Act 71 of 2008.

12. Going Concern

We draw attention to the fact that at 31 March 2016, the company had accumulated profits of R 136 630 670 and that the company's total assets exceed its liabilities by R 136 631 670. The difference of R1 000 between the accumulated profits and net assets is the share capital.

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Notwithstanding the fact that the company has incurred profit of R19 million in 2015/2016 (2014/2015: R17 million loss) financial year, National Treasury approved R492,4 million over the MTEF period 2013/2014 - 2015/2016 for the recapitalisation of the facility. This will enable the company to sustain production into the future and improve profitability. The amount will be received as follows: 2013/2014 (R96,5 million), already received; 2014/15 (R127,5 million), already received and 2015/2016 (R268,4 million) already received. Until 31 March 2016 the company has already received full allocation of R492,4 million from National treasury.

The Directors therefore believe that the company has adequate plans, products, equipment and resources in place to continue operations for the foreseeable future. The financial statements have accordingly been prepared on a going-concern basis.



FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Directors' Report

13. Events Subsequent to the Balance Sheet Date

The directors are not aware of any other fact or circumstance arising since the end of the financial year not otherwise dealt with in these financial statements, which would materially affect the operations of the company.

14. Conflict of Interest

All directors have declared that they do not have any conflict of interest relating to any business dealings of OBP.

15. Audit Committee

The audit committee met seven times during the year and has, in accordance with its adopted Charter, reviewed the internal and external audits for the previous and present financial years and the Annual Financial Statements as at 31 March 2015.

16. National Key Point

OBP was declared as a National Key Point on 22 January 2007.

17. Environment, Health and Safety

Due to the nature of the company's operations it is imperative that the company should conform to environmental, safety and health rules and laws. The company also strives to comply with ethical and international standards with regard to the company's livestock. In order to manage and control these risks, a Safety Committee operated during the year. Activities in this regard are discussed in the Corporate Governance Report.

The company's activities do not however pose a significant threat to the environment. The company has introduced an employee health care program which includes preventative health care initiatives.

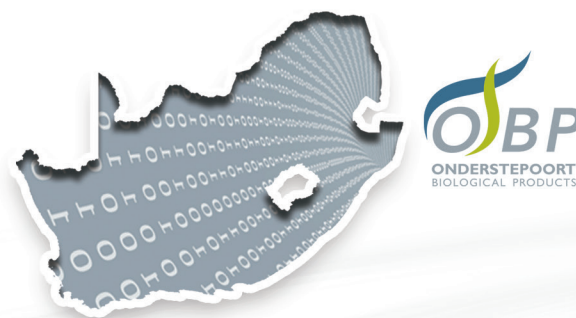
18. Materiality Framework

In accordance with regulations 9.1.5 and 28.1.5 of the Treasury Regulations, irregular or fruitless and wasteful expenditure incurred during the year under review is disclosed in the notes to the financial statements. The value of material expenses for 2016 represents any amount exceeding R9,1 million (2015: R4,2 million) per occurrence for the purpose of material, unauthorized, irregular or fruitless and wasteful expenditure as defined in the Treasury Regulations. The amount is based on the average of 1% of sales and 5% of gross profit of the current financial year. This principle is in line with Treasury Regulations.

19. Funding

The company generates funds from sales of vaccines to meet all operational requirements. The company received R34 146 594 in 2012/2013 financial year from Tshwane Animal Health Innovation Cluster (TAHIC) for funding of OBP's Research and Development projects. During the 2012/2013 financial year the company received an approval for R492,4 million from National Treasury for the recapitalisation of the plant; of which R224 million was transferred to OBP up to 31 March 2016

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Statement of Financial Position

Figures in Rand	Note(s)	2016	2015
Assets			
Non-current assets			
Property, plant and equipment	2	148 349 470	132 392 955
Intangible assets	3	34 880	82 480
Deferred tax	4	5 038 404	12 900 050
		153 422 754	145 375 485
Current assets			
Inventories	5	38 860 413	26 833 776
Trade and other receivables	6	31 301 343	18 975 350
Cash and cash equivalents	7	456 350 093	216 184 278
		526 511 849	261 993 404
Non-current assets		153 422 753	145 375 488
Current assets		526 511 846	261 993 404
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		679 934 603	407 368 889
Equity and Liabilities			
Equity			
Share capital	8	1 000	1 000
Retained income		136 630 670	125 056 782
		136 631 670	125 057 782
Liabilities			
Non-Current Liabilities			
Deferred Recapitalisation Grant	9	474 650 594	211 617 490
Deferred government grant – small-animal facility	10	1 448 154	1 733 686
Deferred government grant – corporatisation of OBP	11	18 232 408	20 484 282
Deferred Research and Development Grant	12	26 701 966	15 523 398
		521 033 122	249 358 856
Current liabilities			
Trade and other payables	14	13 240 269	11 618 901
Deferred recapitalisation grant	9	5 041 221	4 715 547
Deferred government grant – small-animal facility	10	285 532	285 533
Deferred government grant – corporatisation of OBP	11	2 251 875	2 251 875
Deferred research and development grant	12	1 450 914	14 080 395
		22 269 811	32 952 251
Non-current liabilities		521 033 122	249 358 856
Current liabilities		22 269 811	32 952 251
Liabilities of disposal groups		-	-
Total Liabilities		543 302 933	282 311 107
Equities		136 631 670	125 057 783
Liabilities		543 302 933	282 311 107
Total Equity and Liabilities		679 934 603	407 368 889

FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Statement of Comprehensive Income

Figures in Rand	Note(s)	2016	2015
Revenue	15	92 699 421	81 713 623
Cost of sales		(22 884 257)	(32 043 912)
Revenue		92 699 421	81 713 623
Cost of sales		(22 884 257)	(32 043 912)
Gross profit		69 815 164	49 669 711
Other income	16	12 235 871	7 779 721
Operating expenses		(79 721 328)	(79 309 511)
Administrative expenses		(19 440 322)	(15 853 347)
		69 815 164	49 669 711
		(86 925 779)	(87 383 137)
Operating loss	17	(17 110 615)	(37 713 426)
Investment revenue	19	27 516 608	11 844 711
Appreciation of deferred government grants		9 029 541	9 115 594
Operating profit		(17 110 615)	(37 713 426)
Non-operating expense (NET)		36 546 149	20 960 305
Profit/(loss) before taxation		19 435 534	(16 753 121)
Taxation	20	(7 861 647)	1 665 197
Profit/(loss) for the year from continuing operations		11 573 887	(15 087 924)
Profit/(loss) for the year from discontinued operations		-	-
Profit/(loss) for the year		11 573 887	(15 087 924)
Total comprehensive income/(loss) for the year		11 573 887	(15 087 924)

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Statement of Changes in Equity

Figures in Rand	Share Capital	Retained Income	Total Equity
Balance at 01 April 2014	1 000	140 144 707	140 145 707
As previously reported	-	(15 087 924)	(15 087 924)
As previously reported	-	-	-
Total comprehensive loss for the year	-	(15 087 924)	(15 087 924)
Balance at 01 April 2015	1 000	125 056 783	125 057 783
Profit for the year	-	11 573 887	11 573 887
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	11 573 887	11 573 887
Balance at 31 March 2016	1 000	136 630 670	136 631 670

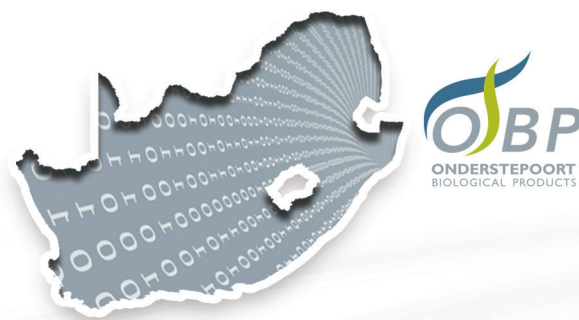
FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Statement of Cash Flow

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Cash receipts from customers		96 457 486	76 811 666
Cash paid to suppliers and employees		(126 335 268)	(125 678 360)
Cash used in operations	23	(29 877 782)	(48 866 694)
Interest income		27 516 608	11 844 711
Tax received	24	-	1 805 284
Net cash from operating activities		(2 361 174)	(35 216 699)
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(25 982 550)	(32 268 254)
Sale of property, plant and equipment	2	109 542	92 886
Net cash from investing activities		(25 873 008)	(32 175 368)
Cash flows from financing activities			
Movement in deferred government grant – corporatisation of OBP		268 400 000	127 500 000
Total cash movement for the year		240 165 818	60 107 933
Cash at the beginning of the year		216 184 278	156 076 345
Total cash at end of the year	7	456 350 096	216 184 278

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Accounting Policies

1. Basis of Preparation

The financial statements are prepared on the historical cost basis adjusted for certain non-current assets, unless stated otherwise. An accrual basis of accounting is used except for the cash flow statement. The financial statements are prepared on a going concern basis. The basis of preparation of the annual financial statements is consistent with that of the prior year, unless stated otherwise. The measurement currency for all transactions and amounts disclosed in this document is the South African Rand.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including any interpretations and directives issued by the International Accounting Standards (IAS) Board and in the manner required by the South African Companies Act, as amended, the Treasury Regulations and the Public Finance Management Act, 1999 (PFMA).

The preparation of financial statements in conformity with IFRS that requires management to exercise its judgement, make certain estimates and assumptions in the process of applying the company's accounting policies to 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 judgements about the carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes to estimates are recognised in the period in which the estimate is revised and 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.

Key Accounting Estimates and Assumptions

Indirect Production Posts (IPCs)

Production costs for finished goods include IPCs such as employee costs, depreciation, and maintenance. IPCs are measured based on a standard cost method which is reviewed regularly to ensure relevant measures of utilisation, production lead time and other relevant factors. Changes in the parameters for calculation of IPCs, including utilisation levels and production lead time, could have an impact on the gross margin and the overall valuation of inventories.

Allowances for doubtful Trade Receivables

OBP maintains allowances for doubtful trade receivables in anticipation of estimated losses resulting from the subsequent inability of customers to make required payments. If the financial circumstances of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances could be required in future periods. Management analyses trade receivables and examines historical bad debt, customer concentrations, customer creditworthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful trade receivables.

Deferred Income Tax Assets and Liabilities

OBP recognises deferred income tax assets if it is probable that sufficient taxable income will be available in the future against which the temporary differences and unused tax losses can be utilised. Management has considered future taxable income in assessing whether deferred income tax assets should be recognised.

Other Provisions

Other provisions consist of various types of provisions, including provisions for legal disputes. Management makes judgements about provisions and contingencies, including the probability of pending and potential future litigation outcomes that by their very nature are dependent on inherently uncertain future events. When determining likely outcomes of litigations, etc., management considers the evaluation of external lawyers knowledgeable about each case, as well as known outcomes in case law.

Provisions for pending litigations are recognised as part of other provisions. Although management believes that the total provisions for legal proceedings are adequate based upon currently available information, there can be no assurance that there will not be an increase in the scope of these matters or that any future lawsuits, claims, proceedings or investigations will not be material.



FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Accounting Policies

1. Basis of Preparation (continued)

The following are the principal accounting policies used by the company, which are consistent in all material respects with those adopted in the previous year, unless otherwise indicated:

1.1 Property, Plant and Equipment

Property, plant and equipment are measured at historical cost less accumulated depreciation and any impairment loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current period. The decrease is debited in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Assets are stated in three different ways since the 2006 financial year:

- Plant and equipment transferred to OBP at inception of the company, which were fully depreciated, are stated at a carrying value of R1. Where actual cost could be obtained, it was used. These assets were not disclosed prior to 2007, but are still in use.
- The land and buildings which the company occupies were transferred from the Public Works Department to the company at no cost during 2006. These assets were valued by an independent registered professional valuer (CB Richard Ellis (Pty) Ltd) on 1 August 2005. The company has not adopted a revaluation model on these assets, but a costing model.
- All capital work in progress are included at cost and any impairment loss.

Cost includes all costs directly attributable to bringing the assets to working condition for their intended use. Subsequent cost is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

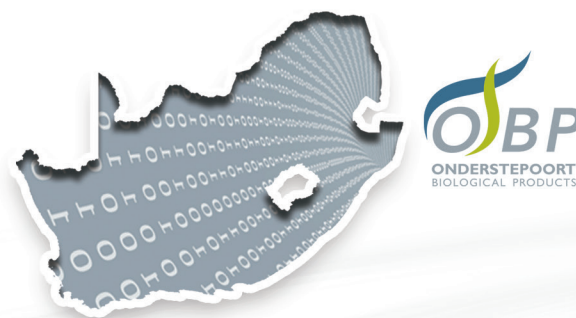
The useful lives of items of property, plant and equipment have been assessed as follows:

Asset Groups	Depreciation (useful life)
Land	Not depreciated
Buildings	
Own improvements	5 to 10 years
Section 13	20 years
Demountable partitions	6 years
Motor vehicles	
Company vehicles	3 to 7 years
Delivery vehicles	3 to 7 years
Office equipment	3 to 6 years
Computer equipment	
Computers and electronic equipment	2 to 3 years
Network servers	2 to 5 years
Software	2 to 5 years
Factory plant and equipment	
Equipment acquired after 1 March 2002	2 to 20 years
Equipment used in the plant	2 to 20 years
Digital equipment	3 years

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is higher than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Accounting Policies

1.1 Property, Plant and Equipment (continued)

Assets with the cost less than R7 000 are recognised in the Statement of Comprehensive Income in the year they are incurred.

1.2 Intangible Assets

Patents and licences

Patents and licences, including acquired patents and licences for in-process research and development projects, are carried at historical cost less accumulated amortisation and any impairment loss. Amortisation is calculated using the straight-line method to allocate the cost of patents and licences over their estimated useful lives. Estimated useful life is the shorter of the legal duration and the economic useful life. The estimated useful life of intangible assets is regularly reviewed. The amortisation of patents and licences begins after regulatory approval has been obtained, which is the point in time from which the intangible asset is available for use in the production of the product.

Other Intangible Assets

Internal development of computer software and other development costs related to major IT projects for internal use that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets under other intangible assets if the recognition criteria are met. The computer software has to be a significant business system and the expenditure will lead to the creation of a durable asset.

When assessing whether an internally generated intangible asset qualifies for recognition, it is required that the related internal development project is at a sufficiently advanced stage and that the project is economically viable. Amortisation is calculated using the straight-line method over the estimated useful life of 3 to 10 years. The amortisation commences when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Item	Useful life
Patent	3 years
Trademark	10 years
Computer software, other	3 Years

1.3 Financial Instruments

The company's financial instruments carried on the statement of financial position consist mainly of cash and cash equivalents, trade receivables and trade payables. These financial instruments are generally carried at their estimated fair value, which is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's-length transaction.

Embedded foreign currency derivatives:

The company classifies financial assets and financial liabilities into the following categories below:

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Classification

The company classifies financial assets and financial liabilities into the categories below.

- Held-to-maturity investment
- Available-for-sale financial assets
- Loans and receivables



FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Accounting Policies

1.3 Financial Instruments (continued)

- Financial assets at fair value through profit or loss
- Financial assets at fair value through profit or loss (derivatives)

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Recognition and measurement

Financial instruments are initially recognised using the trade date accounting method. Financial instruments are initially measured at cost or fair value net of transaction costs when the entity is a party to contractual arrangement. Subsequent to initial recognition, these instruments are measured as set out below.

Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, deposits held at call with banks, and investment deposits managed by different fund managers.

Available-for-sale financial assets and financial assets at fair value are subsequently carried at fair value.

Held-to-maturity investments are included as current assets since it is possible for management to dispose of the investment within 12 months. Held-to-maturity investments are carried at amortised cost using effective interest method.

All the company's financial instruments designated or classified as at fair value through profit or loss were designated as such as it is believed that this designation significantly reduces an accounting mismatch which would arise.

Gains and losses arising from changes in the fair value of financial assets are classified as financial assets at fair value and available-for-sale financial assets are recognised in the Statement of Comprehensive Income.

Trade and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection is expected within one year (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for allowances. Provision for allowances of trade receivables is made when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

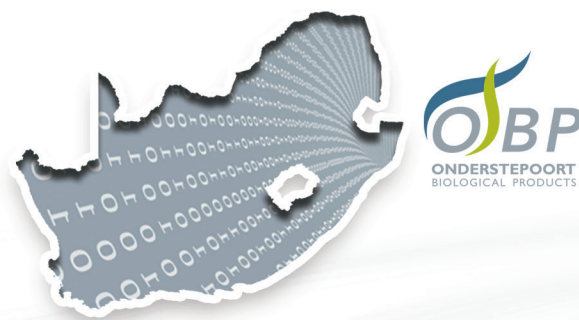
The provision for allowances is deducted from the carrying amount of trade receivables and the amount of the loss is recognised in the Statement of Comprehensive Income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the Statement of Comprehensive Income.

Financial assets at fair value (derivatives)

The company uses forward exchange contracts to hedge forecast transactions, assets and liabilities in accordance with the specific rules of IAS 39 (Financial Instruments: Recognition and Measurement).

- Hedges of the fair value of a recognised asset or liability or a firm commitment (fair value hedge), or
- Hedges of the fair value of a forecast financial transaction (cash flow hedge).

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Accounting Policies

All contracts are initially recognised at fair value and subsequently re-measured at their fair values based on current bid prices at the end of the reporting period.

The fair value of financial assets and liabilities is measured on the basis of quoted market prices of financial instruments traded in active markets. If an active market exists, fair value is based on the most recently observed market price at the end of the reporting period.

If a financial instrument is quoted in a market that is not active, the company bases its valuation on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance by including transactions in similar financial instruments that are assumed to be motivated by normal business considerations.

OBP's principal financial liabilities are trade payables.

Trade and Other Payables

Trade and other payables are stated at amortised cost, which, due to their short-term nature, closely approximate their fair value.

De-recognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Impairment of financial assets

In determining the impairment of financial assets, management estimates the future cash flows as well as the appropriate discount rate. These estimates are based on the best available information at the reporting date.

Maturity profile of financial instruments:

Financial assets and liabilities mature within a period of 0 to 12 months for each financial year.

1.4 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).



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Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Accounting Policies

1.4 Tax (continued)

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The tax on profit or loss for the period comprises current and deferred tax including adjustments to previous years. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised directly in the statement of changes in equity.

Deferred income taxes arise from temporary differences between the accounting and taxable values of the company and from realisable tax-loss carry-forwards using the liability method. The tax value of tax-loss carry-forwards is included in deferred tax assets to the extent that the tax losses and other tax assets are expected to be utilised in future taxable income. The deferred income taxes are measured according to current tax rules and at the tax rates expected to be in force on the elimination of the temporary differences.

1.5 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average cost method. Cost comprises direct production costs such as raw materials, consumables and labour as well as production overheads such as depreciation and maintenance. The production overheads are measured based on a standard cost method, which is reviewed regularly to ensure relevant measures of utilisation, production lead time, etc.

If the expected sales price less completion costs and costs to execute sales (net realisable value) is lower than the carrying amount, a write-down is recognised for the amount by which the carrying amount exceeds its net realisable value.

1.6 Impairment of Assets

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

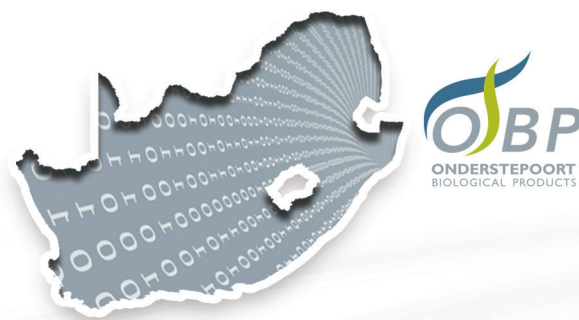
If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are not subject to amortisation and are tested annually for impairment irrespective of whether there is any indication that they may be impaired.

Assets that are subject to amortisation, such as intangible assets in use (with definite useful life) and other non-current assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Accounting Policies

1.6 Impairment of Assets (continued)

Factors considered material by the company that could trigger an impairment test includes the following:

- Development of a competing vaccine;
- Changes in the legal framework covering patents, rights or licences;
- Advances in vaccine and/or technology that affect the vaccine treatments on animals;
- Lower-than-predicted sales;
- Adverse impact on reputation and/or brand names;
- Changes in the economic lives of similar assets;
- Relationship with other intangible or tangible assets;
- Changes or anticipated changes in participation rates or reimbursement policies.

If the carrying amount of intangible assets or other non-current assets exceeds the recoverable amount based upon the existence of one or more of the above indicators of impairment, any impairment is measured based on discounted projected cash flows.

Intangible assets and other non-financial assets that have suffered impairments are reviewed at each reporting date for possible reversal of the impairment.

1.7 Share Capital and Equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.8 Employee Benefits

Wages, salaries, social security contributions, annual leave and sick leave, bonuses and non-monetary benefits are recognised in the year in which the associated services are rendered by employees of the company. Where the company provides long term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned.

Pensions

The company operates defined contribution plans and the contributions to the defined contribution plans are charged to the Statement of Comprehensive Income in the year to which they relate. The plans are administered by the Government Employee Pension Fund and Alexander Forbes Fund, and the company has no further payment obligations once the contributors have been paid.

1.9 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

1.10 Revenue

Sale of goods and services

Sales are measured at the fair value of the consideration received or receivable net of value added tax. Sales are reduced for realised discounts and other similar allowances.

Revenue from the sale of goods or services is recognised when all the following conditions are satisfied:

- The company has transferred to the buyer the significant risks and rewards of ownership
- The company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity, and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.



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Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Accounting Policies

1.10 Revenue (continued)

Discounts granted to government agencies, wholesalers, retail pharmacies and other customers are recorded as a reduction of revenue at the time the relevant revenues are recorded.

Interest income

Interest is recognised as revenue using the effective interest method.

Other operating income

Other operating incomes comprise discount received on early settlement, rental income arising from the rental of property and any other recurring or non-recurring income. These incomes are recognised on accrual or cash basis in accordance with the terms and substance of the relevant agreement.

1.11 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowing.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

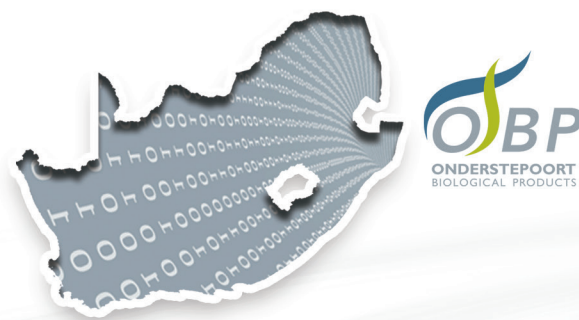
1.12 Translation of Foreign Currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the relevant transaction OBP Financial Position date. Gains and losses resulting from import and export transactions and from the transfer of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Balances from such transactions are valued at year-end exchange rates. The financial statements comply with the accounting standards set out in IAS 21.

1.13 Cash and Cash Equivalents

Cash and cash equivalents comprise of cash in hand, deposits held at call with banks, and investment deposits managed by different fund managers. Cash and cash equivalents are disclosed at fair value. Movement in the fair value of deposits is recognised in the Statement of Comprehensive Income.

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Accounting Policies

1.14 Comparatives

Comparative amounts have been included in the annual financial statements and have been adjusted where appropriate to promote better disclosure.

1.15 Research and Development

All internal research costs are expensed in the Statement of Comprehensive Income as incurred.

Due to the long duration and significant uncertainties relating to the development of new products, including risks associated with clinical trials and regulatory approval, it is concluded that the company's internal development costs in general do not meet the capitalisation criteria. This is because the technical feasibility criteria are not considered to be fulfilled until a high probability of regulatory approval can be determined. Hence, internal research and development costs are expensed in the Statement of Comprehensive Income as incurred.

The same principles are used for property, plant and equipment with no alternative use developed as part of a research and development project. However, property, plant and equipment with alternative use or used for general research and development purposes are capitalised and depreciated over their estimated useful lives.

For acquired in-process research and development projects, the effect of probability is reflected in the cost of the asset, and the probability recognition criteria are therefore always considered satisfied. As the cost of acquired in-process research and development projects can often be measured reliably, these projects fulfil the capitalisation criteria as intangible assets upon acquisition. However, further internal development costs subsequent to acquisition are treated in the same way as other internal development costs.

1.16 Foreign Currency Transactions

All foreign currency transactions are recorded in local currency using the rate of exchange on the date on which the transactions occurred (as quoted by OBP approved banking institutions). The company maintains separate bank accounts for US Dollar and Euro based transactions. Where cash is available from these foreign currency accounts, funds may be used to pay foreign suppliers.

Foreign currency exposure is hedged by means of forward exchange contracts on all transactions exceeding R200,000 or through natural hedging.

1.17 Government Grant – Corporatisation of OBP

The grant arose from the transfer of assets and the passing of the liabilities from the Department of Agriculture to the company at inception. The land and buildings which the company occupies were transferred from the Department of Public Works to the company during the 2006 financial year.

The government grant is presented in the balance sheet by setting up the grant as deferred income. The deferred income is recognised as income on a systematic and rational basis over the useful life of the asset.

1.18 Government Grant – Small-Animal Building

The government grant received in 2001 was utilised to build the small-animal facility. The grant is amortised over the same period as the useful life of the asset (small-animal facility). The government grant is presented in the balance sheet by setting up the grant as deferred income. The deferred income is recognised as income on a systematic and rational basis over the useful life of the asset.

With the completion of the erection of the small-animal facility, the condition for the grant is viewed as being met. The company has not benefited directly in monetary terms from any other form of government assistance.



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Onderstepoort Biological Products SOC Ltd
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Accounting Policies

1.19 Contingent Liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the entity.

Contingent liabilities are not recognised, but disclosed in the notes to the financial statements.

1.20 Irregular or Fruitless and Wasteful Expenditure

Irregular expenditure relates to expenditure incurred in contravention of, or not in accordance with Section 55(2)(b)(i) of the PFMA. Fruitless and wasteful expenditure relates to expenditure that was made in vain and would have been avoided had reasonable care been exercised. All irregular, fruitless and wasteful expenditure is charged against income in the period it was incurred.

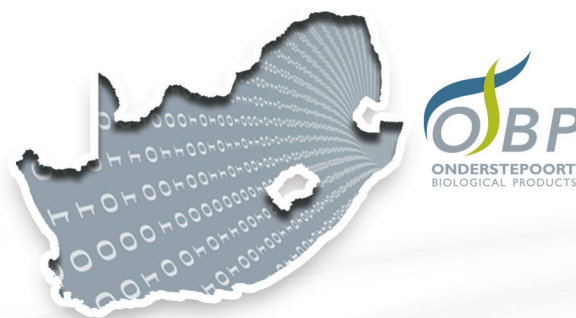
1.21 Government Grant - Research and Development

The Tshwane Animal Health Innovation Cluster(TAHIC) grant relates to amounts received by OBP from the TAHIC to fund OBP's research projects. This deferred income will be recognised as income on a systematic and rational basis over the duration of the research.

1.22 Government Grant - Recapitalisation

The grant relates to the funding received from the National Treasury for OBP's Recapitalisation programme. The grant was approved in 2012/2013 financial year for R492,4 million of which R492,4 million has been received by the end of 2015/2016 financial year. During the financial year R4,6 million was realised into the income statement as a Deferred Government Grant.

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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2. Property, plant and equipment

	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	5 105 340	-	5 105 340	5 105 340	-	5 105 340
Buildings	72 801 027	(33 187 867)	39 613 160	66 801 233	(28 976 622)	37 824 611
Furniture and fixtures	1 757 302	(1 445 783)	311 519	2 010 048	(1 337 121)	672 927
Motor vehicles	433 410	(381 336)	52 074	433 410	(381 336)	52 074
Office equipment	187 487	(183 364)	4 123	239 264	(234 144)	5 120
Computer equipment	12 021 796	(4 344 076)	7 677 720	8 521 852	(3 430 763)	5 091 089
Factory plant and equipment	117 480 369	(63 289 110)	54 191 259	114 921 505	(61 645 834)	53 275 671
Capital work in progress	41 394 275	-	41 394 275	30 366 124	-	30 366 124
Total	251 181 006	(102 831 536)	148 349 470	228 398 776	(96 005 820)	132 392 956

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	5 105 340	-	-	-	-	5 105 340
Buildings	37 824 611	1 934 766	-	4 065 031	(4 211 248)	39 613 160
Furniture and fixtures	672 927	3 270	(7 587)	-	(357 091)	311 519
Motor vehicles	52 074	-	-	-	-	52 074
Office equipment	5 120	-	(997)	-	-	4 123
Computer equipment	5 091 089	943 097	(13 835)	2 688 174	(1 030 805)	7 677 720
Factory plant and equipment	53 275 671	4 187 337	(87 123)	1 132 724	(4 317 350)	54 191 259
Capital work in progress	30 366 124	18 914 080	-	(7 885 929)	-	41 394 275
	132 392 956	25 982 550	(109 542)	-	(9 916 494)	148 349 470

The major capital expenditure incurred during the current FY was the recapitalisation of the facility to conform with Good Manufacturing Practices (GMP) in line with the funding received from the National Treasury.

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	5 105 340	-	-	-	-	-	5 105 340
Buildings	34 979 192	2 089 988	-	4 575 152	-	(3 819 721)	37 824 611
Furniture and fixtures	169 732	744 195	(1 171)	-	(8 506)	(231 323)	672 927
Motor vehicles	52 074	-	-	-	-	-	52 074
Office equipment	5 479	-	-	-	-	(359)	5 120
Computer equipment	5 722 990	367 106	(3 728)	-	-	(995 279)	5 091 089
Factory plant and equipment	47 218 516	6 623 894	(87 987)	3 662 001	8 506	(4 149 259)	53 275 671
Capital work in progress	16 160 206	22 443 071	-	(8 237 153)	-	-	30 366 124
	109 413 529	32 268 254	(92 886)	-	-	(9 195 941)	132 392 956

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Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
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2. Property, plant and equipment (continued)

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2013 is available for inspection at the registered office of the company.

Depreciation is provided under the straight-line method over the estimated useful lives of the assets (see note 1.1).

In line with the requirements of IAS 16, the company reviewed the useful life, residual values and impairment for all assets in use. Management concluded that there are no indications of changes to the above on all asset groups.

At the beginning of the 2013 FY, the company increased its capital investment on the refurbishment and replacement of property plant and equipment.

3. Intangible assets

	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Patent	566 657	(566 657)	-	566 657	(566 657)	-
Trademark	260 022	(225 143)	34 879	260 022	(177 541)	82 481
Total	826 679	(791 800)	34 879	826 679	(744 198)	82 481

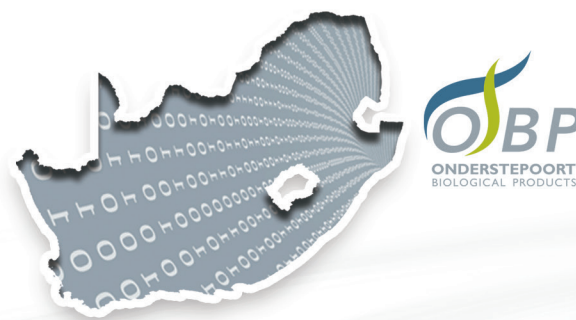
Reconciliation of intangible assets - 2016

	Opening balance	Amortisation	Total
Trademark	82 481	(47 602)	34 879

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Patent	153	(153)	-
Trademark	154 241	(71 760)	82 481
	154 394	(71 913)	82 481

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Notes to the Financial Statements

Figures in Rand	2016	2015
4. Deferred tax		
Deferred tax asset		
Other deferred tax	5 038 404	12 900 051
Reconciliation of deferred tax asset/(liability)		
Accelerated depreciation for tax purposes	(4 187 984)	(4 202 213)
Prepaid expenses	(53 725)	(50 820)
Income received in advance	8 236 258	8 500 057
Accrual for leave	615 521	689 890
Assessed loss	-	7 876 211
Provisions	85 113	104 199
Doubtful debt	343 221	(17 273)
	5 038 404	12 900 051

The accelerated depreciation for tax purposes of R4 187 984 is due to the recapitalisation cost. The deferred tax asset of R5 038 404 is mainly as a result of R8 236 258 relating to income received in advance (TIA).

5. Inventories

Raw materials, components	3 510 311	2 437 560
Work in progress	13 000 332	7 200 185
Intermediate finished goods	9 641 036	9 287 744
Finished goods	5 383 082	2 865 197
Packaging materials	7 543 582	5 415 229
	39 078 343	27 205 915
Less: Provision for obsolete inventory	(217 931)	(372 139)
	38 860 412	26 833 776

Products likely to be obsolete are those products with a short remaining shelf life or which have limited commercial marketability and are therefore unlikely to be sold.

The movements in the provision for obsolete inventory can be specified as follows:

Balance at the beginning of the year	372 139	205 192
Amounts recognised in profit/(loss)	(154 208)	166 947
	217 931	372 139
Products scrapped/written-off during the year	49 900	(971 819)

Products scrapped during the year were recognised as an expense in the Statement of Comprehensive Income.

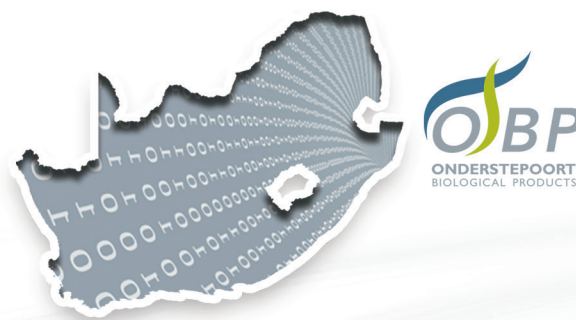
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Notes to the Financial Statements

Figures in Rand	2016	2015
6. Trade and other receivables		
Trade receivables	12 562 517	15 359 278
Provision for doubtful debts	(1 634 387)	(683 083)
Prepayments (if immaterial)	191 876	181 499
VAT	1 943 217	670 207
Accrued interest	18 238 119	3 447 449
	31 301 342	18 975 350
Accrued interest relates to the Standard Bank investment where interest is paid at maturity date.		
Trade and other receivables past due but not impaired		
The ageing of amounts past due but not impaired is as follows:		
Neither past due nor impaired		
Current	4 600 543	13 086 196
30 – 60 days	6 307 768	865 982
Past due but not impaired		
61 – 90 days	39 640	595
90 days and older	1 614 566	1 406 505
	12 562 517	15 359 278
Reconciliation of provision for impairment of trade and other receivables		
Opening balance	683 083	2 107 449
Provision for impairment	951 304	(1 424 366)
	1 634 387	683 083
The provision for doubtful debts has been determined by reference to past experience as well as an actual review of all debtors' accounts.		
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	13 413	10 500
Short term cash investments and deposits	444 444 306	196 154 288
Current account bank balance	11 892 373	20 019 490
	456 350 092	216 184 278
Included in the current year cash and cash equivalents is the grant funding from National Treasury of R268 400 00 which was received during the financial year.		
8. Share capital		
Authorised		
1 000 ordinary shares of R1 each	1 000	1 000
Issued		
1 000 ordinary shares of R1 each	1 000	1 000

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Figures in Rand	2016	2015
9. Deferred recapitalisation grant		
Non-current	474 650 594	211 617 490
Current liabilities	5 041 221	4 715 547
	479 691 815	216 333 037
Opening Balance	216 334 363	92 918 991
Additions	268 400 000	127 500 000
Amortised	(5 042 548)	(4 084 628)
	479 691 815	216 334 363

The grant relates to the funding received from the Treasury for OBP's Recapitalisation programme. The grant was approved in 2012/2013 financial year for R492,4 million of which the whole R492,4 million has been received since the 2013/2014 financial year. During the FY under review R5 million was realised into the income statement as a Deferred Government Grant.

10. Deferred government grant – small-animal facility

Opening carrying amount	2 019 219	2 304 794
Amortised	(285 533)	(285 575)
Closing net carrying amount	1 733 686	2 019 219
Maturity analysis		
Non-current	1 448 154	1 733 686
Current	285 532	285 533
	1 733 686	2 019 219

The government grant is amortised in relation to the depreciation of assets for which the grant was utilised. The small-animal facility was taken into use on 1 April 2004 and the grant has been amortised since that date.

11. Deferred government grant – corporatisation of OBP

Opening carrying amount	22 736 158	24 988 032
Amortised	(2 251 875)	(2 251 875)
Closing net carrying amount	20 484 283	22 736 157
Maturity analysis		
Non-current	18 232 408	20 484 282
Current	2 251 875	2 251 875
	20 484 283	22 736 157

The deferred income is recognised as income on a systematic and rational basis over the useful life of the remaining assets.

12. Deferred research and development grant

The grant relates to the funding received from the Tshwane Animal Health Innovation Cluster (TAHIC) for OBP's research projects. The grant was received towards the end of March 2013. The total amount expensed in the income statement for the grant is R1 450 914 during the 2015/2016 financial year.

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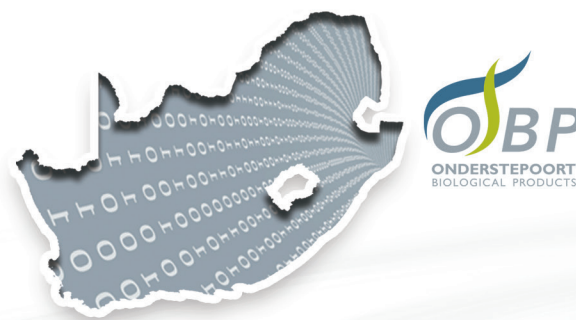
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Figures in Rand	2016	2015
12. Deferred research and development grant (continued)		
Opening carrying amount	29 603 794	32 095 982
Armortised	(1 450 914)	(2 492 188)
	28 152 880	29 603 794
Maturity analysis		
Non-current	26 701 966	15 523 398
Current	1 450 914	14 080 395
	28 152 880	29 603 793
13. Current tax payable (receivable)		
14. Trade and other payables		
Trade payables	9 319 911	8 113 567
Accruals	2 244 317	2 548 513
Other payables	1 676 041	956 821
	13 240 269	11 618 901
15. Gross to net revenue reconciliation		
Sale of goods	92 699 421	81 713 623
Gross revenue	122 734 034	111 119 835
Discount granted	(31 838 263)	(30 526 496)
Net revenue – vaccines	90 895 771	80 593 339
Revenue – dry ice	9 493	31 959
Revenue – transportation service	1 794 157	1 088 325
	92 699 421	81 713 623
Revenue increased from R81 713 623 in 2015 financial year to R92 699 421 in 2016 financial year. The increase in revenue is attributable to improved production output by the company during the current financial year.		
16. Other income		
Discount received	-	9 208
Rental income	1 350 126	1 151 840
Other income (Including non-recurring)	10 885 745	6 618 673
	12 235 871	7 779 721

Other income comprise mainly of foreign exchange gain R6,9 million, R2,5 million related to non-exclusive licence agreement and other non-revenue item.

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Figures in Rand	2016	2015
17. Included in operating and administrative expenses		
The following items have been charged/(credited) in arriving at operating and administrative cost:		
Depreciation and amortisation		
Buildings	4 211 245	3 819 722
Furniture and fixtures	357 092	231 323
Motor vehicles	-	1
Office equipment	-	360
Computer equipment	1 030 805	995 279
Factory plant and equipment	4 317 350	4 149 259
Intangible assets	47 602	71 913
	9 964 094	9 267 857
Auditor's remuneration		
Total fees paid for the statutory audit	1 684 154	1 932 017
Other disclosures		
Scrapped inventory	49 900	(971 819)
Employee benefits – defined contributions plans	2 471 624	3 797 669
Research and development expenditure	2 225 053	3 371 993
Repair and maintenance expenditure	6 472 512	6 545 743
Amounts paid to employees	59 698 906	58 188 061
Average number of employees	200	201

Employee benefits

The amount paid to employees increased from R58 188 061 to R59 698 906 in the 2016 financial year. This is mainly due to the salary increase to employees during the financial year.

The company operates defined contribution plans and the contributions to the defined contribution plans are charged to the Statement of Comprehensive Income in the year to which they relate. The plans are administered by the Government Employee Pension Fund and Alexander Forbes Fund, and the company has no further payment obligations once the contributors have been paid.

Included in the amount paid to employees there is an amount paid to Directors. See Note 18.

Notes on Treasury Regulation 28.1.1:

- Fees for services
All fees paid to individuals for services delivered or Board meeting and Board committee meeting attendances.
- Basic salary (including fixed monthly payments)
Payment made to individuals is on a salary basis.
- Bonuses and performance related payments
Bonuses are based on the actual performance of the company and the employee for the previous year, and are approved by the Board of Directors.
- Expense allowances
All payments made to individuals are in respect of travel allowances as well as personal expenses incurred for official business. Cell phone allowances, non-taxable daily allowance for overseas travel and travel with own vehicle for business purposes at a rate per kilometer are disclosed separately.
- Contributions to pension fund
Fixed payments made on behalf of individuals (which form part of the executives' total cost to company salary packages).
- Contributions to directors or officer's liability insurance cover
These payments are for professional indemnity insurance premiums and the company makes the payments to the insurer in terms of the company's articles of association.
- Other material benefits received
The payments are for acting on a higher position.

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18. Disclosure of emoluments of executive and non-executive Directors as per Treasury

Executive

2016

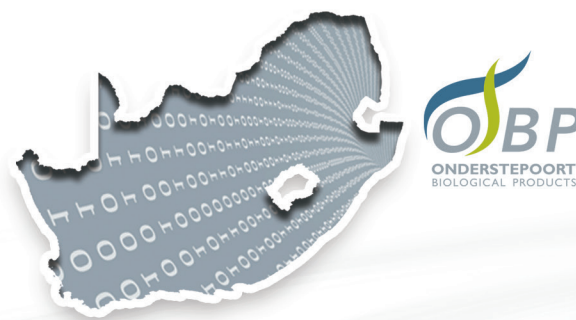
	Basic salary	Sums paid by way of expense allowances (travel and cell phone)	Contributions to pension fund	Contributions to officers' liability insurance cover	Other material benefits received	Total
Dr. Cornelius, ST* - Chief Executive Officer	996 899	26 204	-	4 452	689 294	1 716 849
Mr. Gololo, M - Chief Financial Officer	1 051 396	6 791	94 048	4 452	-	1 156 687
Ms. Mobeng, DN - Company Secretary	1 022 131	10 240	78 775	4 452	-	1 115 598
Dr. Modumo, J - Business Development Officer	960 523	29 972	132 611	4 452	-	1 127 558
Mr. Pieterse, PM** - Quality Executive	977 672	2 081	21 993	1 434	634 900	1 638 080
Mrs. Ramutle, NV - HR Executive	984 419	20 414	59 498	4 452	14 485	1 083 268
Mr. Serfontein, LH	1 031 350	10 601	110 969	4 452	-	1 157 372
Dr. Nthangeni, MB**	898 831	870	108 146	4 452	-	1 012 299
Mr. Ntombela, SV	188 740	-	11 338	1 076	-	201 154
	8 111 961	107 173	617 378	33 674	1 338 679	10 208 865

2015

	Basic salary	Sums paid by way of expense allowances (travel and cell phone)	Contributions to pension fund	Contributions to officers' liability insurance cover	Other material benefits received	Total
Mr. Gololo, M - Chief Financial Officer	1 001 040	467	89 859	6 126	-	1 097 492
Ms. Ramutle, NV - Human Resources Executive	937 718	20 414	56 488	6 126	-	1 020 746
Mr. Serfontein, LH - GMP Project Manager	897 450	1 000	99 813	6 126	-	1 004 389
Ms. Mobeng, DN - Company Secretary	972 333	25 641	76 282	6 126	-	1 080 382
Dr. Modumo, J - Business Development Officer	912 563	10 155	128 516	6 126	-	1 057 360
Mr. Pieterse, PM - Quality Executive	954 059	2 081	64 931	6 126	-	1 027 197
Dr. Smit, T - Chief Operations Officer	887 211	1 330	65 304	5 615	380 986	1 340 446
Dr. Cornelius, ST - Chief Executive Officer *	949 428	15 003	-	6 126	716 222	1 686 779
Dr. Nthangeni, MB	853 336	-	105 690	6 126	-	965 152
	8 365 138	76 091	686 883	54 623	1 097 208	10 279 943

* The CEO's salary includes an amount of R716 222, which is based on the secondment agreement between the University of Pretoria, OBP and the Executive Authority.

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Figures in Rand	2016	2015
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18. Disclosure of emoluments of executive and Non-executive Directors as per Treasury Regulation 28.1.1: (continued)

Non-executive

2016

	Fees for services as director or executive member	Expenses	Insurance liability cover	Total
Dr. Adams, JH	-	18 000	4 452	22 452
Dr. Mashego, M	134 662	7 630	4 452	146 744
Ms Mdlulwa, TK	159 092	8 316	4 452	171 860
Dr. Mogajane, ME	204 005	25 324	4 452	233 781
Dr. Mashaba, ME	200 535	6 653	4 452	211 640
	698 294	65 923	22 260	786 477

2015

	Fees for services as director or executive member	Expenses	Insurance liability cover	Total
Dr. Adams, JH *	-	40 151	6 126	46 277
Dr. Mashego, M	87 590	5 293	6 126	99 009
Ms Mdlulwa, TK	92 456	3 802	6 126	102 384
Dr. Mogajane, ME	87 754	9 517	6 126	103 397
Dr. Mashaba, MJ	121 575	6 197	6 126	133 898
	389 375	64 960	30 630	484 965

* Dr. JH Adams did not claim the board fees during the year.

19. Investment revenue

Interest revenue

Bank	27 516 608	11 844 711
	-	-
	27 516 608	11 844 711

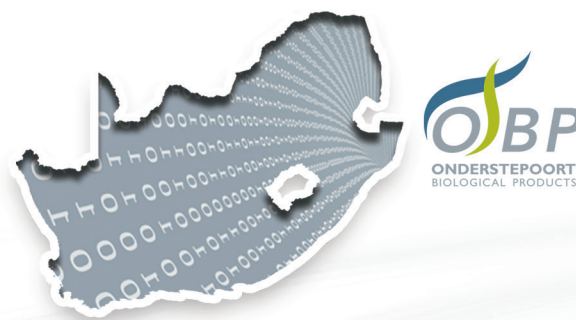
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Figures in Rand	2016	2015
20. Taxation		
Major components of the tax expense		
Current		
Deferred tax (income)/expense	7 861 647	(1 665 197)
The tax on the company's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows: Refer to the note on deferred tax for the calculation.		
The deferred tax benefit in the current year is mainly attributable to the R34 146 594 grant received in advance from Tshwane Animal Health Innovation Cluster (TAHIC).		
Current	7 861 647	(1 665 197)
Deferred	-	-
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate.		
Statutory taxation rate	28,00 %	28,00 %
Asset written-off/(back)	0,16 %	(0,16) %
Other taxable items	0,75 %	(0,69) %
Amortisation of government grant - research	(2,09) %	- %
Armortisation of recapitalisation grant	(7,26) %	6,84 %
Disallowed deduction on production building	14,29 %	(15,39) %
Amortisation of government grant – small-animal facility	(0,41) %	0,48 %
Amortisation of government grant – corporatisation	(3,24) %	7,93 %
Penalties and interest	- %	(0,05) %
Other non-taxable items	(2,18) %	2,83 %
	28,02 %	29,79 %
21. Auditor's remuneration		
Fees	1 684 154	1 932 017
22. Other comprehensive income		
23. Cash used in operations		
(Loss)/Profit before taxation	19 435 534	(16 753 121)
Adjustments for:		
Depreciation and amortisation	9 964 094	9 267 857
Interest received	(27 516 608)	(11 844 711)
Changes in working capital:		
Inventories	(12 026 636)	(5 404 678)
Trade and other receivables	(12 325 992)	(9 605 364)
Trade and other payables	1 621 368	(5 411 082)
Deferred Recapitalisation Grant	(5 041 221)	(4 085 954)
Deferred Research and Development Grant	(1 450 914)	(2 492 189)
Movement in deferred government grant – small-animal facility	(285 532)	(285 577)
Movement in deferred government grant – corporatisation of OBP	(2 251 875)	(2 251 875)
	(29 877 782)	(48 866 694)

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Figures in Rand	2016	2015
24. Tax refunded (paid)		
Balance at beginning of the year	-	1 805 284
Current tax for the year recognised in profit or loss	(7 861 647)	-
Deferred tax movement	7 861 647	-
	-	1 805 284
In the current year the company is in a profit position hence the utilisation of deferred tax assets		
25. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	41 638 830	16 870 821
This committed expenditure relates to plant and equipment and will be financed by existing treasury cash resources.		
Operating leases – as lessor (income)		
Minimum lease payments due		
- within one year	392 629	1 089 962
- in second to fifth year inclusive	830 013	1 400 167
	1 222 642	2 490 129

The company has entered into an operating lease with the South Africa Post Office on a certain building. This lease has an average life of between 1 and 5 years, including the lessee's option for renewal. The lessee is entitled to use the premises for the purpose of the post office and other related business. The operating lease arrangement does not require the lessee to pay contingent rentals. Rental receivable on this lease is escalated at a rate of up to 8% per annum.

The company had R41 638 830 disclosable capital commitments at 31 March 2016 not reflected elsewhere for the purchase of upgrade property on its manufacturing facilities.

There are also commitments relating to service level agreements in respect services, repairs and maintenance of the company's plant and equipment as follows:

Name of Company	Description of agreement	Starting date	Expiry date	Remaining commitments as at 31 March 2016
African United Boiler	Boiler and steam reticulation system	1 October 2013	31 September 2016	141 246,00
Beyond Wireless	Early warning detection system	1 September 2011	Open ended	102 050,00
Charlebosey	Gardening services	2 December 2013	31 November 2016	147 972,64
Eldna Security Services	Security services	1 April 2013	31 March 2016	83 854,80
Careways	Employee wellness programme	1 November 2013	31 October 2016	63 578,27
Servworx	Contract rental of garment 2		Open ended	802 345,56
Lunacom	Early warning detection system	1 March 2011	Open ended - owner of system	58 152,60
Masana Hygiene Services	Cleaning services	1 May 2015	30 April 2018	2 868 089,70
Samtoria	Telephone system	1 January 2012	31 January 2017	41 110,60
Nkonki	Internal audit services	1 March 2015	28 February 2018	1 730 049,19
Sudschemie	Water treatment	1 April 2014	31 March 2017	86 400,00
Transfire	Maintenece of Fire Fighting System	1 Jan 2014	31 December 2016	472 950
Vicol	Water Purification Plant	1 November 2013	31 October 2016	71 820
FBO Trading	Supply of Coal	1 April 2013	1 May 2016	48 037,50
				6 717 656,86

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Figures in Rand		2016	2015	
25. Commitments (continued)				
Name of Company	Description of agreement	Starting date	Expiry date	Remaining commitments as at 31 March 2015
African United Boiler	Boiler and steam reticulation system	1 October 2013	31 September 2016	423 738
Beyond wireless	Early warding detection system	1 September 2011	Open ended	102 794
Charlebosey	Gardening services	2 December 2013	31 November 2016	369 932
Eldna Security Services	Security services	1 April 2013	31 March 2016	1 006 258
Serveworx	Contract rental of garments 2		31 August 2015	334 311
Careways	Employee wellness programme	1 November 2013	-	172 570
Samtoria	Telephone System	1 January 2012	31 January 2016	41 111
Lunarcom	Early warning detection system	1 March 2011	Open ended-Owner system	58 153
Masana hygiene services	Cleaning services	1 April 2015	30 April 2015	74 011
Transfire	Maintenance of Fire Fighting System	1 January 2014	31 December 2016	228 070
Quality and service	Autoclaves	1 November 2011	Open ended	68 400
Nkonki Internal audit	Audit services	1 March 2015	28 February 2018	1 730 049
Sudschemie	Water treatment	1 April 2014	31 March 2017	172 800
FBO Trading	Supply of coal	1 April 2013	1 May 2016	624 488
Vicol	Water Purification Plant	1 November 2013	31 October 2016	367 256
				5 773 938,17

26. Related parties

Relationships

The related parties are companies that have common shareholding and directorship with OBP. OBP, as a state-owned entity, had the following transactions with other state departments, excluding statutory payments:

Related party transactions

Product sold to state departments	(3 377 080)	(4 019 587)
Payments to the Agricultural Research Council (ARC)	4 917 777	12 592 117

Rent paid to (received from) related parties

SA Post office rental received	(267 354)	(215 757)
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Research grant received

National Treasury	(268 400 000)	(127 500 000)
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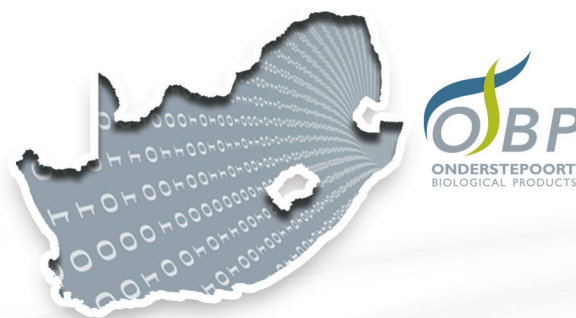
Related party balances

Accounts receivable (for products or services sold)	(1 346 007)	(577 474)
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OBP has an arm's-length relationship with Onderstepoort Veterinary Institute (OVI). OVI is a unit of the Agricultural Research Council (ARC). Both OBP and OVI have the Minister of Agriculture, Forestry & Fisheries as their shareholder. OVI buys, among other things, vaccines, small animals and media products. In turn, OBP buys from OVI research and other small items such as trolleys. The relationship with all other state departments is commercial in nature.

Employee benefits of key personnel are disclosed in accordance with Treasury Regulation requirements 28.1.1 in Note 18 to the financial statements.

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27. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2016

	Loans and receivables	Fair value through profit or loss - held for trading	Available-for-sale	Carrying amount	Fair value
Trade receivables (incl doubtful debt provision)	10 928 130	-	-	10 928 130	10 928 130
Prepaid expenses	191 876	-	-	191 876	191 876
Bank balances	-	-	444 457 719	444 457 719	444 457 719
Investments	-	11 892 373	-	11 892 373	11 892 373
	11 120 006	11 892 373	444 457 719	467 470 098	467 470 098

2015

	Loans and receivables	Fair value through profit or loss - held for trading	Available-for-sale	Carrying amount	Fair value
Trade receivables (incl doubtful debt provision)	14 676 195	-	-	14 676 195	14 676 195
Prepaid expenses	181 499	-	-	181 499	181 499
Bank balances	-	-	196 164 788	196 164 788	196 164 788
Investments	-	20 019 490	-	20 019 490	20 019 490
	14 857 694	20 019 490	196 164 788	231 041 972	231 041 972

See Note 29 for the fair value determination

28. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2016

	Financial liabilities at amortised cost	Carrying amount	Fair value
Trade payables	9 319 911	9 319 911	9 319 911
Accruals	2 244 317	2 244 317	2 244 317
Income received in advance and other payables	1 676 041	1 676 041	1 676 041
	13 240 269	13 240 269	13 240 269

2015

	Financial liabilities at amortised cost	Carrying amount	Fair value
Trade payables	8 113 567	8 113 567	8 113 567
Accruals	2 548 513	2 548 513	2 548 513
Income received in advance and other payables	956 821	956 821	956 821
	11 618 901	11 618 901	11 618 901

See Note 29 for the fair value determination



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29. Risk management

Financial risk management objectives

Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS mainly apply. Generally, financial assets and liabilities are generated through day-to-day operational activities and are not held to manage the risks facing the entity in undertaking its activities.

The entity's finance department monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis. The entity does not enter into or trade financial instruments for speculative purposes.

Significant accounting policies

Details of the significant accounting policies and methods adopted – including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument – are disclosed in the accounting policies to the annual financial statements.

Market risk

The entity's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market. There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

All financial instruments attract interest at rates linked directly to the prime bank overdraft rate. The effective interest rate used by the entity is the prime interest rate.

In the case of debtors whose accounts are in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of the entity's debtor management policy.

All trade receivables and other debtors are individually evaluated annually at balance sheet date for impairment or discounting.

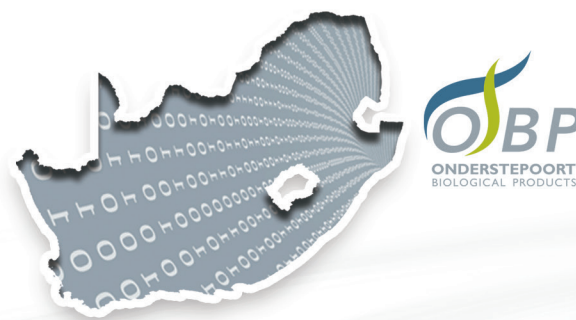
Interest rate sensitivity analysis

As the entity has no significant interest risk exposure at financial year-end, the effect of strengthening or weakening of the prime interest rate at balance sheet date is not considered material.

Liquidity risk

Sufficient cash is maintained to manage the entity's liquidity risk. Limitations are imposed by Treasury Regulations 32 to the Public Finance Management Act (Act 1 of 1999) on borrowing, which limits the committed lines of credit available to entity.

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Figures in Rand	2016	2015
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29. Risk management (continued)

Foreign exchange risk

Foreign exchange contracts are entered into to manage exposure to fluctuations in foreign currency exchange rates on specific transactions both for sale exports and for the acquisition of imported raw material and plant and equipment, except where the company has offsetting exposures.

At 31 March 2015, the company had no open forward contracts. The recognition of foreign exchange gains and losses is recorded according to IAS 21.

The company reviews its foreign currency exposure, including commitments on an ongoing basis. The company expects its foreign exchange contracts to hedge foreign exchange exposure.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter party.

Financial assets exposed to credit risk at year end were as follows:

Trade and other receivables	11 120 006	14 857 694
Bank balances and cash	444 457 719	196 164 788
	455 577 725	211 022 482

Fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted valuation techniques based on discounted cash flow analysis using interest rates currently charged or paid by other parties and the remaining term to repayment of the interest;
- The Fair Value of Other Financial Assets and Financial Liabilities (excluding Derivative Instruments) 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

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statement to approximate their fair values on 31 March 2016 as a result of the short-term maturity of these assets and liabilities.

30. Events after the reporting period

The directors are not aware of any other fact or circumstance arising since the end of the FY not otherwise dealt with in these financial statements which would materially affect the operations of the company.

31. Fruitless and wasteful expenditure

32. Irregular expenditure

Reconciliation of irregular expenditure

Opening balance	-	-
Irregular expenditure - Current year	190 636	-
Amounts condoned by Accounting Authority	-	-
Irregular expenditure awaiting condonement	190 636	-

The company has incurred Irregular expenditure of R190 636 for they year ended 2016. The issue has been referred to legal department for investigation.

FINANCIAL REPORT

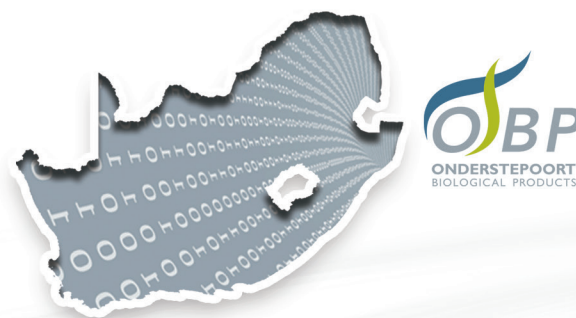
Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Detailed Income Statement

Figures in Rand	Note(s)	2016	2015
Revenue	15	92 699 421	81 713 623
Cost of sales		(22 884 257)	(32 043 912)
		92 699 421	81 713 623
		(22 884 257)	(32 043 912)
Gross profit		69 815 164	49 669 711
Other income		39 752 479	19 624 432
		(99 161 650)	(95 162 858)
Expenses (Refer to page 117)		(99 161 650)	(95 162 858)
		69 815 164	49 669 711
		39 752 479	19 624 432
		(99 161 650)	(95 162 858)
Operating profit/(loss)		10 405 993	(25 868 715)
Deferred government grants		9 029 541	9 115 594
		10 405 993	(25 868 715)
		9 029 541	9 115 594
Profit/(loss) before taxation		19 435 534	(16 753 121)
Taxation	20	7 861 647	(1 665 197)
Profit/(loss) before taxation		19 435 534	(16 753 121)
Taxation		7 861 647	(1 665 197)
Profit/(loss) for the year		11 573 887	(15 087 924)
Other comprehensive income	22	-	-
Total comprehensive income/(loss) for the year		11 573 887	(15 087 924)

The supplementary information presented does not form part of the financial statements and is unaudited

FINANCIAL REPORT



Onderstepoort Biological Products SOC Ltd
Financial Statements for the year ended 31 March 2016

Detailed Income Statement

Figures in Rand	Note(s)	2016	2015
Operating and administrative expenses			
Advertising	21	(2 114 166)	(1 671 358)
Auditor remuneration		(1 684 154)	(1 932 017)
Bad debts		(834 573)	-
Bank charges		(150 891)	(126 083)
Cleaning		(1 447 276)	(1 264 182)
Professional fees		(1 612 768)	(675 833)
Consumables		(1 381 583)	(829 494)
Depreciation, amortisation and impairments		(9 964 094)	(9 267 857)
Employee costs		(59 698 906)	(58 188 061)
Entertainment		(646 343)	(348 364)
Production direct cost and cost adjustments		9 509 188	14 651 686
Library costs		-	(96 249)
Terrain Maintenance		(785 355)	(414 114)
Recruitment Costs		(138 716)	(262 496)
Assets written-off		(109 540)	(92 886)
Scrap Inventory		(49 900)	971 819
Hire		(72 567)	(26 924)
IT expenses		(2 086 501)	(1 061 538)
Insurance		(757 128)	(1 238 269)
Legal expenses		(500 573)	(515 293)
Medical expenses		(1 796 488)	(576 250)
Other expenses		(142 051)	(846 752)
Petrol and oil		(825 670)	(554 346)
Printing and stationery		(738 524)	(447 661)
Protective clothing		(1 095 137)	(928 251)
Repairs and maintenance		(6 472 512)	(6 545 743)
Research and development costs		(2 225 053)	(3 371 993)
Royalties and license fees		-	(119 648)
Security		(1 045 594)	(1 094 568)
Software expenses		(72 741)	(388 945)
Telephone and fax		(672 959)	(459 368)
Training		(1 626 269)	(1 432 631)
Transport and freight		(170 313)	(228 031)
Travel		(3 187 628)	(1 738 645)
Utilities		(4 564 865)	(14 042 513)
Total		(99 161 650)	(95 162 858)



ACRONYMS

AFASA	African Farmers' Association of South Africa	LSD	Lumpy Skin Disease
AHS	African Horse Sickness	ManCo	Management Committee
AIDS	Acquired Immune Deficiency Syndrome	MOI	Memorandum Of Incorporation
APP	Annual Performance Plan	MPO	Meat Producers Organisation
ARC	Agricultural Research Council	MSD	Merck Sharp & Dohme
ARC-OVI	Agricultural Research Council - Onderstepoort Veterinary Institute	MTEF	Medium Term Expenditure Framework
BCP	Business Continuity Planning	NAHF	National Animal Health Forum
BDO	Business Development Officer	NEHAWU	National Education Health and Allied Worker's Union
BEE	Black Economic Empowerment	NERPO	National Emergent Red Meat Producers Organisation
B&S	Bausch and Strobel	NGO	Non-Governmental Organisation
BT	Blue Tongue	NKP	National Key Point Act of 1980 (No. 102 of 1980)
CCMA	Commission for Conciliation, Mediation and Arbitration	NWGA	National Wool Growers Association
CCTV	Closed Circuit Television	OBP	Onderstepoort Biological Products SOC Ltd
CEO	Chief Executive Officer	OEE	Overall Equipment Effectiveness
CFO	Chief Financial Officer	OVI	Onderstepoort Veterinary Institute
cGMP	current Good Manufacturing Practices	PFMA	Public Finance Management Act of 1999
CIPC	Companies and Intellectual Property Commission	PIC	Pharmaceutical Inspection Convention
Co-op	Cooperative	QA	Quality Assurance
COS	Cost of Sales	QC	Quality Control
CRM	Customer Relations Management	QE	Quality Executive
CSI	Corporate Social Investments	QLFS	Quarterly Labour Force Survey
CSIR	Council for Scientific and Industrial Research	QMS	Quality Management System
CSO	Chief Scientific Officer	R&D	Research and Development
DAFF	Department of Agriculture, Forestry and Fisheries	RDO	Research Development and Operations committee
DoA	Delegation of Authority	RemCo	Remuneration, Human Resources, Social & Ethics committee
DST	Department of Science and Technology	RPO	Red Meat Producers' Organisation
DTI	Department of Trade and Industry	RSC	Risk Steering Committee
EA	Experimental Animals	RVF	Rift Valley Fever
EAP	Economically Active Population	SA	South Africa
EE	Employment Equity	SAAHA	South African Animal Health Association
EMU	Engineering, Maintenance and Utilities	SABS	South African Bureau of Standards
ERP	Enterprise Resource Planning	SADC	South African Development Community
ExCo	Executive Committee	SAN	Storage Area Network
FAO	Food and Agriculture Organisation of the United Nations	SAPS	South African Police Services
FAT	Factory Acceptance Test	SAVA	South African Veterinary Association
FY	Financial Year	SCM	Supply Chain Management
GDP	Gross Domestic Product	SLA	Service Level Agreement
GMP	Good Manufacturing Practice	SMS	Short Message System
HIV	Human Immunodeficiency Virus	SOC	State-owned Company
HR	Human Resources	SOP	Standard Operating Procedure
IAS	International Accounting Standards	STC	Secondary Tax on Companies
IFRS	International Financial Reporting Standards	SWOT	Strengths, Weaknesses, Opportunities and Threats
IPC	Indirect Production Cost	TAHIC	Tshwane Animal Health Innovation Cluster
IRAC	IT, Risk and Audit Committee	TIA	Technology Innovation Agency
ISO	International Organisation Standardisation	UN	United Nations
IT	Information Technology	VAT	Value Added Tax
King III	Report on Corporate Governance in South Africa 2009	WFI	Water for Injection
LHPG	Livestock Health & Production Group	YTD	Year To Date



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