

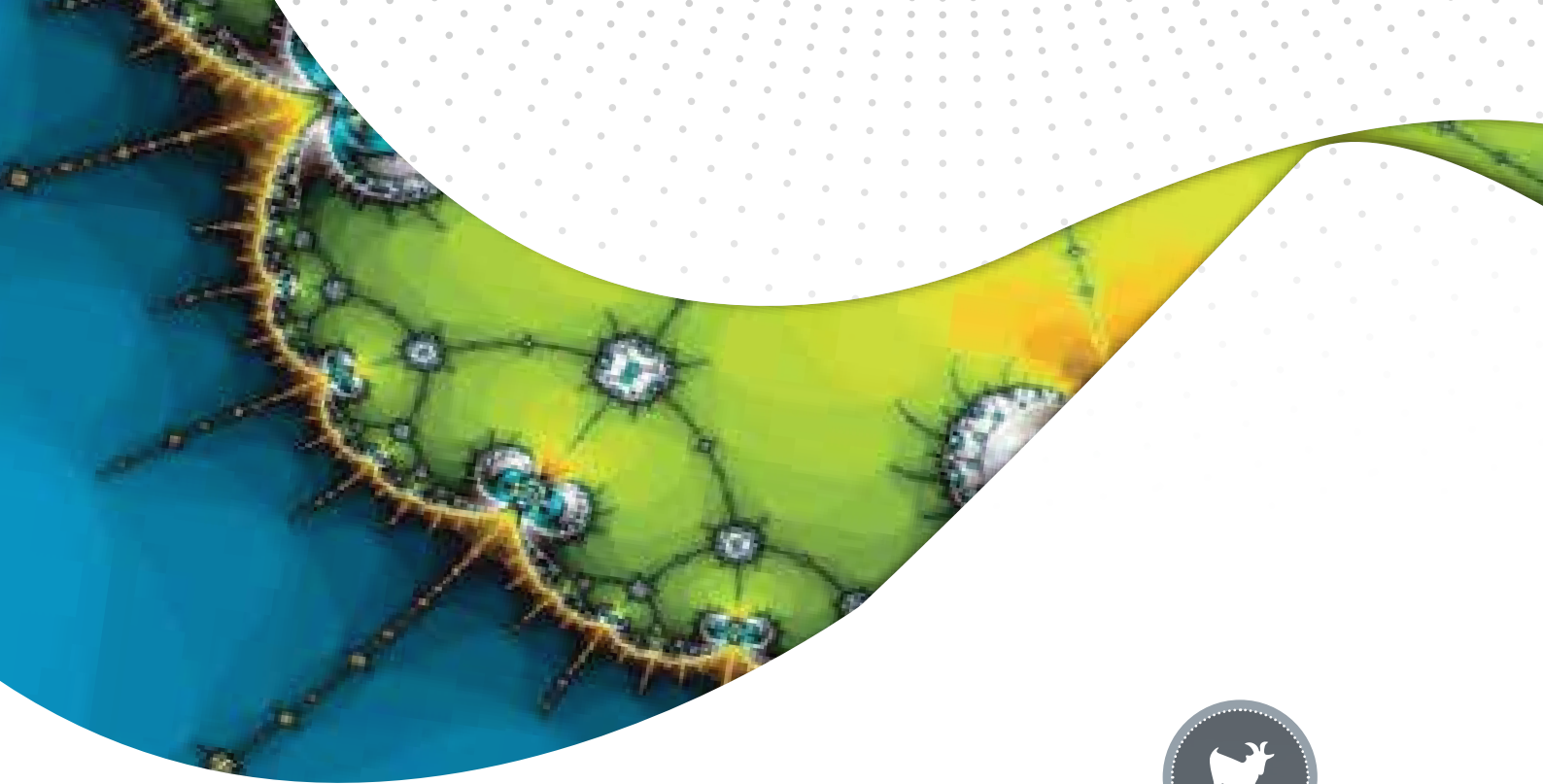


ACCELERATING GROWTH  
AND **EXCELLENCE**



ANNUAL REPORT

**2017**  
**2018**

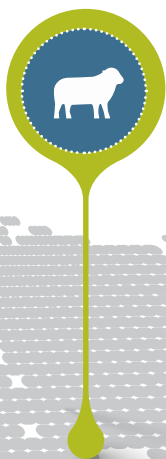


# INNOVATIVE



ONDERSTEPSPOORT  
BIOLOGICAL PRODUCTS

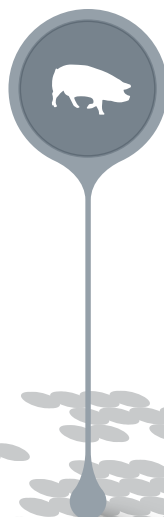
# ACCELERATING GROWTH AND EXCELLENCE



B-PHEMERAL



REDWATER



BRUCELLA ABORTUS S19

ANTHRAX

LUMPY SKIN DISEASE

# BIO-SCIENCE



ONDERSTEPOORT BIOLOGICAL PRODUCTS SOC LTD ANNUAL REPORT 2017-2018

# ACCELERATING GROWTH AND **EXCELLENCE**





# CONTENTS

6	Company Overview
7	Organisational Structure
8	Letter to the Minister of Agriculture, Forestry & Fisheries
9	Chairperson's Overview
10	Corporate Governance and Board
15	Report of the Acting Chief Executive Officer
17	Executive Committee
	<b>EXECUTIVE COMMITTEE REPORTS</b>
18	Report of the Secretariat
22	Report of the Corporate Services Executive
27	Report of the Sales and Marketing Executive
29	Report of the Acting Chief Scientific Officer
32	Report of the Operations Executive
37	Report of the Chief Financial Officer
43	Managers
44	<b>PERFORMANCE REPORT</b>
64	<b>FINANCIAL REPORT</b>
66	Report of the Audit, Risk and IT Committee
67	Accounting Authority's Responsibilities and Approval
68	Certificate by the Company Secretary
69	Report of the Auditor-General to Parliament
74	Directors' Report
109	<b>OBP FINANCIAL POSITION</b>
111	Acronyms



# 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; hence food security for all stakeholders.

## MANDATE

OBP's mandate is the prevention and control of animal diseases that impact food security, 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 a diversity of distribution channels.

## VALUES

Onderstepoort Biological Products SOC Ltd 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

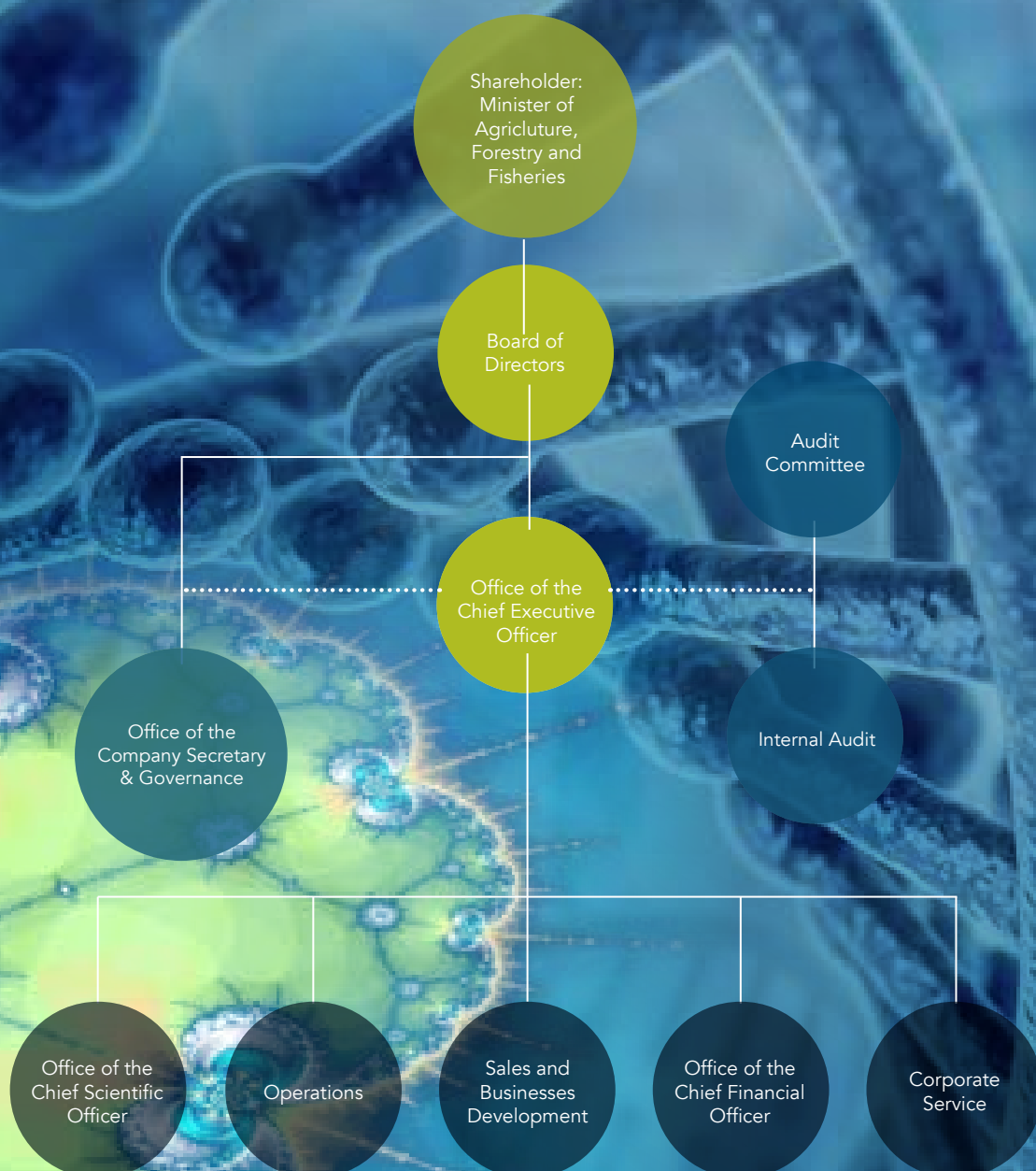
- Our employees are our enduring advantage.
- As a state-owned company, we have a responsibility to provide for the public as stakeholders.
- We have a responsibility to society and to the environment.

## KEY STRATEGIC GOALS

- Build a successful, high-performance organisation.
- Improve stakeholder relations management and communications.
- Facilitate a more aggressive national and international market access and implement an effective distribution strategy.
- Implement research and development strategies in-line with market trends.
- Contribute to government priorities in respect to emerging farmers, food security and economic growth.

# ORGANISATIONAL STRUCTURE

MACRO STRUCTURE





# LETTER TO MINISTER OF AGRICULTURE, FORESTRY & FISHERIES

31 July 2018

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

Dear Minister,

We have the honour of presenting to you the 2017/2018 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 2017 to 31 March 2018.

Yours faithfully,



MR TR RAMABULANA,

Onderstepoort Biological Products SOC Ltd | **Board Chairperson**



# CHAIRPERSON'S

## OVERVIEW



THE ANIMAL HEALTH INDUSTRY EXPERIENCED PERHAPS ONE OF ITS MORE CHALLENGING SEASONS DURING THE REVIEW PERIOD OF 2017/18. A SLOWDOWN IN ECONOMIC GROWTH IN SOUTH AFRICA, AND A SHARP DECLINE IN LIVESTOCK NUMBERS DUE TO PERSISTENCE DROUGHT.

Precautionary measures taken by farmers due to drought included reducing the number of livestock in accordance with available grazing. This has a consequence of affecting animal pharmaceutical sales in local markets.

### OVERVIEW OF COMPANY RESULTS

Onderstepoort Biological Products SOC Ltd, OBP, generated net sales of R173 million from vaccines sales, compared to the budget of R160 million. The operating profit was R16.97 million compared to R5,5 for the preceding financial year. The main driver for this key success was increased export sales which counter acted the reduced local market as a result of drought. Of significance was the confidence by European countries on OBP vaccines, where the OBP Lumpy Skin Disease (LSD) vaccine was used to control Lumpy Skin disease in Europe. The 2017/18 financial year marked the start of the physical erection of the GMP facility following years of design, planning and seeking of approvals from Tshwane municipality. The project is on track, and its completion will increase the OBP vaccine production capacity, attainment of internationally recognized GMP certification, opening of other markets, and ensure improved servicing of local customers.

### EXECUTIVE AUTHORITY

I wish to express my gratitude to our Minister, the Honourable Senzeni Zokwana, and his deputy, the Honourable Mr Sifiso Buthelezi, and DAFF officials for their continued support in the success and growth of OBP, and for the keen interest that they have shown in executing their oversight duties.

### INTERNAL STAKEHOLDERS

My appreciation is also extended to the most important asset that OBP has, its employees, for their hard work and dedication throughout the year under review.

I further would like to extend my appreciation and gratitude to the Acting CEO, Dr Bethuel Nthangeni and members of ExCo, for the positive developments within OBP. The team should receive credit for their commitment and loyalty to the vision of OBP.

### EXTERNAL STAKEHOLDERS

I also wish to thank our customers and suppliers, who continue to support our products and efforts each and every year. The existence of OBP, and the principles of excellence and quality, is driven for them.

### ACCOUNTING AUTHORITY

The current OBP board started its work on 01st August 2017. A big thank you to my fellow board colleagues, for discharging the responsibilities given you by the Executive Authority, the PFMA, the Companies Act and the King Code, all this done with great sense of urgency, aplomb and integrity.

I am pleased to present the 2017/18 annual report on behalf of the Accounting Authority.

**Mr TR Ramabulana**

Onderstepoort Biological Products SOC Ltd |  
Board Chairperson

31 July 2018



# CORPORATE GOVERNANCE

## INTRODUCTION

Outstanding corporate governance structure is a key essential to assist and guide the Board to perform their fiduciary responsibility of running an organisation by encouraging efficient use and proper accountability of resources at the company's disposal. Onderstepoort Biological Products SOC Ltd, (OBP) understands that continuous, impactful engagement as well as improved and positive development in corporate governance leads to the Board's effectiveness in optimally understanding and executing their core function within the organisation, by providing structure to key policies.

An outstanding governance framework should encompass attributes which contribute to effective controls and tools for addressing risks related to governance. OBP, in fulfilling its Shareholder mandate, is guided by and adheres to the Companies Act of 2008, Public Finance Management Act (PFMA) of 1999, including guidelines as set out in the King IV report and the Protocol on Corporate Governance in the Public Sector 2002. The organisation understands that the key foundation to a successful governance program is effective risk management.

Good governance structures assist and guide the Board in advising management in the development of strategic priorities and plans which are aligned with the organisation's mission in line with best interests of key stakeholders whose roles impact on the organisation's performance. The Board also enthusiastically monitors management's transparency in the implementation of approved strategic plans.

## SHAREHOLDING AND SHAREHOLDER'S COMPACT

OBP's sole shareholder is the government of the Republic of South Africa, and the

Minister of Agriculture, Forestry and Fisheries (DAFF) is the Shareholder representative. A Shareholder's Compact, which governs the Board and Shareholder's role and accountability on OBP's mandate and key objective, is signed annually in a consultative process by OBP's accounting authority and the Minister of Agriculture, Forestry and Fisheries

## BOARD COMPOSITION

The Minister of Agriculture, Forestry and Fisheries is accountable for the appointment of OBP's Board of Directors, whose structure consists of non-executive directors who possess diverse experience which is crucial for the advancement of the organisation.

Board meetings are planned yearly and special meetings are scheduled as and when they are required to tackle pressing issues which need to be addressed.

## DELEGATION OF AUTHORITY

OBP is managed under the authority and direction of the Board of Directors. The responsibility of the Board is to oversee the administration and governance of the organisation and to monitor senior management's performance. Committees of the Board, Executive Committee (ExCo) and a Management Committee (ManCo) are

OBP's governance structure to support the Board in efficiently leading the organisation.

## BOARD CHARTER

The Board has adopted a charter which provides a concise overview of the role, powers, functions, duties and responsibilities of directors, both collectively and individually. The Board has determined that based on the MOI, Shareholder's compact and applicable legislation, its main function and responsibilities are as follows:



Dr Charlotte Nkuna

Mr Yaasir Haffejee

Ms Koekie Mdlulwa



# CORPORATE GOVERNANCE

- Give strategic direction to OBP in line with the government's objectives and ensure that OBP remains a sustainable and viable business. The strategic objectives are set out in the corporate plan submitted to the Department of Agriculture, Forestry and Fisheries and the National Treasury;
- Prepare and approve corporate plans, annual budgets, annual reports and financial statements;
- Effectively lead, control and manage OBP business subject to the provisions of the OBP Act, Shareholder's compact, Companies Act, PFMA and other applicable legislation;
- Responsibility for the risk management processes, including the system of internal controls and ensuring that it is effective, efficient and transparent.

## SIZE AND STRUCTURE OF THE BOARD

In terms of the OBP Act, the Board shall consist of a minimum of five directors and shall be limited to a maximum of seven directors. All directors are appointed by the Minister. As of 31 March 2018, the Board had a unitary structure comprising of six non-executive directors. The Board is balanced in terms of skills and expertise.

## BOARD ATTENDANCE

In terms of the MOI, the Board should hold at least four meetings per year and any special meetings as and when required. During the year under review, the Board held 2 scheduled board meetings, 1 special Board meeting and one strategic workshop to formulate and approve OBP's strategy.

## BOARD REMUNERATION

The company provides full disclosure relating to its directors emoluments in the annual report. The consolidated directors' emoluments for OBP can be found on page 100 of the annual financial statements.

## BOARD APPRAISAL AND PERFORMANCE

The Board's performance and that of its committees is appraised at the end of each financial year (FY) in line with their terms of reference.

## INDUCTION OF BOARD MEMBERS

Newly appointed Board members undergo an induction programme to advance their understanding of OBP's business processes. Board members attend a variety of training essential to sufficiently address the needs of the origination. During the year under review, some Board members attended courses offered by IoDSA (Institute of Directors South Africa).

## SECRETARIAT FUNCTION

The company secretary is Ms DN Mobeng and she provides guidance to directors on their duties and responsibilities and ensures that issues relating to governance and best operating practices of the company are adhered to in line with laws and regulations relevant to the organisation.

Directors may deem it essential to seek independent expert advice at OBP's cost. The company secretary and other individuals accountable for the assurance of the organisation's crucial functions monitor



OBP's compliance in line with the Companies Act of 2008, PFMA of 1999 and other relevant legislation and table reports on these issues to the Board.

## BOARD COMMITTEES

Board committees support the Board in delivering on its responsibilities. Individual committees function in line with terms of reference set out the composition, roles, responsibilities and delegated authority of the committee.

### AUDIT, RISK AND IT COMMITTEE

The Audit, Risk & IT committee is a statutory committee that provides a support function to the Board. Its main responsibilities include compliance with effective risk management, providing the Board assurance that internal controls are in place and that these are assessed effectively, including the appointment and remuneration of external auditors. The full functions of the audit committee are set out in the audit committee charter.

#### THE COMMITTEE IS RESPONSIBLE FOR:

- Financial, management and other reporting practices
- Internal controls and risk management
- Compliance with laws, regulations, ethics and good corporate governance practices
- Accountability related to the Internal Audit Services
- Responsibility related to external auditors
- Responsibility related to information and technology
- Responsibilities related to the External Auditors
- Evaluating its own activities and performance against the Committee Charter from time to time

The composition and leadership of the audit committee is very important. King IV and the Companies Act s94 (2) places emphasis on the independence of its members.

The committee further guarantees that an efficient internal audit function is in place and ensures that the external audit's responsibilities are adequately simplified to enable the function to avail an objective overview of the operational efficiency of the Company's systems of internal control, risk management and governance reporting.

The committee has to measure internal audit function performance and ensure that sufficient resources are availed for the unit to perform its duties optimally.

Three scheduled meetings were held during the year under review. The committee considers and makes recommendations on the appointment and retention of the external auditors, including terms of engagement and fees paid.

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

### REMUNERATION, HUMAN RESOURCES, SOCIAL & ETHICS COMMITTEE

The committee comprises of four non-executive directors. The committee makes recommendations on:

- Human resources strategy and policies
- Succession planning
- Remuneration
- Training
- Governance of ethics
- Performance management

The committee ensures that the management of human resources and statutory reporting are in line with all applicable legislations.

Two scheduled meetings were held during the year under review.

### RESEARCH DEVELOPMENT AND OPERATIONS COMMITTEE

The committee comprises of five non-executive directors.

#### The committee is responsible for:

- Overseeing development of strategies, policies and standards related to the OC committee functions
- Advising management on the mobilisation of resources



- Overseeing the establishment of processes for the support of the core mandate of the organisation
- Facilitating collaborations and partnerships with respect to the OC functions of the organisation

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.

Two scheduled meetings were held during the year under review.

## BOARD AND COMMITTEE MEETINGS ATTENDANCE

Name	Board	Special Board	Audit Risk & IT	Research, Development & Operations	Human Resources Remuneration & Ethics
Meetings Held	2	1	2	2	2
* Mr T Ramabulana	2	1	-	2	2
** Mr Y Haffeejee	2	1	2	-	2
*** Ms TK Mdlulwa	2	1	1	1	1
**** Dr P Vervoort	2	1	2	2	-
Dr C Nkuna	2	1	-	2	2
Ms F Mphuthi	2	1	2	2	

### LEGEND

- \* Board Chairperson
- \*\* Audit, Risk & IT Chairperson
- \*\*\*RemCo Chairperson
- \*\*\*\*RDO Chairperson

1 Audit, Risk & IT committee meeting was held before the end of the previous Board's tenure:

Name	Audit Risk & IT
Meetings Held	1
*Dr M Mashaba	1
*Dr M Mashego	1
**Ms K Mdlulwa	-

### LEGEND

Dr Mashaba was Audit Committee Chairperson 15th May 2014 to 15th May 2017

\*Dr Mashaba and Dr Mashego's term ended on 15th May 2017

\*\*Ms Mdlulwa was reappointed for a second term on 1st August 2018

REPORT OF THE ACTING

# CHIEF EXECUTIVE OFFICER

Onderstepoort Biological Products (OBP) SOC Ltd is a schedule 3B public entity in terms of the Public Finance Management Act 1 of 1999, and it reports to the Minister of Agriculture, Forestry and Fisheries. The mandate of OBP is to develop, manufacture, and distribute vaccines and other biological products that pertain to animals.

OBP IS STRATEGICALLY POSITIONED TO ENSURE FOOD SECURITY BY CONTINUING TO SUPPORT ANIMAL HEALTH, AND PRODUCTION OF THE COMMERCIAL AND EMERGING LIVESTOCK SECTORS. IT IS ESPECIALLY APPLICABLE TO IMPORTANT DISEASES, WHICH HAVE SEVERE ECONOMIC IMPACT BUT MAY FALL OUTSIDE THE PRODUCT SCOPE OF MULTI-NATIONAL COMPANIES.

# CHIEF EXECUTIVE OFFICER



The organizational performance for the 2017/18 financial year speaks to the strategic goals of the organization, which are captured as follows:

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. OBP generated net sales of R170 million from the sales of vaccines against the budgeted revenue of R160 million. The operating surplus was R58 million, which is R10 million less than the amount earned in the previous year. The decrease in operating surplus was due to increased operating expenses. The drought which ravaged some parts of South Africa contributed to reduced numbers of livestock, and consequently the demand for livestock vaccines. OBP is building a Good Manufacturing Plant (GMP) compliant facility. This financial year marked the beginning of the erection of the physical structure.

Strategic goal 2: Improve stakeholder relationship management and communications. OBP has been experiencing a lot of negative perception from all stakeholders, mainly from farmers, customers and clients, media, and professional associations. This negativity was brought about by insufficient product supply and, in some cases, it impacted negatively on farmers who intended to export their products. OBP conducted a customer and stakeholder satisfaction survey which demonstrated improvement of OBP services. This was brought about by improved communication, reliable product supply, and a direct distribution strategy that has been put in place since the 2014/15 financial year.

Strategic Goal 3: Facilitate a more aggressive national and international market access and implement an effective distribution strategy. OBP set itself a challenging target to increase its market share, domestically and internationally. New international markets were developed, with a number of product registration dossiers being submitted. The international market performed better than the domestic market. The refurbishment of ageing equipment continued, resulting in enhanced production capacity. However, the production target was revised midyear due to change in the product market demand. OBP maintained its ISO 9001 accreditation.

Strategic Goal 4: Continually review research and development strategies in line with market trends. During the year under review, OBP submitted seven new applications to Act 36/1947 for approval. As part of OBP's strategy of expanding its market share, various technical documents were submitted to foreign countries for possible registration of various vaccines.

Strategic Goal 5: Contribute to government priorities in respect of support to emerging farmers, food security and economic growth. OBP

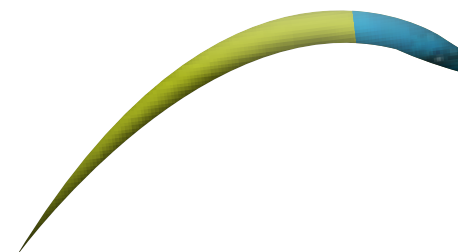
supported various emerging farmer associations and conducted a number of training sessions for farmers. There was a direct support by OBP of small distributors operating in rural areas to ensure access to OBP products. In addition, OBP donated more than 100 000 doses of vaccines as part of its expanded outreach programmes.

In summary, the overall achievement rate of OBP is 65%. This compares well with the achievement rates of previous years which were 65, 70 and 35% for the financial years ending 2017, 2016, 2015, respectively. This was possibly due to the committed efforts of the OBP Board, Executives, managers and general employees, and the support by DAFF, the sole OBP shareholder.

**DR BETHUEL NTHANGENI**

Acting Chief Executive Officer

31 July 2018







# EXECUTIVE MEMBERS

Dr J Modumo (Sales and Marketing Executive), Ms M Ramutle (Corporate Services Executive),  
Ms Z Mobeng (Company Secretary and Head of Legal) Dr Nthangeni (Acting Chief Executive Officer),  
Mr S Ntombela (Operations Executive), Mr B Weyers (Acting Chief Scientific Officer),  
Mr M Gololo (Chief Financial Officer)





## REPORT OF THE SECRETARIAT

### MANAGING RISKS AND OPPORTUNITIES

EFFECTIVE RISK MANAGEMENT IN THE ONDERSTEPSPOORT BIOLOGICAL PRODUCTS SOC LTD BUSINESS LINES, RESEARCH AND DEVELOPMENT, PRODUCTION AND ALL BUSINESS PROCESSES ARE OF THE UTMOST IMPORTANCE IN CONTROLLING THE PLETHORA SYSTEMIC RISKS THAT ARE HITCHED TO THE ORGANISATION.

Onderstepoort Biological Products SOC Ltd's strategic vision contributes to South Africa's animal disease management plan and also guarantees sufficient food security for all. OBP SOC Ltd strategic vision is supported by the continuous commitments to improve research and development output and ensuring an adequate supply of strategic vaccines and biological products to the livestock industry as a risk control strategy against the various hypercritical animal disease-outbreaks.

The risk management process in OBP SOC Ltd is iterated and integrated in its business processes and operations, annual corporate plan and budget process that includes:

- Identifying of risks in OBP SOC Ltd's strategic, tactical and operational activities
- Analysing and evaluating of the identified risks that are hitched to OBP SOC Ltd's strategic, tactical and operational activities
- Risk response strategies against the identified risks of OBP SOC Ltd
- Monitoring, auditing and reporting on the risk response strategies to provide assurance regarding the achievements of organisation's objectives.

OBP SOC Ltd adopted a holistic approach to enterprise wide risk management detailed in its risk management policy and framework. The divisions and departments assessed their own risks and developed mitigation plans against the most potential risks that can occur.

Residual risks were defined and identified as remaining risks after mitigation strategies have

applied on the primary and secondary risks, by considering the effectiveness of those strategies.

The Risk Steering Committee (RSC), Executive Committee (ExCo), IT, Risk and Audit Committee (IRAC) of the Board discharged their oversight and governance responsibilities by reviewing OBP's risk profile annually to identify emerging strengths, weaknesses, opportunities and threats (SWOT) in both internal and external environments of the company.

Continuous improvement is applied to the risk management process through stakeholder feedback, internal and external audit recommendations and maturity measurement.

OBP stakeholders, including the Department of Agriculture Forestry and Fishery (DAFF), employees, veterinarians, farmers or co-operatives share a host of risks to consider as they are involved directly or indirectly with OBP SOC Ltd or its products. These risks could be inherent to our natural environment, science, animal health industry, OBP SOC Ltd or business interaction.

The risk management activities at the strategy and operational levels of OBP SOC Ltd for the 2017 risk management year were as follows:

- A risk management workshop was organized to review the overall strategic risks of the business.
- Operational risk reviews were conducted with focus on critical business operations.
- The reviews were done to ensure compliance to the code of conduct and all applicable laws and regulations of the industry. These included assessment of compliance risks to discourage unlawful and irresponsible conduct by employees at all levels of business operations.
- Training and risk awareness was customised for different target group of employees. Various plans were also brain-stormed to explore ways on how to improve the raising of risk awareness amongst employees across the organisation.

In addition, many cross-functional risk activities occurred within OBP SOC Ltd. Below are the few examples:

- Safety, Health and Environment risks were managed by the Safety, Health and Environment Officer (SHE). A comprehensive bottom-up approach was used to identify and assess all SHE risks.

- Financial risk management oversight was accomplished through policy review by the Board of Directors (BoD). Policy implementation and day-to-day risk management were carried out by the finance division and regular reporting on these risks was performed by the relevant accounting and controlling functions.
- Research and product development strived to consistently apply the risk management process for identification and management of risks that could impact achievement of development projects.

The result of the end of year (2016/2017) review captured the key risks as they are listed in the Table 1 below. These risks were identified as the key risks that, if not mitigated, could have a significant effect on OBP SOC Ltd strategic product availability or food security, revenue, profit, cashflow/ financial condition, reputation and shareholder interests for the 2017/18 financial year.



TABLE1. KEY RISKS FOR 2017/18

Context	Risk Name
Legal and Regulatory	Legal and regulatory compliance - Non-compliance with relevant legislation and prescripts
Operations	Inability to fund operations
	Product availability (disruptions of product supply) - Poor production output resulting in inability to supply vaccine products to meet shareholder's expectation in ensuring food security
	Compliance with quality standards - Adherence with various national and international quality standards
	Research and development output - Insufficient Research and Development output.
	Brand Reputation damage - Relatively low brand awareness and integration of brand at operational level
Strategic and General	Ability of the plant and structural technology to meet business needs
	Structural misalignment - The organisation's structure may not be aligned to the corporate plan, making it difficult to deliver on the strategic objectives
	Updating of dossier to register products as per country specific - inability to access new markets and maintain existing market
Human Resources	Staff productivity/ Staff capacity and capability - Inappropriate human resource capacity, capability and poor work performance
Good Governance	Deteriorating strategic relationships (stakeholders/customers) - Inability to respond to strategic imperatives resulting in deteriorating stakeholder relationships

## RISK MITIGATION

OBP SOC Ltd made the best effort to manage its key risks to acceptable levels for the benefit of all its stakeholders. A risk acceptance criteria consisting of risk measuring scales and terms was used as a basis for decision-making for the risks OBP SOC Ltd is willing to accept. Appropriate risk mitigations, controls and backup plans were determined to treat the risk. These were developed and implemented as action plans with target dates for completion within the risk tolerance or acceptance threshold.

## ASSESSMENT AND MANAGEMENT OF OVERALL OPPORTUNITIES AND THREATS

The overall risk assessment process was absolutely iterative based on consolidated views of all key risk management champions during 2017/18. In addition, one strategic risk was omitted from the list in the 2017/18 risk register as it was found to be reduced to an acceptable level. The 2017/18 risk management report showed an adjustment in the 2016/17 risk profile.

The changes in the 2016/17 risk profile reflect the inherent and residual risk re-evaluation results as well as current internal and external parameters within OBP SOC Ltd operating and control environment.

In this way, OBP SOC Ltd identifies, analyses and responds appropriately to risks and opportunities which are pivotal in achieving OBP SOC Ltd's objectives, safeguarding stakeholder interests and meeting legal requirements.

Finally, the 2017/2018 risk management report guarantees the ongoing concern of the company.



## COMMUNICATIONS

Communication goes further than dialogue, as appreciating the benefits of efficient communication assists in placing focus on developing a diverse workforce.

Effective and regular internal communication should be more than simply providing information, as it needs to assist in establishing and maintaining a comfortable working environment for management and employees.

External communication is just as imperative and it is one of the most crucial functions in an organisation as it is the public face and voice of every company. Maintaining superior and consistent communication assists in reducing possible barriers, thus promoting a healthy relationship between the organisation and its stakeholders.

During the year under review, continuous efforts have been made to enhance existing communication channels for both internal and external stakeholders. Four quarterly editions of Zwashu magazine were published in 2017/18. It is through these evolving tools that the communications department guarantees transparency for OBP's internal stakeholders.

Print media such as Farmer's Weekly magazine and various newspapers provide an outstanding platform for communication with our external stakeholders and assist in keeping abreast with developments locally and globally. The Communications department will continue to advance OBP's communication channels and tools to ensure that the organisation is in line and in tune with evolving local and global trends.

## PRIMARY CORPORATE SOCIAL INVESTMENT (CSI)

OBP strives to remain conscious of the need to be a responsible corporate citizen and realises the importance of ploughing back into the various communities it operates in, which are mostly in rural and underdeveloped areas, through development of knowledge and skills either in monetary form or in kind.

### PRIMARY FOCUS AREAS ARE:

- Health
- Education
- Job creation
- Ad hoc CSI projects

As part of OBP's primary CSI focus, employees connected with the world in commemorating Mandela Day. The theme for the day was #ActionAgainstPoverty and employees participated in donating hampers to the following beneficiaries:

- Korwe Multipurpose Centre
- Pele Primary School

OBP collaborated with the Department of Agriculture, Forestry and Fisheries (DAFF) in partnership with the Free State MEC for Agriculture and Rural Development, the Food and Agriculture Organization of the United Nations (FAO) and other countries worldwide in observing World Food Day. The theme for the event was "Change the Future of Migration: Invest in Food Security and Rural Development." The importance of investing in food security and rural development as tools to change the future of migration was highlighted and echoed through the day's activities.

The event emphasised the importance of creating conditions that allow rural inhabitants to engage in agricultural activities to create more resilient livelihoods. OBP is committed to continue participating in the annual event to in an effort to address the hunger epidemic.

OBP, alongside other SOC's provided an opportunity for a remarkable turnout of emerging farmers and members of the community of Phuthaditjaba to gain crucial knowledge about the company and its products. Vaccination programmes were distributed to raise awareness on the importance of timeous vaccination to promote healthy livestock farming practices.

## SECONDARY CSI

OBP also participated in other initiatives by the Department of Agriculture, Forestry and Fisheries, where the CSI team interacted with emerging farmers in the following events:

- National Arbor Week - Matatiele
- DAFF Youth Expo - Coffee Bay
- DAFF FEA - Mpumalanga
- SARA (Agriculture and Animal Resources show) - Côte d'Ivoire



## REPORT OF THE CORPORATE SERVICES EXECUTIVE

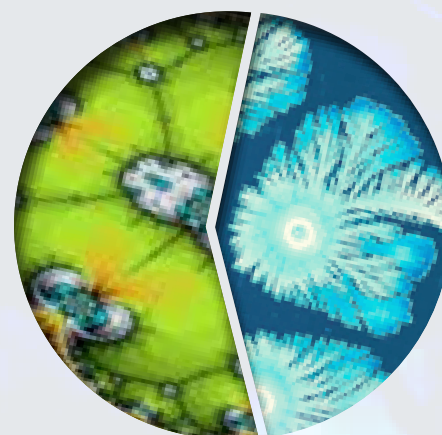
### ANNUAL REPORT: HUMAN RESOURCES, SECURITY AND SAFETY, HEALTH AND ENVIRONMENT

HUMAN RESOURCES MANAGEMENT IS A CONTINUOUS PROCESS. A STRATEGIC PRIORITY FOR OBP, IS THE ABILITY TO ATTRACT AND RETAIN TALENT TO ENSURE THAT OBP DELIVERS ON ITS MANDATE.

#### WORKFORCE PROFILE

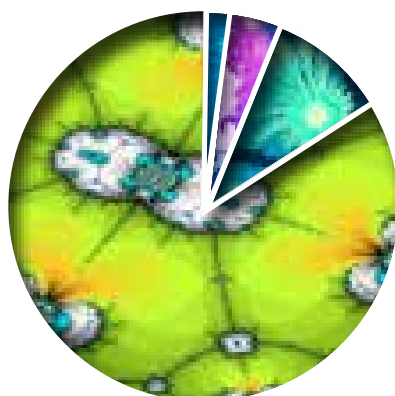
The full staff complement, including learners, interns, and employees on short-term contracts, stood at 212 as of 31 March 2018. This represents an increase of 18.5% in our workforce. The increase can be attributed to the learnership and internship programmes that were implemented during the year under review.

### WORKFORCE PROFILE BY GENDER



● | 53% Male    ● | 47% Female

## WORKFORCE PROFILE BY RACE



The workforce profile for OBP is closely aligned with the economically active population statistics for the Gauteng Province, however, there is an under-representation of Coloured people, Indians and Whites. Whilst OBP has done very well with regards to the representation of females within the Company (which is slightly higher than the norm within the Gauteng Province), there is a need to focus on female representation at management levels.

Attracting and retaining female staff at management level remains a challenge for OBP.

The representation of people with disabilities is currently at 1.5%. Strategies will be put in place in the new financial year to recruit and retain people living with disabilities at all levels within OBP.

## AGE PROFILE

26% of OBP's staff are within the 50-59 year bracket and could be considered a retirement risk. Succession plans have been put in place for critical and key positions.

## VACANCY RATE

The vacancy rate is currently at 14%. This is a huge improvement compared to the vacancy rate of 26% of the 2016/2017 financial year. This improvement is due to the appointment of interns and learners (who were appointed against vacancies).

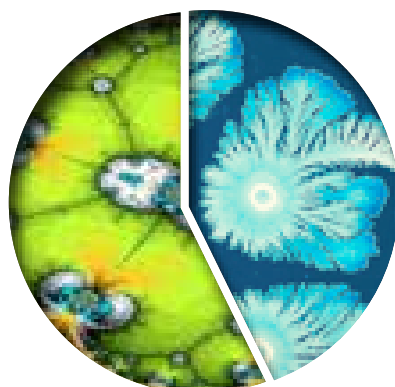
During the year under review, OBP recruited 38 employees, including learners and interns.

A recruitment policy and procedures are in place. The recruitment processes are done in accordance with the policy and procedure. OBP uses various cost-effective platforms to advertise its position to ensure that the advertisements reach a wider pool of potential candidates.

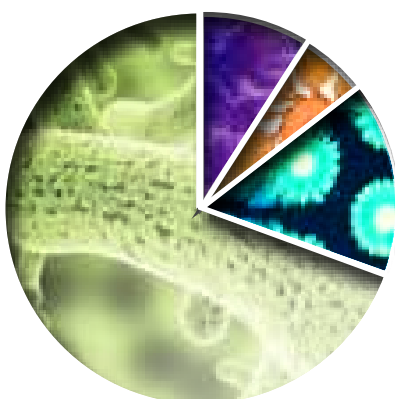
OBP generally does not struggle to find the required skills in the labour market.

Currently, only critical positions are advertised. External applicants are only considered if there are no suitable candidates internally who meet the required skills and competencies. It is encouraging to note that during the year under review, 60% of appointments at management level were internal appointments.

## MANAGEMENT PROFILE BY GENDER



## MANAGEMENT PROFILE BY RACE





## TURNOVER RATE

OBP's turnover rate for the year was 8% against a target of between 4% and 8%. There were 18 terminations during the year under review.

The turnover rate increased from 3% to 8% when compared to the 2016/17 financial year turnover rate. This is below the norm of between 4% and 12%.

The turnover rate has reduced by 2% compared to the 2016/17 financial year. A retention strategy has been implemented to ensure that OBP retains key talent.

## LEARNING AND DEVELOPMENT

OBP has adopted a blended approach to learning and development. This includes the following:

- In-House Courses;
- External Courses;
- Bursaries;
- Learnership Programmes;
- Internship Programmes; and
- On-The-Job Training.

### Employee training for the period 1 April 2017 to 31 March 2018

Occupational Levels	Male				Female				Total
	A	C	I	W	A	C	I	W	
Top management	0	0	0	0	0	0	0	0	0
Executive management	3	0	0	0	2	0	0	0	5
Management	4	2	0	4	7	0	0	0	17
Skilled employees	29	1	0	1	29	0	1	5	66
Semi-skilled employees	17	0	0	2	22	0	0	4	45
Basic-skilled employees	14	0	0	0	7	0	0	0	21
TOTAL PERMANENT	67	3	0	7	67	0	1	9	154
Temporary employees	10	0	0	0	9	0	0	0	19
GRAND TOTAL	77	3	0	7	76	0	1	9	173

## LEARNERSHIP AND INTERNSHIP PROGRAMMES

Two learnerships were implemented during the year under review, namely:

- Animal Production, and
- Pharmaceutical Sales Representative.

The learners were recruited from rural areas with the aim of being placed with emerging distributors/co-ops in rural areas as part of Enterprise Development.

This initiative will assist OBP with improving its B-BBEE score as well increase capacity within OBP for OBP products to be accessible to farmers in rural areas.

The internships for various divisions commenced on 1 October 2017.

## BURSARIES

Bursaries are granted to current employees. The bursaries are managed through the Bursary Policy. There are currently 84 employees who are on the bursary scheme.

## PERFORMANCE MANAGEMENT

Performance bonuses are paid if the Company declares operating profit and achieves 80% of its performance targets as outlined in the Annual Performance Plan. Although the Company declared an operating profit, only 64% of the annual targets were achieved.

Although no performance bonuses were paid in the 2017/2018 financial year, as the Company did not achieve the 80%, the Board approved an incentive of 8% of employees' total guaranteed package.

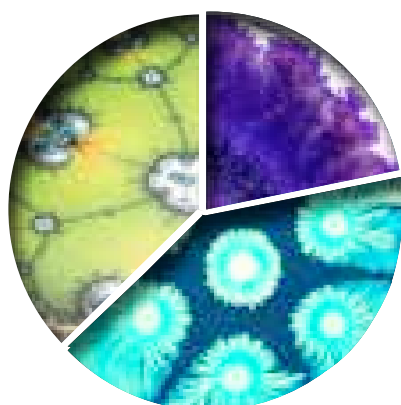
## SALARY INCREASES

Salary increases for the bargaining unit (Salary Levels A to C) are negotiated within the Bargaining Forum and salary increases for management (Salary Levels D to F) are determined by the Board of Directors.

During the salary negotiations, the employees were represented by Solidarity and the National Health Education and Allied Workers Union (NEHAWU). The negotiations for the 2017/2018 financial year went smoothly, resulting in a general salary increase of 6.5% for all employees plus 1% based on individual employees' performances.

## EMPLOYEE RELATIONS

There were eight cases that were referred to the CCMA for unfair dismissal and unfair labour practice. Of the eight cases, five cases have been concluded and three are still ongoing. The CCMA ruled in favour of OBP on four cases and a settlement agreement was reached on one. There is one case where the CCMA ruled in favour of OBP which has now been referred to the Labour Court.



● | 50% In Favour of OBP  
● | 37,5% Ongoing ● | 12,5% Settled

## EMPLOYEE WELLNESS

OBP has implemented a comprehensive wellness programme and provides the following:

- Occupational health services through our on-site clinic;
- An employee assistance programme which provides personal support 24 hours a day for 365 days a year to employees and their families;
- An on-site social worker;
- A chronic disease management programme; and
- A medical surveillance programme.

During the year under review, OBP hosted a wellness day. The wellness day included the following activities:

- Health risk assessment;
- HIV counselling and testing;
- Eye screening;
- Cervical cancer testing;
- Prostate gland testing; and
- Fitness and nutrition advice.

## SECURITY AND FACILITIES MANAGEMENT

OBP still operates under the National Key Point Act 102 of 1980 and the security department is responsible for ensuring that OBP complies with the Act 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 the security capabilities in the form of a CCTV system and electronic access control system.



For compliance, the security department is supported by the State Security Agency and the South African Police Service – National Key Point (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 are specifically trained in the prescriptions that entail the cleaning of said laboratories.

## SAFETY, HEALTH AND ENVIRONMENT

Safety, Health and Environment (SHE) has recently been resuscitated. The SHE audit was conducted in 2016 and a plan has been put in place to address the gaps that were identified during the audit.

### THE FOLLOWING ACTIVITIES HAVE BEEN COMPLETED:

- SHE Policy revised to include Environment;
- Occupational Health and Safety (OHS) Statement;
- OHS Appointment Procedure;
- OHS Legal appointments;
- Waste Management legal permits for current suppliers; and
- Fire Equipment Inventory.

### THE FOLLOWING ACTIVITIES ARE UNDER WAY:

- Emergency Preparedness and Response Procedure;
- Animal Evacuation Procedure;
- Waste Management Procedures;
- Employee Training on Biological and Chemical Hazards;
- Risk Assessment and Controls; and
- A service provider appointed to assess fire equipment.

## REPORT OF THE SALES & MARKETING EXECUTIVE



### 1. GENERAL ANALYSIS

THE SOUTH AFRICAN ECONOMY HAS BEEN UNDER SEVERE PRESSURE IN THE LAST 3 YEARS, WHICH SAW GROWTH BETWEEN 0.2-0.5%. SEVERAL FACTORS, SUCH AS DROUGHT, CONTRIBUTED TO THIS SLOW GROWTH, ESPECIALLY IN AGRICULTURE. DROUGHT IN 2016/17 RESULTED IN THE MAJORITY OF FARMERS SELLING MORE OF THEIR LIVESTOCK, WHILE OTHERS EXPERIENCED HIGH MORTALITIES, WITH EMERGING FARMERS BEING THE MOST AFFECTED.

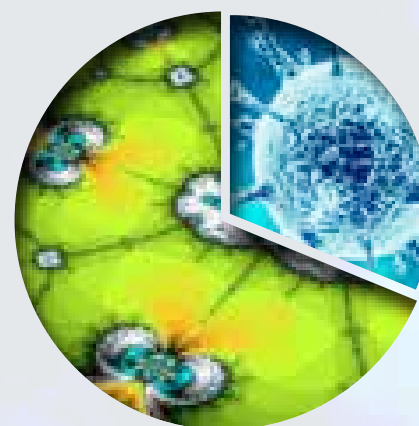
The population of livestock decreased, which resulted in fewer animal health products being used nationally. Provinces such as the Western Cape, Northern Cape and the Free State continue to experience drought. Since last year, majority of farmers have now decided to increase their breeding stock with the aim of increasing their herd sizes.

### 2. OBP PERFORMANCE

The company performed extremely well in the 2017/18 financial year against budget. Overall, sales revenue generated was almost the same as the 2016/17 performance, however, the company was 6% above

budget. Export market continued with growth trajectory, ending 83% above budget. However, the department was 3% below 2016/17. Although Domestic did not achieve its budget, the department was 6% above the 2015/16 financial year. Figure 2 below depicts contribution by group which entails viral and bacterial products.

FIGURE 2: GROUP CONTRIBUTION



● | 71% Viral    ● | 29% Bacterial & Other

# REPORT OF THE SALES & MARKETING EXECUTIVE



Viral vaccines contributed 71% of OBP's total revenue while bacterial vaccines and other products contributed almost 29% of sales generated.

## 3. STRATEGIC OBJECTIVES ASSESSMENT

In the 2017/18 financial year, the Sales and Marketing department had 8 objectives and 11 key performance indicators. The department achieved 7 of the 8 objectives, and 10 of the 11 key performance indicators. Below is a summary of activities done to achieve these strategic objectives (2017/18).

### 3.1 IMPROVED CUSTOMER SATISFACTION

We conducted a market research to measure customer satisfaction, and results showed that customers were 10% more satisfied with OBP's services than they were in 2010 when the same survey was conducted.

### 3.2 DEVELOPMENT OF BRAND STRATEGY

The brand strategy was developed and approved by the Board. There were activities done to increase OBP's corporate brand exposure and to also improve services to all its stakeholders. Recent market research showed that stakeholders are able to distinguish between and associate OBP's services with its own brand identity. OBP participated in key stakeholder events by exhibiting, giving sponsorships, and training.

### 3.3 DEVELOPMENT OF NEW MARKETS

The Export department managed to identify new markets and even distributed OBP products directly into these markets. New markets identified were in Europe, West Africa and Middle East.

### 3.4 INCREASE IN SALES ON CURRENT MARKET

There was an increase in sales on current markets, although we were 35% below target on volumes we intended to achieve, the company managed to demonstrate market growth of 15%. There was a 10% and 21% market growth both in the domestic and export markets respectively compared to 2016/17.

**Table 1: Doses distributed**

	2017 sales growth
Domestic	10% more than 2016
Exports	21% more than 2016
Total	15% more than 2016

## 3.5 DISTRIBUTION STRATEGY IMPLEMENTATION

Since the introduction of the new distribution network, we have conducted an online survey to measure OBP's distribution efficiency. The quarterly customer satisfaction assessment report confirmed that OBP's new distribution strategy has been accepted positively by most clients.

## 3.6 SMALLHOLDER AND EMERGING FARMER SUPPORT

OBP continued to support emerging farmer associations through sponsorships and also through participating at their events. We had direct engagement with small scale farmers and ten more farmer days were conducted than in 2016/17. The company continued to support entrepreneurship by supporting small co-ops in rural areas to improve accessibility of OBP's products.

## CONCLUSION

The company has shown significant growth in the 2017/18 financial year compared to the 2016/17 financial year, in both the domestic and export markets based on doses sold. OBP will continue to increase its penetration in the export market by retaining its current clients and identifying new markets.



## REPORT OF THE ACTING

# CHIEF SCIENTIFIC OFFICER



## RESEARCH AND DEVELOPMENT

THE R&D UNIT, THROUGH COLLABORATION WITH VARIOUS STAKEHOLDERS, ENSURES THAT ANIMAL VACCINE DEVELOPMENTS TRANSITION INTO MANUFACTURING AND COMMERCIALISATION. THE UNIT CONTINUES 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 (ARC), THE COUNCIL FOR SCIENTIFIC AND INDUSTRIAL RESEARCH (CSIR) AND UNIVERSITY OF PRETORIA (UP) AND NORTH-WEST (NWU).

During the year under review, the unit expanded by adding the University of Johannesburg (UJ) on vaccine development projects, and the National

Research Foundation is funding some research projects. The R&D division continued to invest in infrastructure and investigations on the use of new technology platforms. The R&D division has collaborated with national and international manufacturers of new technology platforms to fast-track vaccine development.

The R&D unit is working on a number of pipeline concepts with several projects towards improved products and processes. One of these projects has advanced to vaccine clinical testing stage. R&D has continued to assist the production departments with a number of process optimisation and improved production processes. One project has advanced to the technology transfer stage from R&D to Production.

During the year under review, OBP submitted seven new applications to Act 36/1947 for approval.

# REPORT OF THE ACTING CHIEF SCIENTIFIC OFFICER



Two of these applications for shelf-life extension of existing vaccines were approved. The other applications are still pending approval. As part of OBP's strategy of expanding its market share, various technical documents were submitted to foreign customers for possible registration of various vaccines. The continued outbreak of Lumpy Skin Disease in Europe has seen the expanding use of OBP LSD vaccine in Armenia, Albania and Croatia. OBP has also received company registration in Saudi Arabia.

Vaccine development, testing and approval processes are subject to comply with regulatory and quality standards.



The OBP facilities meet regulatory and quality compliance for ISO 9001:2008 (in the process of migrating to ISO 9001:2015), the South African Veterinary Council (SAVC), the National Council of Society for the Prevention of Cruelty to Animals (NSPCA), Section 20 of the Animal Diseases Act (35 of 1984), and the Department of Agriculture, Forestry and Fisheries (DAFF) for compliance to the Fertilizers, Farm Feeds, Agricultural Remedies and Stock Remedies Act, 1947 (Act No. 36 of 1947). In addition, OBP was approved by DAFF for compliance of the facility to the Genetically Modified Organism Act, 1997 (Act 15 of 1997).

The R&D unit continued to invest in staff capacity building, with two staff members from the R&D continuing with PhDs at the University of Pretoria and North-West University, and one staff member is continuing an MSc degree at the University of Cape Town. The unit also trained two interns on vaccinology and two UJ MSc students are working on projects supervised by OBP and UJ personnel.



## SCIENTIFIC OUTPUTS

**The R&D external division responded to a number of funding calls and the following were approved:**

- NRF-DST Professional Development Programme (PDP) for Doctoral Scholarships and Postdoctoral Research Fellowships Block Grant Call for 2018 was approved for OBP to host PhD and Postdoctoral fellows for the year 2019.
- Ms Boitumelo Moetlhoa and Mrs Nokukhanya Ncube's applications were approved for the NRF Thuthuka PhD track funding.
- Dr Leeann Naicker was approved for the NRF Thuthuka Post PhD track.

## SCIENTIFIC PRESENTATIONS

- Dr Nobalanda Mokoena and Dr Nthangeni presented at the Molecular Farming Workshop held on the 02 – 04 November 2017 at Le Franschhoek Hotel & Spa, 16 Minor Rd, Franschhoek, Western Cape, South Africa.
- Dr Nobalanda Mokoena was invited to facilitate the *“Developmental and Regulatory pathways to commercialise Biotech”* module on the SANBIO/BIOFISA II programme coordinated by South African Research and Innovation Management Agency (SARIMA).





## REPORT OF THE OPERATIONS EXECUTIVE

THERE WAS JUST NOT A SUFFICIENT NUMBER OF DAYS IN THIS FINANCIAL YEAR TO PRODUCE EVERYTHING WE SET OUT TO PRODUCE AND STILL EXECUTE ANNUAL MAINTENANCE OF OUR CRITICAL EQUIPMENT – NAMELY, THE FERMENTERS, FILLING LINES, FREEZE DRIERS, WATER PLANT, BOILERS AND MANY MORE. THE PREPARATIONS FOR THE START OF THE GMP FACILITY UPGRADE PROJECT PUT ADDITIONAL STRAIN ON THE THINLY SPREAD RESOURCES FROM THE MAINTENANCE TEAM AND STAFF AT LARGE BUT, IN SPITE OF ALL THE CHALLENGES EXPERIENCED, THE PRODUCTION AND SUPPORT STAFF ROSE ABOVE ALL AND PROVED ONCE AGAIN THAT UNITED WE STAND!

I would like to thank each and every staff member, including management, for a sterling effort and contribution in making 2017/18 such a resounding success. Without you we would never have come

close to what we achieved this year with such limited resources.

This report will give an update on Production and the GMP Facility Upgrade Project, ending with a short summary of a forward outlook into the following financial year of 2018/19.

### PRODUCTION UPDATE:

It is a pleasure to firmly put on record that the acute stock shortages of the recent past, or shall I say of three to four years ago, are now behind us. The Operations Strategy of stockpiling on key antigens continued to pay off in that Production was able to formulate and fill products, even when disruptions did occur, with minimal stock shortages. It must also be noted that the year did not pass without hiccups as certain vaccines proved to be a challenge to produce due to numerous reasons, many of which, we were able to overcome.

**BELOW ARE SOME OF THE HIGHLIGHTS FROM THIS YEAR:**

- Production output increased for the fourth successive year, especially the number of antigens produced. This enabled sustained formulation and filling despite unexpected challenges.
- There has been a marked increase in the production output as summarised in Table 1 below. It can be noted that whilst the increase has been sharp in the past three years, compared to 2014/15, the trend is now decelerating as we enter the maintenance mode where we *replenish* the stock instead of *stockpiling*.

**TABLE 1: ANNUAL PRODUCTION SUMMARY SINCE 2013/14**

Financial Year	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018
Batches Produced	178	134	223	322	344
Annual % Variance	-	- 24.7%	+ 166.4%	+181 %	+193 %

- It can be expected that the trend will continue to slow down and shift the focus to other efficient production processes such as process revalidation and streamlining.

## ENGINEERING, MAINTENANCE AND UTILITIES (EMU)

The role of the EMU department is to provide Production Support with both equipment and utilities to ensure that a continuous production state is maintained. There has been a marked improvement in the handling of

plant maintenance issues, from the facility to equipment and other “miscellaneous” tasks. To highlight but a few achievements from the EMU team:

- The completion of the Boiler House refurbishment and statutory Boiler Maintenance;
- The successful relocation of the Block F antigen cold room to Block M during shut-down period;





- The decommissioning of Blocks T, N and F in preparation for the start of the GMP Upgrade Project;
- The successful commissioning of the Compressed Air System to ensure continuous air supply; and
- Most importantly, keeping OBP utilities ticking, despite the challenges!

### GMP FACILITY UPGRADE/ MODERNIZATION PROJECT

The current OBP vaccine production facility turns 50 years old in 2018, having been commissioned in 1968! Whilst this may sound like news to celebrate, the facility is old and has been in decay for a number of years despite some

disjointed efforts to repair it. Over time, the facility has gradually fallen behind in terms of fully complying with modern standards of vaccine manufacturing, hence the growing urgency to upgrade and modernize the existing manufacturing plant. The OBP Board of Directors approved the GMP Facility Upgrade/Modernization Project in Q3 2016/17 FY which paves the way for OBP to prepare for a migration from ISO 9001 Quality Standard to GMP Certification.





The primary reason for the GMP Upgrade project is to comply with stringent regulatory requirements and to ensure that OBP processes and facilities comply with industry norms and standards. This will address issues associated with outdated technology and decaying infrastructure, which in turn will ensure increased capacity and efficient manufacturing processing. As a spin-off, OBP is expected to better fulfil its mandate of ensuring national food security through vaccination of livestock, and to be in a better position to aggressively pursue international markets.

**In the 2017/18 FY, the following project milestones were achieved:**

- OBP Board of Directors approved the GMP Upgrade Project;
- The GMP compliant layouts and designs of proposed upgrades were finalized;
- Demolishing building earmarked for Antigen Production, Formulation and Inactivated Product Filling commenced; and
- Procurement of long lead items such as Fermenters and Autoclaves was finalised following a rigorous process of drawing up stringent User Requirements Specifications (URS).





# REPORT OF THE OPERATIONS EXECUTIVE



Looking ahead into the 2018/19 FY, the following can be expected:

## FROM PRODUCTION

- The filling of existing and new vacancies remains a top priority to enable the Operations Division to function optimally without exhausting our existing valuable staff. Henceforth the recruitment of highly qualified and skilled workforce in the Maintenance and Production areas is currently under way. New recruits and interns have joined OBP already in this financial year.
- The increasing the skills of existing staff will be a key focus area to ensure that our staff members are appropriately trained to execute their functions.
- The focus is going to shift to Process (re)validation and quality risk assessments to ensure seamless knowledge transfer within the organisation as well as knowledge enhancement of our existing processes.

## FROM THE GMP UPGRADE

- Reconstructing demolished areas and the first stages of modernization of these areas will commence in the next financial year. This will include the delivery of large-scale industrial Fermenters and other equipment to support the upgraded processes.
- The appointment of the internal project team (including the Project Manager) in Q2 2018/19 that will be responsible for process transfer activities, as well as the commissioning of the upgraded facility.





## REPORT OF THE CHIEF FINANCIAL OFFICER



### 1. INTRODUCTION

THE VACCINES MARKET CONTINUED TO BE UNDER PRESSURE DURING THE CURRENT FINANCIAL YEAR, WITH SLOW GROWTH EXPERIENCED BY THE INDUSTRY PLAYERS YEAR ON YEAR AND, IN ADDITION TO OBP'S DIMENSION, THE AGEING EQUIPMENT CONTINUED TO BREATHE HEAVILY ON THE OVERALL PERFORMANCE. THE BUSINESS IS IN THE PROCESS OF UPGRADING THE PRODUCTION FACILITY AND CONSTRUCTION IS UNDERWAY.

The competition has also increased over the number of years and eaten up OBP's market share.

During the 2012/13 financial year, the shareholder approved the funding of R492 million over the Medium Term Expenditure Framework period for modernisation of the current facility, of which R492 million has been transferred by the shareholder to the company to date. The cash injection by the shareholder will bring some production stability within the organisation and position OBP as a force to be reckoned with in the market by claiming back the lost market share with improved economies of scale.

During December 2017, the GMP construction project started and is expected to be completed within the next three years. This will assist in ramping up production output to the benefit of our customers.

### 2. FINANCE

The Finance Department is responsible for the Financial Management, Supply Chain Management and Information Technology sections within Onderstepoort Biological Products SOC Ltd. 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:

- Public Finance Management Act No.1 of 1999
- Treasury Regulations
- Preferential Procurement Policy Framework



- Income Tax Act 58 of 1962
- VAT Act 89 of 1991

## 1.1 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 modules of Enterprise Resource Planning system (ERP) have been fully operational during the current financial year. The response to the system by users has been positive and the improved reporting process is evident.

## 1.2 SUPPLY CHAIN AND DISTRIBUTIONS

The Supply Chain Management 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, which is underpinned by a strong technology platform. OBP's Supply Chain Management Division is corporately mandated to work closely with other key functions in the company to ensure 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 a continuous supply of quality materials to the production functions. Also key to the procurement function is the compliance to relevant Treasury Regulations and the Public Finance Management Act.

Onderstepoort Biological Product SOC Ltd achieved an average of 86% procurement spend on B-BEE individuals/organisations for the year under review. The procurement policy has been updated and approved by the Board during the year under review. There was a spend of 37% on Black women-owned individuals/organisations and 55% spend on Black-owned individuals/organisations.

We have embarked on a project to update 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 in line with Agri-BEE guidelines as issued by the Department of Trade and Industry (DTI).

## 1.3 INFORMATION TECHNOLOGY

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

During the financial year under review, a secure customer web portal was introduced, through which OBP customers can place and manage their orders online. This forms part of the IT Unit's initiatives to be an enabler and to promote the use of technology within the business. The IT risk profile was reviewed, updated and monitored regularly in line with the risk demands of the organisation based on the adopted risk methodology. This includes the IT and ERP risk registers.

The Audit, Risk and IT Committee, as delegated by the Board of Directors met quarterly during the financial year to process and consider the IT Steering Committee and ERP reports, in order to intervene on matters requiring their interventions, as recommended by the IT Steering and Executive Management Committees.

## 1.4 RESULTS FROM OPERATIONS

The financial performance of the company has improved as a result of improved production outputs and new markets. Our international sales have continued to exceed the target in line with our strategic view of export is our future.



	2018	% Change	2017
Revenue	173 075 626	0%	173 691 772
Expenditure	137 575 749	-7%	147 453 226
Plant Investment	163 460 727	4%	156 560 490
Cash Equivalents	511 398 043	6%	481 933 493

#### 1.4.1 REVENUE

Revenue remained at R173 million for the year under review compared to the previous year. The sustained revenue level is mainly attributable to consistency in production outputs of finished products compared to the prior year. Before the 2016/17 financial year, we were not able to produce most of our products. The troubleshooting exercise reported in the prior years began to show positive results since 2016/17, and we expect the positive output trajectory to be maintained and to continue going forward.

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

#### 1.4.2 GROSS MARGIN

A gross margin of 83% was realised compared to the gross profit of 85% for the same period last year. The gross profit margin is mainly due to product mix with higher margin products being sold - for example, African Horse Sickness, Blue Tongue, international sales (Dollar and Euro denominated) and cost control relating to direct input costs.

#### 1.4.3 OTHER INCOME

Other income amounted to R8.6 million for the year under review.



The amount exceeded the prior year by R3.6 million. The performance of the South African Rand against major trading currencies generated the gain of R5.7 million during the year under review and the foreign exchange gain is attributable to natural hedging through our Euro and Dollar dominated accounts.

#### 1.4.4 OPERATING AND ADMINISTRATIVE EXPENSES

The overall business expenditure decreased by 8% year on year. The biggest contributor is the provision for bonuses in the prior year. No provision has been raised in the current year; bonuses are as per the Board discretion.

Year on year the operating and administration expenses remained stable with the exclusion of the bonus provision.

#### 1.4.5 INVESTMENT INCOME

Investment income decreased to R30 million in the current financial year compared to R45 million reported during the prior year, and the decrease could be attributed to the payments made for the GMP project, which resulted in outflows of cash.

## 1.5 ORGANISATIONAL PERFORMANCE

Figure 1.5 (A) - Five-year financial performance of Onderstepoort Biological Products SOC Ltd

### FINANCIAL PERFORMANCE

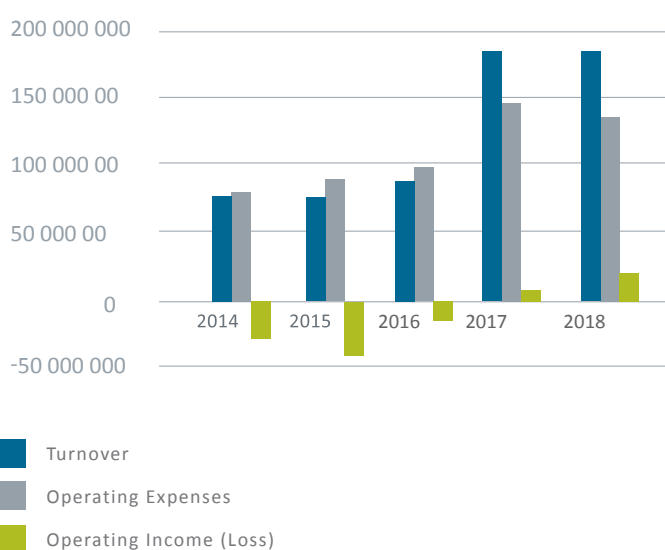
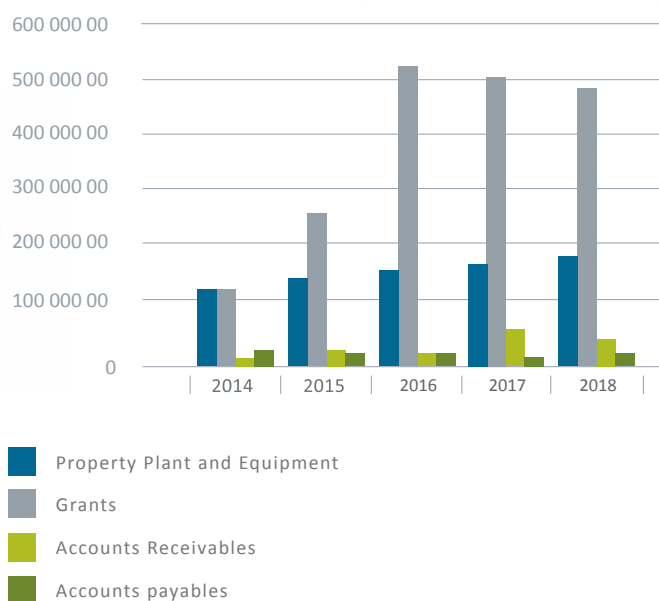




Figure 1.5 (B) - Five-year financial position of Onderstepoort Biological Products SOC Ltd



## 1.6 FINANCIAL POSITION

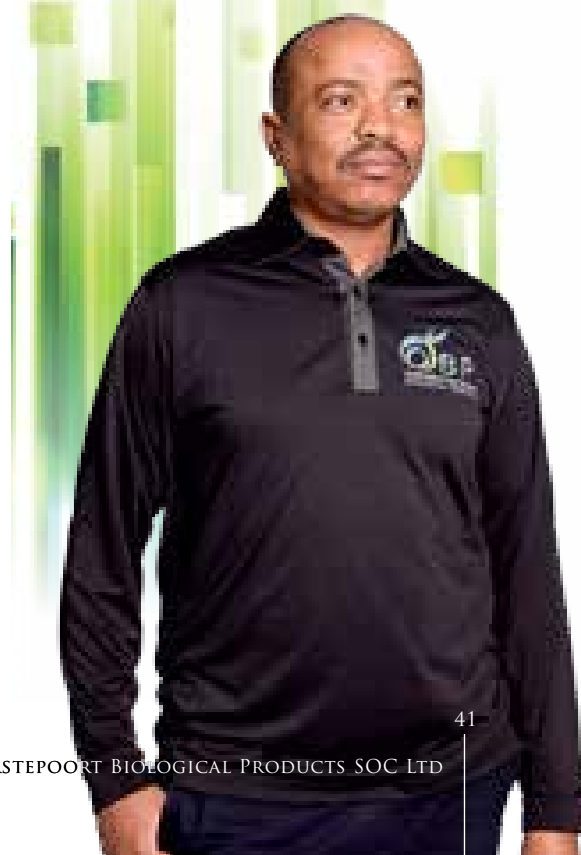
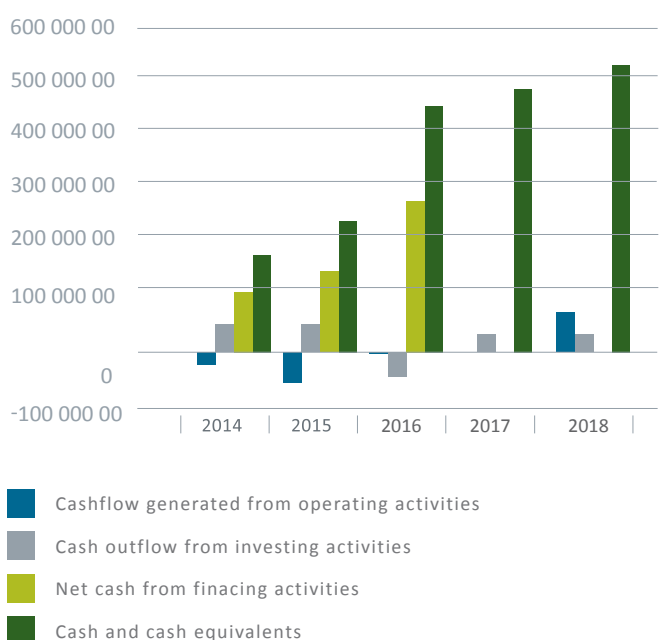
Our financial position has improved over the period primarily due to the cash injection by the shareholder for the plant recapitalisation programme.

Net cash balances at 31 March 2018 of R511 million represent an improvement of R29 million over the period under review.

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

Figure 1.5 (B) - Five-year Cash Flows and Cash Reserves of Onderstepoort Biological Products SOC Ltd

### CASH FLOWS AND CASH RESERVES





## 1.7 DELIVERING VALUE TO STAKEHOLDERS

We return value to our shareholder by ensuring that government priorities are met, especially by alleviating poverty through food security.

## 1.8 ISSUE GOING FORWARD

We remain cognisant of the need to deliver continually to our stakeholders by improving our operational performance and paying attention to efficiency, revenue maximisation, cutting costs and affordable pricing of our products.

An increased production of sufficient doses will cater for local and export market.

## 1.9 KEY FINANCIAL RISKS

A significant number of machinery acquisitions from overseas suppliers is envisaged over the Medium-term Expenditure Framework (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 set-off effects of foreign currency assets and liabilities, and by means of forward exchange contracts.

Figure 1.5 (C) - Five-year key ratios of Onderstepoort Biological Products SOC Ltd

	2014	2015	2016	2017	2018
Gross margin	70%	74%	75%	85%	83%
Current ratio	4,62	7,34	22,01	10,69	20,20
Quick ratio	0,90	1,38	3,14	9,85	18,61
Return on asset	-13%	-10%	-3%	6%	8%



# MANAGERS

Kenneth Malahlela, Martin Kanosvamhira, Richard Pitso, Nonela Dilima, Cynthia Ntsumele,  
Pieter Wright, Nolwazi Bam, Ian Louw, Zinhle Ngubane, Johan Nel, Itumeleng Masege, Gerrie Van Wyk,  
Bongani Khumalo, Zanele Nkumane, Nobalanda Mokoena, Raynard Macdonald, Zolani Poni



# PERFORMANCE REPORT

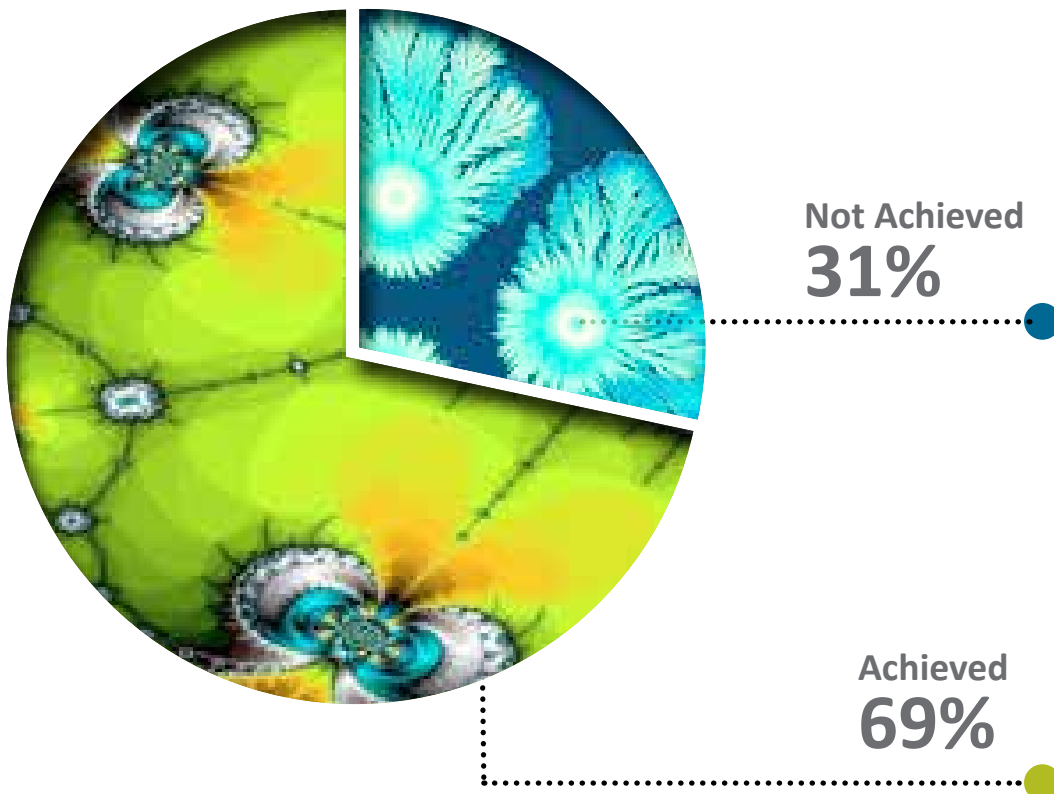
## ANNUAL PERFORMANCE REPORT FOR FINANCIAL YEAR 2017/2018

### 1. EXECUTIVE SUMMARY

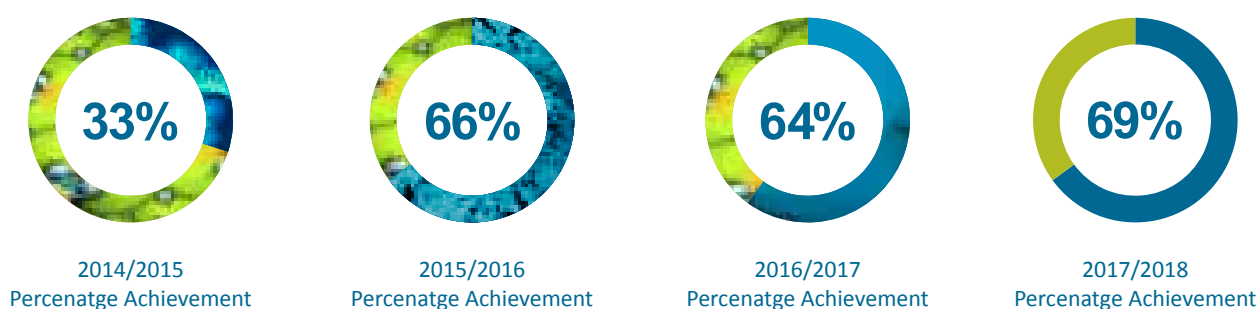
The organisational performance for the 2017/18 financial year is in accordance with the strategic goals and Annual Performance Plan for 2017/18 financial year.

The performance during the financial year 2017/18 improved slightly when compared to the previous year. During the year under review, there was an achievement rate of 69%. Below is the graph indicating OBP's achievement rate and OBPs performance for the 2017/18 financial year:

#### Annual Achievement Rate



### Achievement Rate: Previous Years



OBP achieved a solid performance rate of 69% despite the 2 key performance indicators (KPIs) that were significantly amended during the year. Excluding the effect of the 2 KPI changes, OBP would have achieved 75%.

OBP generated net sales (after discount) of R170 million (from vaccine sales), compared to the budget of R160 million. There was an over performance of 6%.

Key successes achieved during this period are increased in export sales due to new markets gained. The customer satisfaction improved by 15% compared to the last customer survey that was conducted.

OBP continues to focus its energies on ensuring that production is taking place in line with the needs of the market. Considerable effort has gone into forecasting sales for 2018/19 to ensure that products are available when the market needs them.

The Corporate Plan for 2018/19 to 2020/21 was developed and approved in this period and it takes cognisance of the requirements for implementation. The focus for 2018/19 financial year is increasing sales in the local market.

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.

## 2. FINANCIAL ANALYSIS

The company has exceeded its budgeted vaccine sales by R10 million. This is mainly due to continued improved sales in the export market. Operating surplus decreased by R10 million due to increased operating expenses. Electricity from Agricultural Research Council increased as a result of uncertainties relating to the bill from municipality.



# PERFORMANCE REPORT

## 3.1 STRATEGIC GOAL 1

<b>Strategic Goal 1</b>	<b>Build a global high performing organisation equipped with modern technology and expertise to develop and manufacture competitive products to achieve financial sustainability.</b>
<b>Goal statement</b>	To attain a high performance organisation underpinned by appropriate structures, institutional stability, high performance products, shared values and financial stability.
<b>Strategic Objective 1.1</b>	<b>Align organisational structure to strategy.</b>
<b>Objective Statement</b>	To align the current organisational structure to OBP corporate plan for 2017/18 to 2019/20.
<b>Baseline</b>	Macro organisational structure reviewed and aligned to strategy approved by the Remuneration Committee.
<b>Justification</b>	This objective will assist in ensuring that OBP is appropriately resourced (skills and headcount) to deliver on its mandate.
<b>Strategic Objective 1.2</b>	<b>Maintain institutional capability</b>
<b>Objective Statement</b>	To maintain institutional capability by implementing the following human resources programmes, succession planning, retention strategy and incentive scheme.
<b>Baseline</b>	<ul style="list-style-type: none"> <li>• Turnover rate of 8.5%.</li> <li>• Succession planning policy in place.</li> </ul>
<b>Justification</b>	This objective will assist in ensuring that critical skills are retained, and attracted to enable OBP to deliver on its mandate.

<b>Strategic Objective 1.3</b>	<b>Manage performance of employees.</b>
<b>Objective Statement</b>	To implement a new performance management policy throughout the organisation.
<b>Baseline</b>	Draft performance management policy.
<b>Justification</b>	Optimal organisational performance is dependent on an enabling environment, which is underpinned by behavioural standards agreed upon by all employees.
<b>Strategic Objective 1.4</b>	<b>Ensure financial sustainability.</b>
<b>Objective Statement</b>	Increase sales revenue to R186 million by 2019/20 financial year.
<b>Baseline</b>	Sales revenue: R92,7million.
<b>Justification</b>	There is a need to ensure profitability and sustainability of the organisation.
<b>Strategic Objective 1.5</b>	<b>Build a GMP compliant facility.</b>
<b>Objective Statement</b>	Build a GMP compliant manufacturing plant to ensure manufacturing of high quality products.
<b>Baseline</b>	<ul style="list-style-type: none"> <li>• 100% layout plans completed</li> <li>• 15% changes implemented</li> <li>• 56% of identified equipment procured</li> <li>• Phase 1 – 100% completed.</li> </ul>
<b>Justification</b>	OBP intends to be a global manufacturer and distributor of vaccines and other biological products. In order to access international markets, OBP requires a GMP certificate.

# PERFORMANCE REPORT

## 3.1.1 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	Actual Output (2016/17)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2017/18	Actual 2017/18		
1.1 Alignment of structure to strategy	New organisational structure aligned to corporate plan approved and implemented	Macro organisational structure reviewed and aligned to strategy approved by the Remuneration Committee.	Macro organisational structure approved  Job profiles for exco and management developed  Skills Audit conducted for Exco and management	Approved organisational structure implemented	Structure approved by the Board	<b>Not Achieved</b>  Approved structure not implemented	Approval of the organisational structure was delayed. Organisational structure was approved in January after the finalisation of the corporate plan, this was not factored during the planning phase.
1.2 Institutional stability	Staff turnover rate (%)	1. Turnover rate of 8.5%  2. Succession Planning Policy in place.	Success planning policy implemented	Turnover rate between 4% and 8%.	8%	<b>Achieved</b>	Turnover rate was higher than anticipated due to dismissals.
1.3 Performance Management System	New performance management system implemented	Revised performance management policy	The revised performance management policy implemented	Revised performance management policy implemented	Revised performance management policy implemented	<b>Achieved</b>	N/A

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	Actual Output (2016/17)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2017/18	Actual 2017/18		
1.4 Financial Sustainability	Annual net sales revenue in rand (national and international)	R92,7 million	R169 million	R160 million	R170,4 million	<b>Achieved</b>  +R10,4 million	Increase in sales due to the disease outbreak.
1.5 A GMP compliant facility	Equipment and layout upgrades planned versus completed (%)	1. 100% layout plans completed. 2. 15% changes implemented. 3. 56% of identified equipment procured.	35% of layout changes implemented	70% of planned layout upgrades completed.  80% of identified equipment procured	0% of planned layout upgrades completed  0% of identified equipment procured	<b>Not Achieved</b>  -70% of planned layout upgrades completed.  -80% of identified equipment procured.	Change in plan and scope of the GMP Project.
	GMP production facility constructed (% of stage completed)	Phase 1 – 100% completed	Phase 2 not started	Stage 3 – 100% Stage 4 – 100% Stage 5 – 60%	Stage 3 – 0% Stage 4 – 0% Stage 5 – 0%	<b>Not Achieved</b>  Stage 3: -100% Stage 4: -100% Stage 5: - 60%	Change in plan and scope of the GMP Project.

# PERFORMANCE REPORT

## 3.2 STRATEGIC GOAL 2

Strategic Goal 2	Improve stakeholder relationship management and communications.
Objective statement	To improve the relations with all stakeholders through the use of effective stakeholder relations management and communications strategies.

Strategic Objective 2.1	Improve and maintain customer and stakeholder satisfaction.
Objective Statement	To improve and maintain stakeholder and customer satisfaction by implementing a marketing strategy, customer relations strategy and stakeholder engagement strategy.
Baseline	<ul style="list-style-type: none"><li>• Customer Satisfaction Survey Results: Average of 5.3</li><li>• Draft customer relations management strategy</li><li>• Stakeholder management framework.</li></ul>
Justification	The key requirement for the success of the organisation is its engagement with stakeholders to achieve mutual goals.



Strategic Objective 2.2	Implement a communications strategy.
Objective Statement	To ensure effective communication with stakeholders by implementing a communications strategy.
Baseline	<ul style="list-style-type: none"> <li>• Draft communications policy.</li> <li>• Draft communications strategy.</li> </ul>
Justification	OBP needs to continuously engage with stakeholders to ensure that the organisation is kept abreast of stakeholders needs.
Strategic Objective 2.3	Implement a brand management strategy/framework.
Objective Statement	To conduct a brand awareness satisfaction survey.
Baseline	Draft brand management strategy/framework.
Justification	The key requirement for the success of the organisation is the visibility of its brand.

# PERFORMANCE REPORT

## 3.2.1 STRATEGIC GOAL 2:

Improve stakeholder relations management and communications.

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	Actual Output (2016/17)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2017/18	Actual 2017/18		
2.1 Improved customer satisfaction.	Improved customer satisfaction by 10%	Customer Satisfaction Survey Results: Average of 5.3	Customer relations strategy not approved and not implemented	Customer satisfaction survey improved by 10%.	Customer satisfaction survey improved by 15%	<b>Achieved</b> +5%	Implementation of the new distribution model which resulted in easy accessibility of OBP products and services.
2.2 Communications strategy implemented.	Communications strategy developed, approved and implemented	Draft communications policy and strategy	Customer communications policy developed	Communications strategy developed and approved	Communications strategy developed but not approved	<b>Not Achieved</b> Communications strategy not approved	Revision of strategy based on new Board recommendations.

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	Actual Output (2016/17)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2017/18	Actual 2017/18		
2.3 Stakeholder management plan developed and implemented.	Stakeholder relations management plan developed, approved and implemented	Stakeholder management framework		Stakeholder relations management plan developed and approved	Stakeholder management plan developed and approved	Achieved	N/A
2.4 A brand management framework developed and implemented.	Brand awareness framework developed, approved and implemented.	Draft brand management strategy/ framework	Brand awareness strategy not implemented	Brand management framework developed and approved.	Brand management framework developed and approved	Achieved	N/A

# PERFORMANCE REPORT

## 3.3 STRATEGIC GOAL 3

<b>Strategic Goal 3</b>	<b>Manufacture competitive and quality products to facilitate a more aggressive national and international market access and implement an effective distribution strategy.</b>
<b>Objective statement</b>	To grow into a sustainable organisation, with sufficient levels of profitability.

<b>Strategic Objective 3.1</b>	<b>Ensure production efficiency.</b>
<b>Objective Statement</b>	Ensure more efficient production.
<b>Baseline</b>	<ul style="list-style-type: none"><li>• Number of doses transferred to distribution: 31.5 million</li><li>• Average failure rate: 13%</li><li>• Number of GMP aligned production processes: 1</li></ul>
<b>Justification</b>	There is a critical need to reduce costs, increase yields, and improve efficiencies and productivity across the organisation.

Strategic Objective 3.2	Produce quality products.
Objective Statement	To manufacture high quality products to be in a position to meet current and future demands.
Baseline	<ul style="list-style-type: none"> <li>• ISO 9001:2008 certified</li> <li>• 2 internal audits conducted</li> </ul>
Justification	OBP should maintain its ISO certificate as it demonstrates that OBP has effective and efficient quality management systems to manufacture high quality products.

Strategic Objective 3.3	Develop new markets (exports).
Objective Statement	To identify and develop new territories to distribute OBP products.
Baseline	Market territories developed: 4
Justification	There is a need to increase and grow 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.



# PERFORMANCE REPORT

Strategic Objective 3.4	Maintain current market share.
Objective Statement	To maintain OBP market share by increasing number of doses sold.
Baseline	Number of doses sold: 24.5 million
Justification	There is a need to retain OBP's current market to ensure that OBP is a profitable organisation.
Strategic Objective 3.5	Ensure effective distribution of OBP products to targeted markets.
Objective Statement	To review the distribution strategy to ensure accessibility of OBP products.
Baseline	Distribution strategy developed and implemented.
Justification	To ensure accessibility of OBP products to targeted markets.

### 3.3.1 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	Actual Output (2016/17)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2017/18	Actual 2017/18		
3.1 Production efficiency	Number of doses transferred to distribution meet sales forecasts	31.5 million	N/A	39 million	30.5 million	<b>Not Achieved</b> -8.5 million	Transfer of doses reviewed based on market demands and shelf life of products.
	Overall batch failure rate (%)	13%	Virology: 10/38 = 26%  Bacterial: 7/34 = 21%  Water: 5/93 = 5%	8%	38%	<b>Not Achieved</b> -30%	Decaying and aging infrastructure and equipment. GMP project is still underway.
	Number of GMP aligned production processes reviewed / revalidated (n)	1	1 GMP aligned production process evaluated	2	2 GMP aligned production processes reviewed / revalidated	<b>Achieved</b>	N/A

# PERFORMANCE REPORT

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	Actual Output (2016/17)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2017/18	Actual 2017/18		
3.2 Quality Products	Internal quality audits conducted (n)	2	15 internal audits conducted	8	9 internal audits conducted	<b>Achieved</b> +1	Additional resources acquired.
	ISO accreditation maintained (yes / no)	Yes	ISO accreditation maintained	Yes	Yes  ISO accreditation maintained	<b>Achieved</b>	N/A
3.3 New markets developed	New international markets developed (n)	4	10 Agents appointed  1 Distribution Agreement signed	6	6 international markets developed	<b>Achieved</b>	N/A
	Dossiers submitted (n)	2	2 dossiers submitted	2	3 dossiers submitted	<b>Achieved</b> +1	Additional request received to register
3.4 Current markets sales increased	Increase in annual sales volume (number of doses)	24.5 million	22 million doses (26,5% decrease)	39 million doses	25.4 million doses	<b>Not Achieved</b>  -13.6 million doses	Market demand was lower than anticipated
3.5 Distribution strategy implemented	Distribution strategy assessed and reported.	Distribution strategy developed and implemented	Distribution strategy implemented	Implementation assessment report	Implementation assessment report	<b>Achieved</b>	N/A

### 3.4 STRATEGIC GOAL 4

<b>Strategic Goal 4</b>	<b>Continuous review of research and development strategies in line with market trends.</b>
<b>Objective statement</b>	To introduce new products and technologies in line with market trends.
<b>Strategic Objective 4.1</b>	<b>Improve existing products and processes.</b>
<b>Objective Statement</b>	To submit and amend dossiers for improved products and processes.
<b>Baseline</b>	<ul style="list-style-type: none"> <li>• New products submitted: 1</li> <li>• Amended dossiers submitted: 2</li> </ul>
<b>Justification</b>	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.
<b>Strategic Objective 4.2</b>	<b>Develop new combination products.</b>
<b>Objective Statement</b>	To develop new combination products.
<b>Baseline</b>	Dossiers based on new generation technologies: 0
<b>Justification</b>	This objective will contribute in improving OBP's competitiveness in the market

# PERFORMANCE REPORT

## 3.4.1 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	Actual Output (2016/17)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2017/18	Actual 2017/18		
4.1 Improved products and processes	New product dossiers submitted (n)	1.	Draft dossier developed for 1 new product	2	1 new product dossiers submitted	<b>Not Achieved</b>	New guidelines from the Registrar.
	Dossiers amended (n)	2	1 amended dossier on production processes submitted to the Register	3	4 Dossiers amended	<b>Achieved</b>	Better than expected empirical data
4.2 New products development	Dossiers based on new generation technologies developed (n)	0	2 new generation recombinant technologies validated	2	3 Dossiers based on new generation technologies developed	<b>Achieved</b>	Partnerships developed for clinical trials which resulted in expedient execution of projects

### 3.5 STRATEGIC GOAL 5

<b>Strategic Goal 5</b>	<b>Contribute to government priorities in respect of support to emerging farmers, food security and economic growth.</b>
<b>Objective statement</b>	To contribute and support emerging farmers, food security and economic growth through government programmes.
<b>Strategic Objective 5.1</b>	<b>Contribute to Government initiatives by supporting smallholder and emerging farmers market and distributors and small agricultural distributors</b>
<b>Objective Statement</b>	To support small holder and emerging farmer associations and small distributors in rural areas
<b>Baseline</b>	<ul style="list-style-type: none"> <li>Emerging farmer associations supported: 4</li> <li>Training sessions/events facilitated: 22</li> <li>Small distributors in rural areas supported: 4</li> <li>Co-ops supported: 1</li> <li>Doses supplied: 88 600</li> </ul>
<b>Justification</b>	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.



# PERFORMANCE REPORT

## 3.5.1 STRATEGIC GOAL 5:

Continuously review of research and development strategies in line with market trends.

Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	Actual Output (2016/17)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2017/18	Actual 2017/18		
5.1 Support to the smallholder and emerging farmers' association and agricultural small businesses.	Emerging farmer associations supported (n)	4	3 projects supported	3	5 Emerging farmers supported	<b>Achieved</b> +2	Extended outreach programme
	Training sessions/events with small holder farmers and technicians facilitated (n)	22	30	22	28 training sessions conducted	<b>Achieved</b> +6	More invitations received in Q4 from provincial governments and coops through OBP Agents
	Agricultural Co-ops supported (n)	4	2 Agricultural co-ops identified and supported	2	2 Agricultural Co-ops supported	<b>Achieved</b>	N/A
	Doses of vaccines to smallholder farmers supplied (n)	88 600	2 100 doses	100 000 doses	127 536 doses	<b>Achieved</b> +27 536 doses	Extended outreach programme

## NOTES





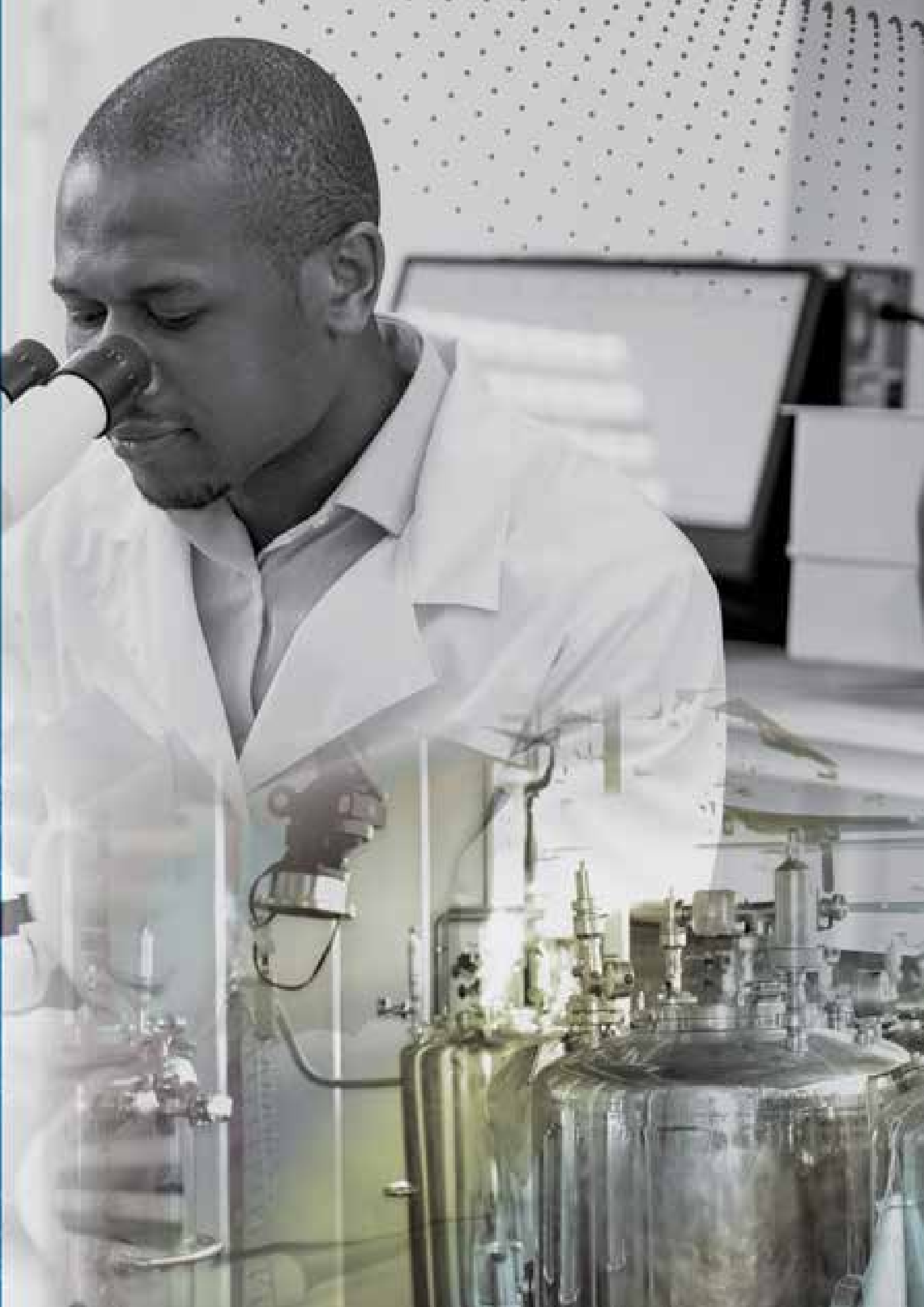
# CONTENTS

## FINANCIAL REPORT

<b>Audit Committee Report</b>	66
<b>Accounting Authority's Responsibilities and Approval</b>	67
<b>Certificate by the Company Secretary</b>	68
<b>Report of the Auditor-General to Parliament</b>	69 -72
<b>Directors' Report</b>	74
<b>Statement of Financial Position</b>	78
<b>Statement of Comprehensive Income</b>	79
<b>Statement of Changes in Equity</b>	79
<b>Statement of Cash Flows</b>	80
<b>Accounting Policies</b>	81 - 91
<b>Notes to the Financial Statements</b>	92 - 109
<b>Detailed Income Statement</b>	109 - 110

Published

31 July 2018





# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## AUDIT COMMITTEE REPORT

### 1. Audit Committee Members and Attendance

**Name:** Mr Y Haffjee (Chairperson) • Ms K Mdlulwa • Dr P Vervoort • Ms F Mphuthi

\* Respective membership of the Audit and Risk Committees from August 2018 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 (2017/18) the Audit Committee met two times with attendance as follows:

Schedule of attendance at Audit Committee meetings	08 May 2017	16 Oct 2017	24 Jan 2018
Mr Yaasir Haffjee (Chairperson)	N/A	YES	YES
Ms KT Mdlulwa	NO	NO	YES
Dr Pieter Vervoort	N/A	YES	YES
Ms Fulufhelo Mphuthi	N/A	YES	YES
Dr M Mashaba	YES	N/A	N/A
Dr M Mashego	YES	N/A	N/A

*The old board term ended in May 2018 and new board commenced in August 2018.*

### 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 2018. 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 2018, 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

**Chairperson of the Audit,  
Risk and IT Committee**

31 July 2018

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## 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 Onderstepoort Biological Products.

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 2018 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 on going concern basis, were approved by the Accounting Authority on 31 May 2018 and were signed on its behalf by:



Onderstepoort Biological Products SOC Ltd  
**Board Chairperson**





# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## CERTIFICATE BY THE COMPANY SECRETARY

For the year ended 31 March 2018

I hereby confirm, in terms of the Companies Act, 2008 as amended, that for the year ended 31 March 2018 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.

Onderstepoort Biological Products SOC Ltd  
**Mrs ND Mobeng** | **Company Secretary**  
31 July 2018

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT

### Report on the audit of the financial statements

#### Opinion

1. I have audited the financial statements of the Onderstepoort Biological Products SOC Ltd (OBP) set out on pages **78 to 110**, which comprise the statement of financial position as at 31 March 2018, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. 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 2018, and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008).

#### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am Independent of the public entity in accordance with the International Ethics Standard Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of the accounting authority for the financial statements

6. The Board of Directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards 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) 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.
7. In preparing the financial statement, the accounting authority is responsible for assessing OBP's ability to continue as a going concern, disclosing, as applicable, matters relating to ongoing concern and using the ongoing concern basis of accounting unless the accounting authority either intends to liquidate the public entity or to cease operations, has no realistic alternative but to do so.

#### Auditor-General's responsibilities for the audit of the financial statements

8. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT

a material misstatement can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

9. A further description of my responsibilities for the audit of the statements is included in the annexure to the auditor's report.

### Report on the audit of the annual performance report

#### Introduction and scope

10. 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 material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings, but not to gather evidence to express assurance.
11. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of the future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity of the year ended 31 March 2018.

Objectives	Pages in the annual performance report
Objective 1 – Organisation Efficiency	46-49
Objective 2 – Stakeholder Relations and Communications	50-53
Objective 3 – Marketing and Distribution	54-58
Objective 4 – Research and Development Strategies	59-60
Objective 5 – Government Support	61-62

13. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT

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

- Objective 1 – Organisation Efficiency
- Objective 2 – Stakeholder Relations and Communications
- Objective 3 – Marketing and Distribution
- Objective 4 – Research and Development Strategies
- Objective 5 – Government Support

### Other matters

#### Achievement of planned targets

15. Refer to the annual performance report on pages 44 to 63 for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a significant number of targets.

### Report on audit of compliance with legislation

#### Introduction and scope

16. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

17. The material findings on compliance with specific matters in key legislations are as follows:

#### Annual financial statements and annual report

18. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55 (1)(b) of the Public Financial Management Act. A material misstatements of operating expenditure and accruals identified by the auditors in the submitted financial statement were corrected, resulting in the financial statement receiving an unqualified audit opinion.

### Other information

19. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act of South Africa, 2008 (Act No.71 of 2008)(Companies Act)). The other information does not include the financial statements, the auditor's and those selected objectives presented in the annual performance report that have been specifically reported on the auditor's report.

20. My opinion on the financial statement and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT

21. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
22. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

### Internal Control deficiencies

23. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

### Financial and performance management

24. Material misstatements identified during the audit are indicative of the need to strengthen financial statement review processes to ensure controls over the Financial information and the disclosure thereof is accurate.
25. Management did not prepare accurate and complete financial statements, as the controls in place with regard to the review of the reconciliation performed were inadequate in order to prevent and detect misstatements. This resulted in misstatements that were subsequently corrected in the annual financial statements.

*Auditor-General*

Pretoria  
31 July 2018



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## ANNEXURE - AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
  - Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - Obtain an understanding of internal control relevant to the audit 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 public entity's internal control.
  - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.
  - Conclude on the appropriateness of accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the OBP's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of auditor's report. However, future events or conditions may cause a public entity to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

### Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.





# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## 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 2018.

### 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 outbreaks, 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: R1 000 (2017: R 1 000).

### 5. Ownership

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

### 6. Board of Directors

During the year under review, the following non-executive Directors were in office:

Name	Designation	
Ms F Mphuthi	Independent non-executive	Appointed Tuesday, 01 August 2017
Ms K Mdlulwa	Independent non-executive	Resigned Tuesday, 14 May 2017
Mr Y Haffejee	Independent non-executive	Appointed Tuesday, 01 August 2017
Mr R Ramabulana (Chairperson)	Non-executive	Appointed Tuesday, 01 August 2017
Dr P Vervoort	Non-executive	Appointed Tuesday, 01 August 2017
Dr C Nkuna	Non-executive	Appointed Tuesday, 01 August 2017

Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## DIRECTORS' REPORT

Name	Designation	
Dr M Mashaba	Non-executive	Resigned Sunday, 14 May 2017
Dr M Mashego	Independent non-executive	Resigned Sunday, 14 May 2017
Dr JH Adams	Independent non-executive	Resigned Sunday, 14 May 2017
Dr ME Mogajane	Non-executive	Resigned Sunday, 14 May 2017
Ms K Mdlulwa	Independent non-executive	Reappointed Tuesday, 01 August 2017

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 99. The previous board term came to an end on 14 May 2017 and the new board term resumed on 1 August 2017.

### 7. Company Secretary

The secretary of the company is Ms DN Mobeng of:

<b>Business address</b>	100 Old Soutpan Road Onderstepoort 0110	<b>Postal address</b>	Private Bag x 07 Onderstepoort 0110
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### 8. Company domicile and address of registered office

The domicile and registered address of Onderstepoort Biological Products (SOC) 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.



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## DIRECTORS' REPORT

### 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 2018, the company had accumulated profits of R 230 771 732 and that the company's total assets exceed its liabilities by R 230 772 732. The difference of R1 000 between the accumulated profits and net assets is the share capital.

The annual 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.

The company has achieved profits in 2017/18 financial.

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.

### 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 Onderstepoort Biological Products (SOC) Ltd.

### 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 2018.

### 16. National Key Point

Onderstepoort Biological Products (SOC) Ltd was declared as a National Key Point on 22 January 2007.

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## DIRECTORS' REPORT

### 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 healthcare program which includes preventative healthcare initiatives.

### 18. Materiality framework

In accordance with regulation 9.1.5 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 2018 represents any amount exceeding R12 million (2017: R14 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 net profit after tax 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 construction of the GMP facility commenced in December 2017.



MR TR RAMABULANA,  
Onderstepoort Biological Products SOC Ltd | Board Chairperson

31 July 2018



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

Figures in Rand	Note(s)	2018	2017
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	2	163 460 727	156 560 490
Intangible assets	3	80 459	100 479
Deferred tax	4	4 292 192	8 453 183
		<b>167 833 378</b>	<b>165 114 152</b>
<b>Current Assets</b>			
Inventories	5	46 282 238	45 477 194
Trade and other receivables	6	30 334 950	52 434 063
Tax prepayment	23	1 277 730	-
Cash and cash equivalents	7	511 398 043	481 933 492
		<b>589 292 961</b>	<b>579 844 749</b>
<b>Total Assets</b>		<b>757 126 339</b>	<b>744 958 901</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Share capital	8	1 000	1 000
Retained income		230 771 732	182 287 628
		<b>230 772 732</b>	<b>182 288 628</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Deferred Recapitalisation Grant	9	455 545 666	466 416 369
Deferred government grant – small-animal facility	11	877 090	1 162 622
Deferred government grant – corporatisation of OBP Ltd	12	13 728 658	15 980 533
Deferred Research and Development Grant	13	18 498 719	22 965 926
		<b>488 650 133</b>	<b>506 525 450</b>
<b>Current Liabilities</b>			
Current tax payable		(66 375)	16 325 659
Trade and other payables	14	20 880 137	15 003 491
Deferred Recapitalisation Grant	9	8 754 213	6 637 723
Provisions	10	-	13 047 066
Deferred government grant – small-animal facility	11	285 532	285 532
Deferred government grant – corporatisation of OBP Ltd	12	2 251 875	2 251 875
Deferred Research and Development Grant	13	5 598 092	2 593 477
		<b>37 703 474</b>	<b>56 144 823</b>
<b>Total Liabilities</b>		<b>526 353 607</b>	<b>562 670 273</b>
<b>Total Equity and Liabilities</b>		<b>757 126 339</b>	<b>744 958 901</b>

Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## STATEMENT OF COMPREHENSIVE INCOME

Figures in Rand	Note(s)	2018	2017
Revenue	15	173 075 626	173 691 772
Cost of sales		(29 116 686)	(25 767 726)
<b>Gross profit</b>		<b>143 958 940</b>	<b>147 924 046</b>
Other income	16	8 590 887	5 087 747
Operating expenses		(113 098 756)	(125 896 948)
Administrative expenses		(22 476 993)	(21 556 278)
<b>Operating profit (loss)</b>	<b>17</b>	<b>16 974 078</b>	<b>5 558 567</b>
Investment revenue	19	30 676 293	44 763 755
Appreciation of deferred government grants		12 754 212	11 768 607
<b>Profit before taxation</b>		<b>60 404 583</b>	<b>62 090 929</b>
Taxation	20	(11 920 479)	(14 551 435)
<b>Profit for the year</b>		<b>48 484 104</b>	<b>47 539 494</b>
<b>Total comprehensive income for the year</b>		<b>48 484 104</b>	<b>47 539 494</b>

## STATEMENT OF CHANGES IN EQUITY

Figures in Rand	Share capital	Retained income	Total equity
Balance at 01 April 2016	1 000	136 630 670	136 631 670
As previously reported	-	47 539 494	47 539 494
Prior period errors	-	(1 882 536)	(1 882 536)
<b>Total comprehensive income for the year</b>	-	<b>45 656 958</b>	<b>45 656 958</b>
<b>Balance at 01 April 2017</b>	<b>1 000</b>	<b>182 287 628</b>	<b>182 288 628</b>
Profit for the year	-	48 484 104	48 484 104
Other comprehensive income	-	-	-
<b>Total comprehensive income for the year</b>	-	<b>48 484 104</b>	<b>48 484 104</b>
<b>Balance at 31 March 2018</b>	<b>1 000</b>	<b>230 771 732</b>	<b>230 772 732</b>





# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## STATEMENT OF CASH FLOWS

Figures in Rand	Note(s)	2018	2017
<b>Cash flows from operating activities</b>			
Cash receipts from customers		196 793 146	169 437 737
Cash paid to suppliers and employees		(153 000 058)	(168 203 028)
Cash generated from operations	22	43 793 088	1 234 709
Interest income		30 676 293	44 763 755
Tax paid	23	(25 429 254)	(908 456)
<b>Net cash from operating activities</b>		<b>49 040 127</b>	<b>45 090 008</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(20 018 607)	(19 597 659)
Sale of property, plant and equipment	2	443 029	91 052
<b>Net cash from investing activities</b>		<b>(19 575 578)</b>	<b>(19 506 607)</b>
<b>Cash flows from financing activities</b>			
<b>Total cash movement for the year</b>		<b>29 464 549</b>	<b>25 583 401</b>
Cash at the beginning of the year		481 933 492	456 350 092
<b>Total cash at end of the year</b>	<b>7</b>	<b>511 398 041</b>	<b>481 933 493</b>

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## 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 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 costs (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

Onderstepoort Biological Products (SOC) Ltd 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

Onderstepoort Biological Products (SOC) Ltd 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.



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## ACCOUNTING POLICIES

### 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.

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.

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.

Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## ACCOUNTING POLICIES

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
IT equipment	
Computers and electronic equipment	2 to 3 years
Network servers	2 to 5 years
Software	2 to 5 years
Property, plant and equipment	1
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  
Annual Financial Statements for the year ended 31 March 2018

## ACCOUNTING POLICIES

### 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 licenses 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.

Name	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:

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 following categories:

- Held-to-maturity investment;
- Available-for-sale financial assets;
- Loans and receivables;
- Financial assets at fair value through profit or loss;
- Financial assets at fair value through profit or loss (derivatives).

Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## ACCOUNTING POLICIES

### 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 the 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).

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





# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## ACCOUNTING POLICIES

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 Ltd'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.

### Derecognition 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).

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 unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## ACCOUNTING POLICIES

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. Factors considered material by the company that could trigger an impairment test include 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;



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## ACCOUNTING POLICIES

- 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 a 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.

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.

Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## ACCOUNTING POLICIES

### Other operating income

Other operating income comprises 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 borrowings.
- 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

### 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.

### 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



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## ACCOUNTING POLICIES

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.

### 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 Act. 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

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## ACCOUNTING POLICIES

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 2012/13 financial year for R492.4 million, of which R492.4 million has been received by the end of 2015/16 financial year. During the financial year R5.9 million was realised into the income statement as a Deferred Government Grant.





# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

### 2. Property, plant and equipment

	2018			2017		
	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	75 651 590	(43 139 464)	32 512 126	75 136 610	(37 983 891)	37 152 719
Furniture and fixtures	1 791 374	(1 662 287)	129 087	1 748 817	(1 572 023)	176 794
Motor vehicles	241 200	(192 970)	48 230	433 410	(381 336)	52 074
Office equipment	187 487	(183 364)	4 123	187 487	(183 364)	4 123
IT equipment	13 387 188	(6 997 540)	6 389 648	13 082 886	(5 910 178)	7 172 708
Property, plant and equipment	140 490 386	(73 092 956)	67 397 430	139 860 065	(68 079 810)	71 780 255
Capital work in progress	51 874 743	-	51 874 743	35 116 477	-	35 116 477
<b>Total</b>	<b>288 729 308</b>	<b>(125 268 581)</b>	<b>163 460 727</b>	<b>270 671 092</b>	<b>(114 110 602)</b>	<b>156 560 490</b>

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Total
Land	5 105 340	-	-	-	5 105 340
Buildings	37 152 719	538 882	(477)	(5 178 998)	32 512 126
Furniture and fixtures	176 794	51 795	(906)	(98 596)	129 087
Motor vehicles	52 074	-	(3 844)	-	48 230
Office equipment	4 123	-	-	-	4 123
IT equipment	7 172 708	335 382	(8 283)	(1 110 159)	6 389 648
Property, plant and equipment	71 780 255	2 334 282	(429 527)	(6 287 580)	67 397 430
Capital work in progress	35 116 477	16 758 266	-	-	51 874 743
	<b>156 560 490</b>	<b>20 018 607</b>	<b>(443 037)</b>	<b>(12 675 333)</b>	<b>163 460 727</b>

The major capital expenditure incurred during the current financial year 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 - 2017

Valuation	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	5 105 340	-	-	-	-	5 105 340
Buildings	39 613 160	2 025 267	-	310 313	(4 796 021)	37 152 719
Furniture and fixtures	311 519	2 760	(243)	-	(137 242)	176 794
Motor vehicles	52 074	-	-	-	-	52 074
Office equipment	4 123	-	-	-	-	4 123
IT equipment	7 677 720	1 061 091	-	-	(1 566 103)	7 172 708
Property, plant and equipment	54 191 259	8 763 422	(200)	13 712 604	(4 886 830)	71 780 255
Capital work in progress	41 394 275	7 745 119	-	(14 022 917)	-	35 116 477
	<b>148 349 470</b>	<b>19 597 659</b>	<b>(443)</b>	<b>-</b>	<b>(11 386 196)</b>	<b>156 560 490</b>

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.

Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### Figures in Rand

#### 2. Property, plant and equipment (continued)

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.

Beginning of the 2013 financial year the company increased its capital investment on the refurbishment and replacement of property plant and equipment.

#### 3. Intangible assets

	2018			2017		
	Cost/ Valuation	Accumulated amortisation	Carrying value	Cost/ Valuation	Accumulated amortisation	Carrying value
Patent	566 657	(566 657)	-	566 657	(566 657)	-
Trademark	260 022	(179 563)	80 459	260 022	(159 543)	100 479
<b>Total</b>	<b>826 679</b>	<b>(746 220)</b>	<b>80 459</b>	<b>826 679</b>	<b>(726 200)</b>	<b>100 479</b>

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Trademark	100 479	(20 020)	80 459

#### Reconciliation of intangible assets - 2017

	Opening balance	Transfers	Amortisation	Total
Trademark	34 879	71 722	(6 122)	100 459

### Figures in Rand

2018

2017

#### 4. Deferred tax

Deferred tax	4 292 192	8 453 183
<b>Reconciliation of deferred tax asset (liability)</b>		
Accelerated depreciation for tax purposes	(4 219 135)	(4 205 649)
Accrual for leave	522 748	746 112
Income received in advance	6 747 107	7 156 633
Prepaid expenses	(67 222)	(57 717)
Provisions	1 308 694	4 813 804
	<b>4 292 192</b>	<b>8 453 183</b>

The accelerate depreciation for tax purposes of R4 219 135 is due to the recapitalisation cost.



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
<b>5. Inventories</b>		
Raw materials, components	3 233 108	2 866 590
Work in progress	10 872 299	13 712 964
Intermediate Finished goods	20 250 068	19 541 046
Finished goods	6 801 172	2 929 764
Spares	258 879	169 626
Packaging materials	6 203 716	6 848 659
	47 619 242	46 068 649
Less: Provision for obsolete inventory	(1 337 004)	(591 455)
	<b>46 282 238</b>	<b>45 477 194</b>
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	591 455	217 931
Amounts recognised in profit or loss	745 549	373 524
	<b>1 337 004</b>	<b>591 455</b>
<b>6. Trade and other receivables</b>		
Trade receivables	24 488 470	19 786 015
Provision for doubtful debts	(4 314 789)	(4 603 850)
Prepayments (if immaterial)	295 176	206 134
VAT	4 732 883	51 784
Accrued interest	5 133 210	36 993 980
	<b>30 334 950</b>	<b>52 434 063</b>
Accrued interest relates to the Standard Bank and FNB investment, interest is paid at maturity date.		
<b>Trade and other receivables past due but not impaired</b>		
The ageing of amounts past due but not impaired is as follows:		
<b>Neither past due nor impaired</b>		
Current	8 686 291	8 318 602
30 – 60 days	11 406 125	5 620 056
<b>Past due but not impaired</b>		
61 – 90 days	162 531	2 487 012
90 days and older	4 233 523	3 360 345
	<b>24 488 470</b>	<b>19 786 015</b>
<b>Reconciliation of provision for impairment of trade and other receivables</b>		
Opening balance	4 603 850	1 634 387
Provision for impairment	(289 061)	2 969 463
	<b>4 314 789</b>	<b>4 603 850</b>

The provision for doubtful debts has been determined by reference to past experience as well as an actual review of all debtors' accounts.

Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	11 694	11 021
Short term cash investments and deposits	482 254 975	451 638 314
Current account bank balance	29 131 374	30 284 157
	<b>511 398 043</b>	<b>481 933 492</b>
<b>8. Share capital</b>		
<b>Authorised</b>		
1 000 ordinary shares of R1 each	1 000	1 000
<b>Issued</b>		
1 000 ordinary shares of R1 each	1 000	1 000
<b>9. Deferred Recapitalisation Grant</b>		
Non-current	455 545 666	466 416 369
Current liabilities	8 754 213	6 637 723
	<b>464 299 879</b>	<b>473 054 092</b>
<b>Heading</b>		
Opening carrying amount	473 054 092	479 691 815
Armortised	(8 754 213)	(6 637 723)
	<b>464 299 879</b>	<b>473 054 092</b>

The grant relates to the funding received from the Treasury for OBP's Recapitalisation programme. The grant was approved in the 2012/13 financial year for R492.4 million of which the whole R492.4 million has been received since the 2013/14 financial year. During the financial year under review R8.7 million was realised into the income statement as a Deferred Government Grant.

### 10. Provisions

#### Reconciliation of provisions - 2018

	Opening balance	Utilised during the year	Reversed during the year	Total
Bonus provision	13 047 066	(5 079 552)	(7 967 514)	-

#### Reconciliation of provisions - 2017

	Opening balance	Additions	Total
Bonus provision	-	13 047 066	13 047 066

The provision for bonuses has not been raised at year-end due to the policy that gives the board the discretion to declare bonuses. As at year-end the board has not exercised their discretion.



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
<b>11. Deferred government grant – small-animal facility</b>		
Opening carrying amount	1 448 154	1 733 686
Amortised	(285 532)	(285 532)
<b>Closing net carrying amount</b>	<b>1 162 622</b>	<b>1 448 154</b>
<b>Maturity analysis</b>		
Non-current	877 090	1 162 622
Current	285 532	285 532
	<b>1 162 622</b>	<b>1 448 154</b>

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.

<b>12. Deferred government grant – corporatisation of OBP Ltd</b>		
Opening carrying amount	18 232 408	20 484 283
Amortised	(2 251 875)	(2 251 875)
<b>Closing net carrying amount</b>	<b>15 980 533</b>	<b>18 232 408</b>
<b>Maturity analysis</b>		
Non-current	13 728 658	15 980 533
Current	2 251 875	2 251 875
	<b>15 980 533</b>	<b>18 232 408</b>

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

### 13. 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 R1.4 million during the 2017/18 financial year.

Opening carrying amount	25 559 403	28 152 880
Amortised	(1 462 592)	(2 593 477)
	<b>24 096 811</b>	<b>25 559 403</b>
<b>Maturity analysis</b>		
Non-current	18 498 719	22 965 926
Current	5 598 092	2 593 477
	<b>24 096 811</b>	<b>25 559 403</b>

Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
<b>14. Trade and other payables</b>		
Trade payables	16 968 140	6 494 478
Accruals	2 860 839	8 010 785
Other payables	1 051 158	498 228
	<b>20 880 137</b>	<b>15 003 491</b>
<b>15. Gross to net revenue reconciliation</b>		
Sale of goods	173 075 626	173 691 772
The amount included in revenue arising from exchanges of goods or services included in revenue are as follows:		
Sale of goods	173 075 626	173 691 772
Gross revenue	185 712 364	189 858 177
Discount Granted	(15 371 896)	(20 542 174)
Net revenue – vaccines	170 340 468	169 316 004
Revenue - dry ice	523 591	91 879
Revenue – transportation service	2 211 567	4 283 890
	<b>173 075 626</b>	<b>173 691 772</b>
Revenue remained at R173 million in 2018 financial year compared to 2017. The stability can be attributed to improved production outputs and sustained export market in the current year.		
<b>16. Other income</b>		
Rental income	643 505	638 242
Other income (Including non-recurring)	7 947 382	4 287 173
Profit (loss) on sale of assets and liabilities	-	162 332
	<b>8 590 887</b>	<b>5 087 747</b>

Other income includes foreign exchange gain of R5.7 million and other non revenue items.





# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
<b>17. Included in operating and administrative expenses</b>		
<b>The following items have been charged/(credited) in arriving at operating and administrative cost:</b>		
<b>Depreciation and amortisation</b>		
Buildings	5 178 998	4 796 024
Furniture and fixtures	98 596	137 242
Computer equipment	1 110 159	1 566 103
Factory plant and equipment	6 287 580	4 886 830
Intangible assets	20 020	6 123
	<b>12 695 353</b>	<b>11 392 322</b>
<b>Auditor's remuneration</b>		
Total fees paid for the statutory audit	1 872 082	2 524 109
<b>Other disclosures</b>		
Employee benefits – defined contributions plans	2 237 007	2 259 629
Research and development expenditure	2 824 160	3 195 691
Repair and maintenance expenditure	7 281 475	9 317 428
Amounts paid to employees	63 825 335	82 918 592
Average number of employees	201	200

### Employee benefits

The amount paid to employees decreased from R82 918 592 to R63 771 231 in the 2018 financial year. This is mainly due to the bonus provision R13 million which was raised in the prior year, and only R5 million was paid to employees during the financial year and balance of R8 million was reversed. At year-end no provision was raised, bonuses are declared at the Board's discretion. The company declared an average annual increase of 6% for the current 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 kilometre 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 officers 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.

Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

### 18. Disclosure of emoluments of executive and non-executive Directors as per Treasury Regulation 28.1.1:

#### Executive: 2018

	Basic salary	Bonuses and performance related payments	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*	-	-	-	-	-	390 801	390 801
Mr. Gololo, M - Chief Financial Officer	1 213 012	98 050	8 339	104 535	5 833	-	1 429 769
Ms. Mobeng, DN - Company Secretary	1 176 622	94 238	35 273	89 695	5 833	-	1 401 661
Dr. Modumo, J - Business Development Officer	1 109 384	93 572	27 840	147 993	5 833	-	1 384 622
Mrs. Ramutle, NV - HR Executive	1 132 393	89 359	48 319	68 372	5 833	-	1 344 276
Mr. LH Serfontein**	98 703	97 782	-	9 774	-	97 217	303 476
Dr. Nthangeni MB	1 040 910	86 197	18 325	117 365	5 833	103 019	1 371 649
Mr. SV Ntombela	1 036 682	82 682	2 805	74 360	5 833	-	1 202 362
	<b>6 807 706</b>	<b>641 880</b>	<b>140 901</b>	<b>612 094</b>	<b>34 998</b>	<b>591 037</b>	<b>8 828 616</b>

\* The CEO's contract expired 31 Mar 2017, payment made related to bonus and leave payout and was paid in 2017/18 financial year.

\*\* The contract of the Mr. LH Serfontein has expired in April 2017 year end and has not been renewed, The amount shown as other relates to the leave pay out.

\*\*\* Dr. Nthangeni MB has been receiving an acting allowance since August 2017.

#### 2017

	Basic salary	Bonuses and performance related payments	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	1 127 025	73 537	8 339	98 599	4 307	-	1 311 807
Ms. Ramutle, NV - Human Resources Executive	1 053 643	67 019	45 361	63 347	4 307	-	1 233 677
Mr. LH Serfontein - GMP Project Manager	1 107 630	73 336	929	114 651	4 307	-	1 300 853
Ms. Mobeng, DN - Company Secretary	1 093 567	70 678	34 270	84 401	4 307	-	1 287 223
Dr. Modumo, J - Business Development Officer	1 030 372	70 179	19 464	139 280	4 307	-	1 263 602
Dr. Cornelius, ST - Chief Executive Officer	1 056 713	97 558	28 829	-	4 307	878 553	2 065 960
Dr. Nthangeni MB	965 318	64 647	4 593	112 146	4 307	-	1 151 011
Mr. Ntombela SV	963 801	51 676	-	69 725	4 307	-	1 089 509
	<b>8 398 069</b>	<b>568 630</b>	<b>141 785</b>	<b>682 149</b>	<b>34 456</b>	<b>878 553</b>	<b>10 703 642</b>



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

### 18. Disclosure of emoluments of executive and non-executive Directors as per Treasury Regulation 28.1.1:

#### Executive: 2018

	Fees for services as director or executive member	Expenses	Insurance liability cover	Total
Mr TR Ramabulana* Chairperson	136 553	5 104	5 833	147 490
Dr MJ Mashaba* Director	12 003	198	-	12 201
Dr M Mashego* Director	33 228	667	-	33 895
Dr ME Mogajane* Director	3 408	1 914	-	5 322
Ms TK Mdlulwa** Director	70 565	3 089	5 833	79 487
Dr P Vervoort* Director	59 436	1 981	5 833	67 250
Dr. Adams, JH*	30 369	-	-	30 369
Mr. Y Haffeejee*	55 983	4 225	5 833	66 041
Dr CC Nkuna*	52 481	2 257	5 833	60 571
Ms FV Mphuthi*	50 225	2 151	5 833	58 209
	<b>504 251</b>	<b>21 586</b>	<b>34 998</b>	<b>560 835</b>

\* The board term expired in May 2017 and a new board was appointed in August 2017.

\*\* Ms TK Mdlulwa's contract expired in May 2017 and she was re-appointed in August 2017.

#### 2017

	Fees for services as director or executive member	Expenses	Insurance liability cover	Total
Dr. Adams, JH	131 301	-	4 307	135 608
Dr Mashego, M	150 018	5 583	4 307	159 908
Ms Mdlulwa, TK	143 500	6 850	4 307	154 657
Dr Mogajane, ME	111 218	1 914	4 307	117 439
Dr Mashaba, MJ	167 794	5 458	4 307	177 559
	<b>703 831</b>	<b>19 805</b>	<b>21 535</b>	<b>745 171</b>

### 19. Investment revenue

#### Interest revenue

Bank and other cash	30 676 293	44 763 755
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Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
<b>20. Taxation</b>		
<b>Major components of the tax expense</b>		
<b>Current</b>		
Income tax expense	7 759 205	17 057 757
Local income tax - recognised in current tax for prior periods	-	908 457
Deferred tax (Income) / expense	4 160 990	(3 414 779)
	<b>11 920 195</b>	<b>14 551 435</b>

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). As at 31 March 2018 R24 096 811 was remaining.

### 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)	0,21 %	- %
Other taxable items	3,77 %	0,21 %
Amortisation of government grant - research	(4,06)%	(1,17)%
Amortisation of recapitalisation grant	(2,59)%	(2,99)%
Disallowed deduction on production building	5,80 %	5,10 %
Amortisation of government grant – small-animal facility	(0,13)%	(0,13)%
Amortisation of government grant – corporatisation	(1,04)%	(1,02)%
Other non-taxable items	(1,96)%	- %
	<b>28,00 %</b>	<b>28,00 %</b>

### 21. Auditor's remuneration

Fees	1 872 082	2 524 109
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# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
<b>22. Cash generated from operations</b>		
(Loss) / Profit before taxation	60 404 583	62 090 929
<b>Adjustments for:</b>		
Depreciation and amortisation	12 695 353	11 392 322
Asset useful life revision	8	(162 332)
Interest received	(30 676 293)	(44 763 755)
Movements in provisions	(13 047 066)	13 047 066
<b>Changes in working capital:</b>		
Inventories	(805 044)	(6 616 782)
Trade and other receivables	22 099 113	(21 132 721)
Trade and other payables	5 876 646	(851 411)
Deferred Recapitalisation Grant	(8 754 213)	(6 637 723)
Deferred Research and Development Grant	(1 462 592)	(2 593 477)
Movement in deferred government grant – small-animal facility	(285 532)	(285 532)
Movement in deferred government grant – corporatisation of OBP Ltd	(2 251 875)	(2 251 875)
	<b>43 793 088</b>	<b>1 234 709</b>
<b>23. Tax refunded (paid)</b>		
Balance at beginning of the year	(16 325 659)	-
Current tax for the year recognised in profit or loss	(11 254 756)	(16 149 442)
Tax paid during the year	25 429 253	-
Deferred tax movement	4 160 990 -	
Balance at end of the year	(66 375)	16 325 659
	<b>1 943 453</b>	<b>176 217</b>
<b>24. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	343 136 042	30 353 237
• Goods and Services	-	4 800 830
• Contracts	1 646 256	5 727 005
<b>Operating leases – as lessor (income)</b>		
<b>Minimum lease payments due</b>		
- within one year	304 478	213 600
- in second to fifth year inclusive	449 619	966 674
	<b>754 097</b>	<b>1 180 274</b>

In the current year the company is in a profit position hence the utilisation of deferred tax assets. Subsequent to year-end the company paid second provisional tax of R9.3 million. During the year the company paid R8.3 million for the first provisional tax.

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

The company has entered into an operating lease with the South African 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 R343 136 042 disclosable capital commitments at 31 March 2018 not reflected elsewhere for the GMP upgrade of the manufacturing facility. As a result of VAT change from 14% to 15% from 1st April 2018 there will be an addition commitment of R3 009 965 relating to the additional 1% VAT increase. This will result in the total commitment of R346 146 007.

There are also commitments relating to contracts entered before 31 March 2018 of which expiry is after 31 March 2018. These commitments amount to R1 646 256. These commitments will increase by R14 441 as a result of vat increase. The total commitment will be R1 660 696.

### 25. Contingencies

OBP has pending cases with employees at the CCMA and labour court. The amounts could no be reliably measured at year end.

OBP is aware of a litigagation between the Agricultural Research Council (ARC) and Tshwane municipality in relation to an outstanding debt by the ARC. Since OBP is paying the ARC for electricity, a percentage of the outsdanding debt could be payable by OBP. As at 31 Mar 2018 the amount of liability could not be reliably measured.



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
<b>26. Related parties</b>		
<b>Relationships</b>		
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:		
<b>Related party transactions</b>		
Product sold to state departments	(2 076 577)	(2 875 641)
Payments to the Agricultural Research Council (ARC)	6 417 310	1 623 522
<b>Rent paid to (received from) related parties</b>		
SA Post Office rental received	(249 591)	(260 602)
<b>Related party balances</b>		
Accounts receivable (for products or services sold)	(583 347)	(609 419)
Agricultural Research Council	15 228 434	2 315 937
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.		
<b>27. Prior period errors</b>		
At the end of 2017 financial year OBP could not measure the amount of electricity payable to the Agricultural Research Council (ARC) due to the dispute between the two parties, as a result no provision was raised.		
During the current financial year ARC and OBP entered into an agreement. ARC issued invoices relating to the prior year and OBP raised and paid those invoices in the current year. Since these invoices related to the prior year an adjustment to the prior year has been made.		
The correction of the error(s) results in adjustments as follows:		
<b>Statement of Financial Position</b>		
Accrual	2 614 633	-
Deferred tax	(744 873)	-
<b>Profit or Loss</b>		
Operating expenses	(2 614 633)	-
Tax expense	744 873	-



Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

2018

2017

### 28. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

#### Statement of financial position

Accruals	-	(2 614 633)
Deferred Tax	-	732 097

#### Statement of changes in equity

Retained earnings	-	1 882 536
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### 29. Financial assets by category

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

#### 2018

	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)	20 173 681	-	-	20 173 681	20 173 681
Prepaid expenses	295 176	-	-	295 176	295 176
Bank balances	-	-	482 266 669	482 266 669	482 266 669
Investments	-	29 131 374	-	29 131 374	29 131 374
	<b>20 468 857</b>	<b>29 131 374</b>	<b>482 266 669</b>	<b>531 866 900</b>	<b>531 866 900</b>

#### 2017

	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)	15 182 165	-	-	15 182 165	15 182 165
Prepaid expenses	206 134	-	-	206 134	206 134
Bank balances	-	-	471 535 771	471 535 771	471 535 771
Investments	-	10 386 701	-	10 386 701	10 386 701
	<b>15 388 299</b>	<b>10 386 701</b>	<b>471 535 771</b>	<b>497 310 771</b>	<b>497 310 771</b>

See note 31 for the fair value determination



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
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### 30. Financial liabilities by category

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

2018

	Financial liabilities at amortised cost	Carrying amount	Fair value
Trade payables	16 968 140	16 968 140	16 968 140
Accruals	2 860 839	2 860 839	2 860 839
Income received in advance and other payables	1 051 158	1 051 158	1 051 158
	<b>20 880 137</b>	<b>20 880 137</b>	<b>20 880 137</b>

2017

	Financial liabilities at amortised cost	Carrying amount	Fair value
Trade payables	6 494 475	6 494 475	6 494 475
Accruals	2 731 467	2 731 467	2 731 467
Income received in advance and other payables	498 228	498 228	498 228
	<b>9 724 170</b>	<b>9 724 170</b>	<b>9 724 170</b>

### 31. 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.

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 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 borrowings, which limits the committed lines of credit available to entity.

### 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 2018, 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.



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
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### 31. Risk management (continued)

#### 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	20 468 857	15 388 299
Bank balances and cash	482 266 669	471 535 771
	<b>502 735 526</b>	<b>486 924 070</b>

#### 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 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 2018 as a result of the short-term maturity of these assets and liabilities.

### 32. Events after the reporting period

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.

### 33. Fruitless and wasteful expenditure

Management has made an assesment during the financial year and there was R27 322 fruitless and wasteful expenditure relating to interest on late payment of SARS.

Onderstepoort Biological Products SOC Ltd  
 Annual Financial Statements for the year ended 31 March 2018

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2018	2017
<b>34. Irregular expenditure</b>		
<b>Reconciliation of irregular expenditure</b>		
Opening balance	-	190 636
Irregular expenditure - Current year	-	73 313
Amounts condoned by Accounting Authority	-	(263 949)
<b>Irregular expenditure awaiting condonement</b>	-	-

## DETAILED INCOME STATEMENT

Figures in Rand	Note(s)	2018	2017
<b>Revenue</b>	<b>15</b>	<b>173 075 626</b>	<b>173 691 772</b>
<b>Cost of sales</b>		<b>(29 116 686)</b>	<b>(25 767 726)</b>
<b>Gross profit</b>		<b>143 958 940</b>	<b>147 924 046</b>
<b>Other income</b>		<b>39 267 180</b>	<b>49 851 502</b>
<b>Expenses (Refer to page 110)</b>		<b>(135 575 749)</b>	<b>(147 453 226)</b>
<b>Operating profit</b>		<b>47 650 371</b>	<b>50 322 322</b>
Deferred government grants		12 754 212	11 768 607
Profit before taxation		60 404 583	62 090 929
Taxation	20	11 920 479	14 551 435
<b>Profit for the year</b>		<b>48 484 104</b>	<b>47 539 494</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>48 484 104</b>	<b>47 539 494</b>



# FINANCIAL REPORT

Onderstepoort Biological Products SOC Ltd  
Annual Financial Statements for the year ended 31 March 2018

## DETAILED INCOME STATEMENT

Figures in Rand	Note(s)	2018	2017
<b>Operating and administrative expenses</b>			
Advertising		(2 238 137)	(2 174 698)
Assets Written-Off		(443 029)	(443)
Auditor remuneration	21	(1 872 082)	(2 524 109)
Bad debts		-	(3 054 053)
Bank charges		(246 039)	(178 038)
Cleaning		(1 304 977)	(905 860)
Conference Seminar		(43 804)	(559)
Consumables		(2 216 525)	(882 984)
Depreciation, amortisation and impairments		(12 695 353)	(11 392 322)
Donations		(2 297)	-
Employee costs		(63 825 335)	(82 918 592)
Entertainment		(865 642)	(683 830)
Hire		(38 880)	(17 877)
IT expenses		(2 410 386)	(2 014 980)
Insurance		(1 186 599)	(810 278)
Legal expenses		(1 113 110)	(481 085)
Library Costs		(51 753)	(7 646)
Loss on disposal of assets		(8)	-
Medical expenses		(612 392)	(1 194 004)
Motor vehicle expenses		(1 047)	-
Other expenses		(289 032)	(58 248)
Petrol and oil		(271 785)	(382 249)
Postage		-	(772)
Printing and stationery		(657 399)	(678 816)
Production direct cost and cost adjustments		(2 782 591)	(957 372)
Professional fees		(1 726 765)	(1 877 357)
Protective clothing		(1 069 244)	(1 219 531)
Realised foreign exchanges losses		(5 195 716)	(10 321 615)
Recruitment Costs		(39 261)	(112 938)
Repairs and maintenance		(7 281 475)	(9 317 428)
Research and development costs		(2 824 160)	(3 195 691)
Security		(1 702 196)	(1 597 800)
Software expenses		(600 708)	(110 398)
Telephone and fax		(1 030 039)	(492 472)
Terrain Maintenance		(1 160 068)	(1 498 309)
Training		(6 312 039)	(1 271 123)
Transport and freight		(51 324)	(190 516)
Travel		(3 828 959)	(3 671 959)
Utilities		(7 585 593)	(1 257 274)
<b>Total</b>		<b>(135 575 749)</b>	<b>(147 453 226)</b>

The expenses for the financial year have changed because of the reallocation of realised foreign exchange losses from other income to expenditure.







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