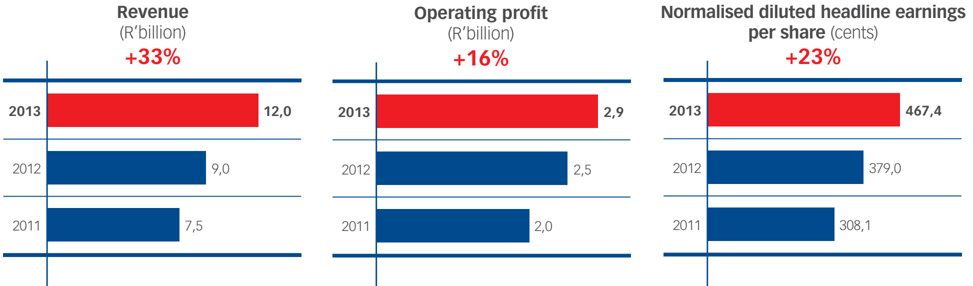
Aspen Pharmacare Holdings Limited

Unaudited interim financial results for the six months ended 31 December 2013



Revenue increased **33% to**

R12,0 billion

Operating profit increased **16% to**

R2,9 billion

Offshore contribution increased **to**

71% of Group operating profit

Normalised diluted headline earnings per share increased **23% to**

467,4 cents

Headline earnings per share increased **14% to**

424,2 cents

Earnings per share increased **15% to**

423,4 cents

Commentary

Group performance

Aspen increased revenue by 33% to R12,0 billion in the six months ended 31 December 2013. Operating profits improved by 16% to R2,9 billion after absorbing transaction costs of R143 million relating to the significant new business acquisitions undertaken in the reporting period. Normalised headline earnings, being headline earnings adjusted for specific non-trading items, grew 23% to R2,1 billion and normalised diluted headline earnings per share was also up 23% at 467,4 cents. The International business was the leading contributor to the growth achieved.

Recent transactions

Aspen has recently undertaken extensive corporate activity which will transform the group. The following is the status of the material transactions involved:

- The acquisition of the API manufacturing business, primarily in the Netherlands, from MSD for EUR31 million plus the value of inventory, became effective on 1 October 2013.
- The acquisition of a portfolio of 11 branded finished dose form molecules from MSD in a related transaction for USD600 million, of which USD67 million has delayed payment terms, became effective on 31 December 2013.
- The acquisition of the Arixtra and Fraxiparine/Fraxodi brands worldwide (excluding China, India and Pakistan) from GSK for GBP505 million became effective on 31 December 2013. In a related transaction, a further GBP100 million and EUR113 million has been paid into escrow in respect of the acquisition of the specialised sterile production site in France which manufactures these brands and the related inventory. This transaction is scheduled to become effective on 30 April 2014.
- The acquisition of certain licence rights to infant nutritional intellectual property, net assets, including a production facility in Mexico, and shares in infant nutritional businesses in several countries in Latin America from Nestlé for a purchase consideration of USD180 million was completed with effect from 28 October 2013.
- The acquisition from Nestlé of certain rights to intellectual property licenses and net assets of the infant nutritionals business presently conducted by Pfizer in certain southern African territories, including South Africa, has been approved by the competition authorities and became effective on 27 January 2014.

South African business

In the South African business, revenue improved by 8% to R3,8 billion and operating profit before amortisation, adjusted for specific non-trading items ("EBITA") was unchanged at almost R1,0 billion.

Revenue in the Pharmaceutical division advanced 7% to R3,2 billion. In the private sector, double digit percentage growth in revenue was delivered through a combination of solid organic growth and the contribution from new product launches. Aspen grew ahead of the market in all segments of the private sector. In the public sector, significantly reduced prices for antiretrovirals ("ARVs") and a reduced share of the ARV tender gave rise to revenue contraction which limited the overall performance of the Pharmaceutical division. The decrease in ARV prices, the continued weakening of the Rand and rising inflation in administered costs caused a reduction in margin percentages despite gains achieved in production efficiency and procurement.

The Consumer division raised revenue by 14% which was a positive outcome given the economic pressures at play in the retail sector.

The Group continued to invest in capital expansion projects to enhance production capacities and capabilities in South Africa. The two major projects underway are the extension of production facilities at Fine Chemicals which will allow this site to contribute meaningfully to Aspen's expanded active pharmaceutical ingredient ("API") activities and the building of the high containment suite in Port Elizabeth which will further strengthen the Group's strategic manufacturing capabilities.

Asia Pacific business

The region's record of unbroken growth since inception in 2001 was extended with a rise of 27% in revenue to R4,3 billion supported by products added as a consequence of acquisitions by the Group in the previous financial year. EBITA was up by 4% to almost R1,0 billion as most of the products added to the portfolio were at the lower margins available for distribution services and the ongoing mandated price cuts in Australia weighed on profits. The margin percentage contraction was cushioned by savings achieved in the cost of goods and through a reduction in rebates paid. In Asia, Aspen's newly established businesses in the Philippines, Malaysia and Taiwan made impressive advances albeit off a low base. Sales to customers in Asian countries increased by 22% to R311 million.

International business

The International business led growth in the Group with revenue increasing 94% to R3,4 billion and EBITA rising 79% to R1,1 billion. The acquisition of the API business from MSD effective 1 October 2013 and the completion of the infant nutrition transaction with Nestlé effective 28 October 2013 together added R1,3 billion to revenue at low margins, boosting the sales growth and lowering overall margin percentages. These deals were also influencing factors in the rise in sales to customers in the Latin American (up 60% to R1,2 billion) and Rest of World (up 147% to R2,2 billion) territories. The global brands portfolio was an important driver of the growth achieved in the International business and the margin improvement projects for these products continued to yield favourable outcomes. Contributions from certain territories in this business have also benefitted from relative currency strength against the Rand.

Sub-Saharan Africa business

In Sub-Saharan Africa gross revenue advanced by 41% to R1,4 billion while EBITA climbed 53% to R0,2 billion as the good momentum achieved in the second half of the prior year was maintained.

Funding

Borrowings, net of cash, increased by R15,8 billion over the period to R26,2 billion. Translation losses due to Rand weakness against foreign currencies in which offshore borrowings is denominated added R0,4 billion to total borrowings. In all, R14,1 billion was spent on investments in new subsidiaries and businesses during the six months and an additional R1,1 billion was invested in capital expenditure. A further R5,6 billion was added to borrowings on 2 January 2014 with the settlement of the MSD products acquisition. Highly successful local and international debt syndication processes were concluded during the period providing the Group with the necessary funding to support the

recent transactions. Group operating cash flows remained strong although this was tempered by a once-off increase in debtor balances in the newly acquired infant nutritional business in Latin America. Gearing moved up to 51% at the period end. Financing costs, net of interest received, were covered nine times by operating profit before amortisation.

Prospects

The completion of the recent transactions with MSD and GSK will propel growth, expanding the global brands portfolio with the addition of established products which have strong market acceptance and widening the geographic reach of Aspen. These transactions have enabled Aspen to establish its own business units in Russia and across Europe as well as extending its influence in Latin America and Asia. The Group's presence in Latin America has been further supported by the infant nutritional transaction with Nestlé which has facilitated the establishment of Aspen business units in Colombia, Chile, Peru, Ecuador and Central America.

The International business is the largest beneficiary of the recent transactions and is set to become the Group's leading contributor to revenue and EBITA, adding further momentum to the impressive growth achieved by this region in the past six months. Several margin improvement projects are underway aimed at improving competitiveness and profitability of the global brands portfolio. Plans are well underway in developing a turnaround strategy for the infant nutritional business in Latin America, but the benefits are likely to be felt in future years.

The largest contributor in the Asia Pacific territory, Australia, faces challenges in the absence of market growth drivers and the ongoing mandated price reduction programme. Under these circumstances, Aspen management is focussed on performance optimisation and reductions in the cost of goods. The regional leadership team is placing significant focus on the development of the business in Asia, with Japan having been identified as an area for specific attention.

In South Africa, the Group expects to continue to perform well in the private sector supported by strong sales and marketing teams. Ongoing organic growth and regular new product launches will underpin Aspen's leadership position in this sector. Public sector results will be dictated by state demand which can be difficult to predict. The 5.82% increase in the single exit price by the Department of Health will not be sufficient to absorb the effects of the weaker Rand on the cost of imports and domestic wage and energy cost inflation. The Consumer division is expected to continue its recovery despite the difficult economic environment and the recently completed infant nutritional transaction with Nestlé will provide added impetus.

Sub-Saharan Africa should continue to advance favourably provided political instability does not interfere with performance in any of the material territories.

The second half will benefit considerably from the implementation of the recent acquisitions. High levels of attention are being given to the operationalisation of the acquired businesses. Plans are being implemented in the pursuit of opportunities to achieve greater market penetration with the expanded global brands portfolio and in the realisation of improved production efficiencies which should enhance results in future years. Debt levels in the Group are high, but gearing is expected to decline steadily due to the strong operational cash flows inherent in Aspen's business model.

By order of the Board

NJ Dlamini
(Chairman)

SB Saad
(Group Chief Executive)

Woodmead
6 March 2014

Group statement of financial position

	Notes	Unaudited 31 December 2013 R'million	Unaudited 31 December 2012 R'million	Audited 30 June 2013 R'million
ASSETS				
Non-current assets				
Property, plant and equipment		6 058,3	4 021,7	4 342,6
Goodwill	F#	6 182,6	5 592,1	5 973,2
Intangible assets	G#	36 333,7	15 565,7	18 933,0
Contingent environmental indemnification asset	H#	724,8	—	—
Other non-current assets		26,7	27,0	26,7
Deferred tax assets		415,0	235,7	369,2
Total non-current assets		49 741,1	25 442,2	29 644,7
Current assets				
Inventories		9 273,7	3 704,4	4 100,9
Receivables, prepayments and other current assets		11 113,9	4 260,8	5 657,5
Cash and cash equivalents		10 425,6	3 754,9	6 018,6
Total current assets		30 813,2	11 720,1	15 777,0
Total assets		80 554,3	37 162,3	45 421,7
SHAREHOLDERS' EQUITY				
Share capital and share premium (including treasury shares)		3 865,3	3 983,4	3 989,2
Reserves		21 300,0	14 981,3	18 804,6
Ordinary shareholders' equity		25 165,3	18 964,7	22 793,8
Non-controlling interests		2,7	11,4	5,1
Total shareholders' equity		25 168,0	18 976,1	22 798,9
LIABILITIES				
Non-current liabilities				
Borrowings		31 545,3	6 241,2	8 923,5
Contingent environmental liability	H#	724,8	—	—
Unfavourable contract	I#	2 943,3	—	—
Non-current financial liabilities		2 253,7	—	—
Deferred revenue		136,5	140,1	139,5
Deferred tax liabilities		596,9	524,4	600,5
Retirement benefit obligations		148,7	74,6	94,0
Total non-current liabilities		38 349,2	6 980,3	9 757,5
Current liabilities				
Trade and other payables		10 856,6	2 906,7	4 174,6
Borrowings*		5 111,1	7 941,5	8 152,7
Unfavourable contract	I#	336,4	—	—
Current financial liabilities		431,1	—	—
Other current liabilities		301,9	343,3	533,8
Derivative financial instruments		—	14,4	4,2
Total current liabilities		17 037,1	11 205,9	12 865,3
Total liabilities		55 386,3	18 186,2	22 622,8
Total equity and liabilities		80 554,3	37 162,3	45 421,7
Number of shares in issue (net of treasury shares) ('000)		455 781	454 996	455 208
Net asset value per share (cents)		5 521,4	4 168,1	5 007,3

#See notes on Supplementary information.
*Bank overdrafts are included within borrowings under current liabilities.

Group statement of cash flows

	Notes	Unaudited six months ended 31 December 2013 R'million	Unaudited six months ended 31 December 2012 R'million	Audited year ended 30 June 2013 R'million
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash operating profit		**3 278,3**	2 855,9	5 960,1
Changes in working capital		**(1 113,6)**	(866,5)	(590,1)
Cash generated from operations		**2 164,7**	1 989,4	5 370,0
Net financing costs paid		**(296,7)**	(230,6)	(584,6)
Tax paid		**(691,7)**	(443,0)	(799,3)
Cash generated from operating activities		**1 176,3**	1 315,8	3 986,1
CASH FLOWS USED IN INVESTING ACTIVITIES				
Capital expenditure - property, plant and equipment	A#	**(808,9)**	(301,9)	(667,1)
Proceeds on the sale of property, plant and equipment		**6,7**	3,0	10,7
Capital expenditure - intangible assets	A#	**(255,4)**	(3 457,5)	(3 654,9)
Proceeds on the sale of intangible assets		**11,9**	—	3,5
Acquisition of subsidiaries and businesses	M#	**(10 806,8)**	—	(1 578,6)
Increase in other non-current financial receivables		**—**	(6,2)	—
Net investment hedge gain on capital reduction in Aspen Asia Pacific		**23,9**	—	—
Net losses from cash flow hedging of prepayment in respect of business acquisition		**(41,0)**	—	—
Stamp duty on acquisitions		**—**	—	(2,1)
Prepayment in anticipation of acquisition	N#	**(3 316,4)**	—	(394,7)
Cash used in investing activities		**(15 186,0)**	(3 762,6)	(6 283,2)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from borrowings		**20 445,6**	3 378,6	4 336,0
Capital distribution and dividends paid		**(716,2)**	(715,1)	(715,1)
Proceeds from issue of ordinary share capital		**1,6**	4,9	9,6
Treasury shares purchased		**(22,3)**	(21,1)	(21,1)
Decrease in cash restricted for use as security for borrowings		**—**	1,2	1,3
Cash generated from financing activities		**19 708,7**	2 648,5	3 610,7
Movement in cash and cash equivalents before effects of exchange rate changes		**5 699,0**	201,7	1 313,6
Effects of exchange rate changes		**517,5**	86,4	112,8
Movement in cash and cash equivalents		**6 216,5**	288,1	1 426,4
Cash and cash equivalents at the beginning of the period/year		**3 416,2**	1 989,8	1 989,8
Cash and cash equivalents at the end of the period/year		**9 632,7**	2 277,9	3 416,2
RECONCILIATION OF CASH AND CASH EQUIVALENTS				
Cash and cash equivalents per the statement of financial position		**10 425,6**	3 754,9	6 018,6
Less: bank overdrafts		**(792,9)**	(1 477,0)	(2 602,4)
		9 632,7	2 277,9	3 416,2
	Change			
Diluted operating cash flow per share (cents)	(11%)	**257,6**	288,4	874,1

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash-on-hand, deposits held on call with banks less bank overdrafts.

Group statement of comprehensive income

	Notes	Change	Unaudited six months ended 31 December 2013 R'million	Unaudited six months ended 31 December 2012 R'million	Audited year ended 30 June 2013 R'million
Revenue		33%	**11 976,3**	8 997,1	19 308,0
Cost of sales			**(6 398,7)**	(4 630,0)	(10 077,3)
Gross profit		28%	**5 577,6**	4 367,1	9 230,7
Selling and distribution expenses			**(1 474,4)**	(1 128,8)	(2 343,5)
Administrative expenses			**(932,2)**	(641,3)	(1 366,0)
Other operating income			**51,5**	40,6	104,2
Other operating expenses			**(342,4)**	(152,3)	(582,1)
Operating profit	B#	16%	**2 880,1**	2 485,3	5 043,3
Investment income	C#		**132,0**	125,4	298,8
Financing costs	D#		**(537,9)**	(388,5)	(852,7)
Profit before tax		11%	**2 474,2**	2 222,2	4 489,4
Tax			**(544,3)**	(538,7)	(975,3)
Profit for the period/year		15%	**1 929,9**	1 683,5	3 514,1
OTHER COMPREHENSIVE INCOME, NET OF TAX*					
Currency (losses)/gains on net investment in Aspen Asia Pacific			**(61,5)**	16,1	(133,3)
Currency gains on net investment in Aspen Notre Dame de Bondeville			**17,5**	—	—
Net investment hedge gain on capital reduction in Aspen Asia Pacific			**23,9**	—	—
Net gains from cash flow hedging in respect of business acquisitions			**115,9**	—	—
Net losses from cash flow hedging of prepayment in respect of business acquisition			**(41,0)**	—	—
Currency translation gains	E#		**1 110,0**	592,4	2 675,7
Cash flow hedges recognised			**4,3**	11,3	20,3
Remeasurement of retirement benefit obligations			**—**	—	(4,7)
Total comprehensive income			**3 099,0**	2 303,3	6 072,1
Profit for the period/year attributable to					
Equity holders of the parent			**1 930,6**	1 682,4	3 520,1
Non-controlling interests			**(0,7)**	1,1	(6,0)
			1 929,9	1 683,5	3 514,1
Total comprehensive income attributable to					
Equity holders of the parent			**3 101,4**	2 300,4	6 078,2
Non-controlling interests			**(2,4)**	2,9	(6,1)
			3 099,0	2 303,3	6 072,1
Weighted average number of shares in issue ('000)			**455 944**	455 553	455 397
Diluted weighted average number of shares in issue ('000)			**456 574**	456 317	456 027
EARNINGS PER SHARE					
Basic earnings per share (cents)		15%	**423,4**	369,3	773,0
Diluted earnings per share (cents)		15%	**422,8**	368,7	771,9
DISTRIBUTION TO SHAREHOLDERS					
Capital distribution per share (cents)			**26,0**	157,0	157,0
Cash dividend per share (cents)			**131,0**	—	—
			157,0	157,0	157,0

The total distribution to shareholders of 157,0 cents relates to the distribution declared on 11 September 2013 and paid on 14 October 2013. (The capital distribution of 157,0 cents relates to the distribution declared on 12 September 2012 and paid on 15 October 2012).

*Remeasurement of retirement benefit obligations will not be reclassified to profit and loss. All other items in other comprehensive income may be reclassified to profit and loss.

Group statement of headline earnings

	Change	Unaudited six months ended 31 December 2013 R'million	Unaudited six months ended 31 December 2012 R'million	Audited year ended 30 June 2013 R'million
HEADLINE EARNINGS				
Reconciliation of headline earnings				
Profit attributable to equity holders of the parent	15%	**1 930,6**	1 682,4	3 520,1
Adjusted for:				
– Net impairment of property, plant and equipment (net of tax)		**0,1**	7,4	9,5
– Net impairment of intangible assets (net of tax)		**0,5**	0,2	60,4
– Loss/(profit) on the sale of tangible and intangible assets (net of tax)		**3,0**	0,7	(1,6)
Headline earnings	14%	**1 934,2**	1 690,7	3 588,4
Headline earnings per share				
Headline earnings per share (cents)	14%	**424,2**	371,1	788,0
Diluted headline earnings per share (cents)	14%	**423,6**	370,5	786,9
NORMALISED HEADLINE EARNINGS				
Reconciliation of normalised headline earnings				
Headline earnings	14%	**1 934,2**	1 690,7	3 588,4
Adjusted for:				
– Restructuring costs (net of tax)		**8,1**	13,5	106,2
– Transaction costs (net of tax)		**201,1**	25,1	82,0
– Settlement of product litigation (net of tax)		**—**	—	36,6
– Foreign currency gain in respect of business acquisitions (net of tax)		**(9,3)**	—	—
Normalised headline earnings	23%	**2 134,1**	1 729,3	3 813,2
Normalised headline earnings				
Normalised headline earnings per share (cents)	23%	**468,1**	379,6	837,3
Normalised diluted headline earnings per share (cents)	23%	**467,4**	379,0	836,2

Group statement of changes in equity

BALANCE AT 1 JULY 2012
Total comprehensive income
Profit for the period
Other comprehensive income
Capital distribution and dividends paid
Issue of ordinary share capital – share schemes
Treasury shares purchased
Deferred incentive bonus shares exercised
Share options and appreciation rights expensed (including deferred incentive bonus)
BALANCE AT 31 DECEMBER 2012
BALANCE AT 1 JULY 2013
Total comprehensive income
Profit for the period
Other comprehensive income
Capital distribution and dividends paid
Issue of ordinary share capital – share schemes
Treasury shares purchased
Deferred incentive bonus shares exercised
Share options and appreciation rights expensed (including deferred incentive bonus)
BALANCE AT 31 DECEMBER 2013

	Share capital and share premium (including treasury shares) R'million	Reserves R'million	Total attributable to equity holders of the parent R'million	Non-controlling interests R'million	Total R'million
	4 703,1	12 686,3	17 389,4	8,7	17 398,1
	—	2 300,4	2 300,4	2,9	2 303,3
	—	1 682,4	1 682,4	1,1	1 683,5
	—	618,0	618,0	1,8	619,8
	(714,9)	—	(714,9)	(0,2)	(715,1)
	4,9	—	4,9	—	4,9
	(21,1)	—	(21,1)	—	(21,1)
	11,4	(11,4)	—	—	—
	—	6,0	6,0	—	6,0
	3 983,4	14 981,3	18 964,7	11,4	18 976,1
	3 989,2	**18 804,6**	**22 793,8**	**5,1**	**22 798,9**
	—	**3 101,4**	**3 101,4**	**(2,4)**	**3 099,0**
	—	**1 930,6**	**1 930,6**	**(0,7)**	**1 929,9**
	—	**1 170,8**	**1 170,8**	**(1,7)**	**1 169,1**
	(118,6)	**(597,6)**	**(716,2)**	**—**	**(716,2)**
	1,6	**—**	**1,6**	**—**	**1,6**
	(22,3)	**—**	**(22,3)**	**—**	**(22,3)**
	15,4	**(15,4)**	**—**	**—**	**—**
	—	**7,0**	**7,0**	**—**	**7,0**
	3 865,3	**21 300,0**	**25 165,3**	**2,7**	**25 168,0**

Segmental analysis

	Unaudited six months ended 31 December 2013 R'million	% of total
REVENUE		
South Africa†	3 836,7	30
Asia Pacific	4 291,4	33
International^	3 408,2	26
Sub-Saharan Africa	1 393,8	11
Total gross revenue	12 930,1	100
Adjustment*	(953,8)	
Total revenue	11 976,3	
OPERATING PROFIT BEFORE AMORTISATION		
Adjusted for specific non-trading items ("EBITA")		
South Africa	955,8	30
Operating profit#	848,1	
Amortisation of intangible assets	26,7	
Transaction costs	80,4	
Restructuring costs	—	
Impairment of assets	0,6	
Asia Pacific	988,1	31
Operating profit#	915,5	
Amortisation of intangible assets	61,9	
Transaction costs	6,8	
Restructuring costs	3,9	
International	1 081,4	33
Operating profit#	932,1	
Amortisation of intangible assets	87,2	
Transaction costs	55,3	
Settlement of product litigation	—	
Restructuring costs	6,8	
Impairment of assets	—	
Sub-Saharan Africa	187,4	6
Operating profit#	184,4	
Amortisation of intangible assets	3,0	
Total EBITA	3 212,7	100
ENTITY WIDE DISCLOSURE – REVENUE		
Analysis of revenue in accordance with customer geography		
South Africa – pharmaceutical	3 206,2	25
South Africa – consumer	634,1	5
Asia Pacific	4 297,8	33
Sub-Saharan Africa	1 397,4	11
Latin America	1 202,7	9
Rest of the World	2 191,9	17
Total gross revenue	12 930,1	100
Adjustment*	(953,8)	
Total revenue	11 976,3	

†Excludes inter-segment revenue of R47,6 million (2012: R20,5 million).

^Excludes inter-segment revenue of R914,4 million (2012: R426,0 million).

*The profit share from the Aspen GSK Healthcare for Africa collaboration has been disclosed as revenue in the statement of comprehensive income. For segmental purposes the total revenue for the Aspen GSK Healthcare for Africa collaboration has been included to provide enhanced revenue visibility in this territory.

#The aggregate segmental operating profit total of R2 880,1 million (2012: R2 485,3 million) agrees to the statement of comprehensive income.

	Unaudited six months ended 31 December 2012			Audited year ended 30 June 2013	
	R'million	% of total	Change	R'million	% of total
	3 565,7	37	8%	7 376,8	35
	3 383,3	35	27%	7 590,5	37
	1 756,0	18	94%	3 726,1	18
	990,1	10	41%	2 081,5	10
	9 695,1	100	33%	20 774,9	100
	(698,0)			(1 466,9)	
	8 997,1		33%	19 308,0	
	960,4	36	0%	1 965,3	35
	923,9		(8%)	1 867,5	
	33,3			60,5	
	—			31,3	
	1,0			—	
	2,2			6,0	
	948,7	36	4%	1 894,0	34
	874,1		5%	1 608,2	
	56,3			128,0	
	—			6,0	
	18,3			151,8	
	603,9	23	79%	1 488,7	27
	568,5		64%	1 321,7	
	26,5			60,8	
	—			—	
	—			43,0	
	—			—	
	8,9			63,2	
	122,3	5	53%	252,3	4
	118,8		55%	245,9	
	3,5			6,4	
	2 635,3	100	22%	5 600,3	100
	3 008,1	31	7%	6 201,9	30
	558,1	6	14%	1 175,0	6
	3 472,1	36	24%	7 697,6	37
	1 018,7	10	37%	2 123,7	10
	750,9	8	60%	1 567,3	7
	887,2	9	147%	2 009,5	10
	9 695,1	100	33%	20 774,9	100
	(698,0)			(1 466,9)	
	8 997,1		33%	19 308,0	

Supplementary information

	Unaudited six months ended 31 December 2013 R'million	Unaudited six months ended 31 December 2012 R'million	Audited year ended 30 June 2013 R'million
A. CAPITAL EXPENDITURE			
Incurred	**1 064,3**	3 759,4	4 322,0
– Tangible assets	**808,9**	301,9	667,1
– Intangible assets	**255,4**	3 457,5	3 654,9
Contracted	**765,7**	456,7	651,8
– Tangible assets	**635,8**	373,3	525,5
– Intangible assets	**129,9**	83,4	126,3
Authorised but not contracted for	**1 100,5**	733,3	1 242,2
– Tangible assets	**723,4**	700,7	1 052,0
– Intangible assets	**377,1**	32,6	190,2
B. OPERATING PROFIT HAS BEEN ARRIVED AT AFTER CHARGING			
Depreciation of property, plant and equipment	**188,0**	141,0	294,5
Amortisation of intangible assets	**178,8**	119,6	255,7
Net impairment of property, plant and equipment	**0,1**	10,9	9,6
Net impairment of intangible assets	**0,5**	0,2	59,6
Share-based payment expenses – employees	**15,5**	17,5	31,2
Restructuring costs	**10,7**	19,3	151,8
Transaction costs	**142,5**	—	37,3
Settlement of product litigation	**—**	—	43,0
C. INVESTMENT INCOME			
Interest received	**132,0**	125,4	298,8

	Note	Unaudited six months ended 31 December 2013 R'million	Unaudited six months ended 31 December 2012 R'million	Audited year ended 30 June 2013 R'million
D. FINANCING COSTS				
Interest paid		**(459,4)**	(399,6)	(842,3)
Debt raising fees on acquisitions		**(83,3)**	(26,8)	(51,9)
Net foreign exchange gains/(losses)		**48,9**	46,7	(34,3)
Fair value (losses)/gains on financial instruments		**(8,3)**	(7,6)	77,5
Notional interest on financial instruments		**(35,8)**	(1,2)	(1,7)
		(537,9)	(388,5)	(852,7)
E. CURRENCY TRANSLATION GAINS				
Currency translation movements on the translation of the offshore businesses is as a result of the difference between the weighted average exchange rate used for trading results and the opening and closing exchange rate applied in the statement of financial position. For the period the weaker closing Rand translation rate increased the Group net asset value.				
F. GOODWILL MOVEMENT				
Opening balance		**5 973,2**	5 343,9	5 343,9
Acquisition of subsidiaries	M#	**105,4**	—	176,5
Effects of exchange rate changes		**104,0**	248,2	452,8
		6 182,6	5 592,1	5 973,2

Supplementary information *(continued)*

	Note	**Unaudited six months ended 31 December 2013 R'million**	Unaudited six months ended 31 December 2012 R'million	Audited year ended 30 June 2013 R'million
G. INTANGIBLE ASSETS MOVEMENT				
Opening balance		**18 933,0**	11 869,8	11 869,8
Additions		**255,4**	3 457,5	3 654,9
GSK pharmaceutical products		**—**	2 193,5	2 196,6
Novartis pharmaceutical products		**—**	459,5	459,5
GSK OTC products		**—**	575,4	586,1
Other		**255,4**	229,1	412,7
Disposals		**(11,9)**	—	(0,5)
Amortisation		**(178,8)**	(119,6)	(255,7)
Acquisition of subsidiaries and businesses	M#	**16 393,1**	—	1 246,1
Software projects implemented		**2,9**	0,4	14,0
Impairment		**(0,5)**	(0,2)	(94,5)
Impairment losses reversed		**—**	—	34,9
Hyperinflationary adjustment – Venezuela		**—**	—	0,8
Effects of exchange rate changes		**940,5**	357,8	2 463,2
		36 333,7	15 565,7	18 933,0

H. CONTINGENT ENVIRONMENTAL LIABILITY AND INDEMNIFICATION ASSET

The contingent environmental liability and contingent indemnification asset relate to environmental remediation required at the Moleneind site at Oss, in the Netherlands, acquired as part of the API business. The remediation is being managed, undertaken and funded by the seller. However, as owner of the site, Aspen has inherited a legal obligation for the remediation for which it has been indemnified by the seller. Consequently, Aspen has recognised a contingent liability and a corresponding contingent indemnification asset based on an estimate of the remediation cost of EUR50 million. In view of the seller's involvement in the remediation process, the balances have been referred to as contingent as the settlement of the liability and the realisation of the indemnification asset are not expected to have any cash flow implications for the Group.

Reconciliation of movement

	Note	2013	2012	June 2013
Acquisitions of subsidiary	M#	**677,1**	—	—
Effects of exchange rate changes		**47,7**	—	—
		724,8	—	—

		Unaudited six months ended 31 December 2013 R'million	Unaudited six months ended 31 December 2012 R'million	Audited year ended 30 June 2013 R'million
I. UNFAVOURABLE CONTRACT				
The supply contract for the manufacture of inventory for Merck which has a 10 year term has been classified as an unfavourable contract. This liability will be released to revenue over the term of the contract in terms of *IAS 18*, Revenue.				
Reconciliation of movement				
Acquisition of subsidiary	M#	**3 142,5**	—	—
Released to the statement of comprehensive income		**(79,6)**	—	—
Effects of exchange rate changes		**216,8**	—	—
		3 279,7	—	—
Analysis of total unfavourable contract				
Non-current		**2 943,3**	—	—
Current		**336,4**	—	—
		3 279,7	—	—
J. CONTINGENT LIABILITIES				
There are contingent liabilities in respect of:				
Contingency relating to product litigation		**27,3**	22,4	25,9
Customs guarantee		**14,2**	—	—
Import duty contingency		**10,4**	9,0	10,4
Contingencies arising from labour cases		**4,3**	3,4	4,3
Additional payments in respect of the Quit worldwide intellectual property rights		**—**	8,5	—
Other contingent liabilities		**2,2**	2,4	2,0
		58,4	45,7	42,6
K. TAX CONTINGENCY				
Following an audit, the South African Revenue Service has issued tax assessments on various South African companies in relation to historic transactions. Aspen has lodged an appeal against these assessments and has filed a review application to have the assessments set aside. Aspen is confident that it will succeed in this dispute based on the outcome of recent court cases dealing with similar matters. Due to the uncertainties inherent in the process, the timing of resolution of the dispute and the outcome thereof cannot be determined.				
L. GUARANTEES TO FINANCIAL INSTITUTIONS				
Guarantees given by Group companies for indebtedness of subsidiaries to financial institutions		**11 537,7**	5 312,0	5 600,6

Supplementary information *(continued)*

M. ACQUISITION OF SUBSIDIARIES AND BUSINESSES

API Business

On 1 October 2013, Aspen Pharmacare Holdings Limited acquired 100% shareholding of an API manufacturing business from Merck which manufactures for Merck and the market generally and which is located in the Netherlands with a satellite facility and sales office in the US ("the API Business") for a purchase consideration of EUR31 million (net of cash acquired).

Merck Products

Aspen Global Incorporated, a wholly owned subsidiary of Aspen Pharmacare Holdings Limited, exercised an option to acquire a portfolio of 11 branded finished dose form molecules ("the Merck Products") from Merck for a consideration of USD600 million effective on 31 December 2013. USD533 million of the consideration was paid on 2 January 2014, and the balance of this consideration will be paid in five equal annual instalments commencing at the end of the first year after the acquisition date.

Arixtra and Fraxiparine brands

On 31 December 2013 Aspen Global Incorporated, a wholly owned subsidiary of Aspen Pharmacare Holdings Limited, acquired the Arixtra and Fraxiparine brands and business worldwide from GSK, except in China, Pakistan and India for a purchase consideration of GBP505 million.

Latam infant nutritional business

On 28 October 2013 Aspen Group Companies concluded agreements with Nestlé in respect of the acquisition of certain license rights to intellectual property, net assets (including an infant nutritional production facility located in Vallejo, Mexico) and 100% shareholding in the infant nutritional businesses presently conducted by Nestlé and Pfizer in Latin America, predominantly Mexico, Venezuela, Colombia, Ecuador, Chile, Peru, Central America and the Caribbean for a purchase consideration of USD180 million.

	API business R'million	Merck products R'million	Arixtra and Fraxiparine brands R'million	Latam infant nutritional business R'million	Total R'million
M. ACQUISITION OF SUBSIDIARIES AND BUSINESSES *(continued)*					
Fair value of assets and liabilities acquired					
Property, plant and equipment	459,6	—	—	488,3	947,9
Intangible assets	1,9	6 250,3	9 458,1	682,8	16 393,1
Contingent environmental indemnity asset	677,1	—	—	—	677,1
Deferred tax asset	—	—	—	19,4	19,4
Inventories	3 872,1	—	—	627,1	4 499,2
Trade and other receivables	694,4	—	—	455,9	1 150,3
Cash and cash equivalents	1 086,9	—	—	—	1 086,9
Contingent environmental liability	(677,1)	—	—	—	(677,1)
Unfavourable contract	(3 142,5)	—	—	—	(3 142,5)
Retirement benefits obligations	—	—	—	(37,2)	(37,2)
Trade and other payables	(277,7)	—	—	(571,6)	(849,3)
Current tax liability	(0,9)	—	—	—	(0,9)
Non-current and current financial liabilities	(1 193,7)	—	(718,7)	—	(1 912,4)
Value of net assets acquired	1 500,1	6 250,3	8 739,4	1 664,7	18 154,5
Goodwill acquired	—	—	—	105,4	105,4
Deferred payable	—	(650,2)	—	—	(650,2)
Amounts payable at period end	—	(5 600,1)	—	—	(5 600,1)
Purchase consideration paid	1 500,1	—	8 739,4	1 770,1	12 009,6
Net gains from cash flow hedging in respect of acquisitions	—	—	(115,9)	—	(115,9)
Cash and cash equivalents in acquired companies	(1 086,9)	—	—	—	(1 086,9)
Cash outflow on acquisition	413,2	—	8 623,5	1 770,1	10 806,8

The initial accounting for these business combinations has been reported on a provisional basis and will only be finalised in the year ending 30 June 2015.

Post-acquisition revenue included in the statement of comprehensive income was R1,3 billion made up as follows:

– API business and Merck Products – R0,9 billion;

– Latam infant nutritional business – R0,4 billion.

The estimation of post-acquisition operating profits is impracticable and not reasonably determinable due to the immediate integration of the businesses into the existing operations of the Group. The determination and disclosure of historical audited revenue and operating profits for the 12 months preceding the effective date is not possible as the information for the full period is not available from the vendors.

All transaction costs relating to the acquisition of these businesses have been expensed in other operating expenses in the statement of comprehensive income and adjusted for in normalised headline earnings.

Supplementary information *(continued)*

M. ACQUISITION OF SUBSIDIARIES AND BUSINESSES *(continued)*

Goodwill

The goodwill arising on the acquisition of the Latam infant nutritional business recognises:

– the benefit to the products of Aspen's knowledge and expertise relating to its existing infant milk business; and

– the synergies from the consolidation of the infant milk business with Aspen's existing Latin American consumer business including cost savings and increased sales force coverage benefits.

The total amount of goodwill recognised is not tax deductible.

N. PREPAYMENT IN ANTICIPATION OF ACQUISITION

On 27 December 2013 two amounts consisting of GBP100 million for inventory and EUR113 million for the GSK Notre Dame de Bondeville manufacturing site located in France were prepaid into an escrow account. Aspen will only assume control of the manufacturing site effective 30 April 2014 and accordingly the consideration paid has been classified as a prepayment.

Aspen Pharmacare Holdings Limited concluded agreements with Nestlé S.A. in the prior financial year in respect of the acquisition of certain rights to intellectual property licenses and net assets in the infant nutritionals business previously conducted by Pfizer which distributes a portfolio of infant nutritional products to certain Southern African territories (South Africa, Botswana, Namibia, Lesotho, Swaziland and Zambia). The acquisition of the South African infant milk business from Nestlé was approved by the Competition Tribunal in December 2013. The effective date upon which Aspen assumed control of the business was 27 January 2014. Consequently the USD43 million consideration paid in May 2013 has been classified as a prepayment. The initial accounting for this transaction is incomplete. A provisional fair value for each major class of assets acquired and liabilities assumed could not reasonably be determined at the time the interim financial statements were authorised for issue.

Basis of accounting

The unaudited interim financial results for the six months ended 31 December 2013 have been prepared in accordance with *IAS 34*, Interim Financial Reporting, JSE Listings Requirements, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and in the manner required by the Companies Act (2008) of South Africa. The accounting policies are consistent with those described in the annual financial statements for the year ended 30 June 2013, except for the adoption of *IFRS 10* – Consolidated Financial Statements, which changed the definition of control. This standard had no material impact on the group.

These unaudited interim financial results were prepared under the supervision of the Deputy Group Chief Executive, MG Attridge CA(SA) and approved by the Board of Directors.

Disclaimer

We may make statements that are not historical facts and relate to analyses and other information based on forecasts of future results and estimates of amounts not yet determinable. These are forward looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Words such as "prospects", "believe", "anticipate", "expect", "intend", "seek", "will", "plan", "indicate", "could", "may", "endeavour" and "project" and similar expressions are intended to identify such forward looking statements, but are not the exclusive means of identifying such statements. By their very nature, forward looking statements involve inherent risks and uncertainties, both general and specific, and there are risks that predictions, forecasts, projections and other forward looking statements will not be achieved. If one or more of these risks materialise, or should underlying assumptions prove incorrect, actual results may be very different from those anticipated. The factors that could cause our actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward looking statements are discussed in each year's annual report. Forward looking statements apply only as of the date on which they are made, and we do not undertake other than in terms of the Listings Requirements of the JSE Limited, any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. All profit forecasts published in this report are unaudited.

Aspen Pharmacare Holdings Limited

(Registration number 1985/002935/06)

Share code: APN

ISIN: ZAE000066692

("Aspen" or "the Group")

Directors

N J Dlamini (Chairman)*, R C Andersen*, M G Attridge,
M R Bagus*, J F Buchanan*, K D Dlamini*,
S A Hussain*, C N Mortimer*, S B Saad, S V Zilwa*

*Non-executive director

Company Secretary: R Verster

There have been no changes in the directorate and company secretary of Aspen during the reporting period.

Registered office

Building Number 8, Healthcare Park, Woodlands Drive, Woodmead

Sponsor

Investec Bank Limited

Transfer secretary

Computershare Investor Services Proprietary Limited
(Registration number 2004/003647/07),
70 Marshall Street, Johannesburg, 2001.
(PO Box 61051, Marshalltown, 2107)

www.aspenpharma.com

Top to bottom: Portions of Aspen's South African-based manufacturing sites in Port Elizabeth, Clayville and East London

Building Number 8, Healthcare Park, Woodlands Drive, Woodmead
PO Box 1587, Gallo Manor, 2052
Telephone +27 11 239 6100
Telefax +27 11 239 6144

www.aspenpharma.com

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