



ANNUAL REPORT
2018 | 2019



INNOVATIVE
BIO-SCIENCE

ONDERSTEPSOORT BIOLOGICAL PRODUCTS SOC LTD





INNOVATIVE
BIO - SCIENCE







CONTENTS



6	Company Overview
7	Organisational Structure
8	Letter to the Minister of Agriculture, Land Reform and Rural Development
9	Chairperson's Overview
10	Corporate Governance
15	Report of the Chief Executive Officer
	EXECUTIVE COMMITTEE REPORTS
17	Report of the Secretariat
21	Report of the Corporate Service Executive
25	Report of the Sales and Marketing Executive
27	Report of the Chief Scientific Officer
29	Report of the Operations Executive
32	Report of the Chief Financial Officer
37	PERFORMANCE REPORT
	FINANCIAL REPORT
54	Audit Committee Report
55	Accounting Authority's Responsibilities and Approval
56	Certificate by the Acting Company Secretary
57	Report of the Auditor-General to Parliament
62	Directors' Report
65	Statement of Financial Position
66	Statement of Comprehensive Income
67	Statement of Changes in Equity
67	Statement of Cash Flows
70	Accounting Policies
84	Notes to the Annual Financial Statements
100	Detailed Income Statement
102	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.

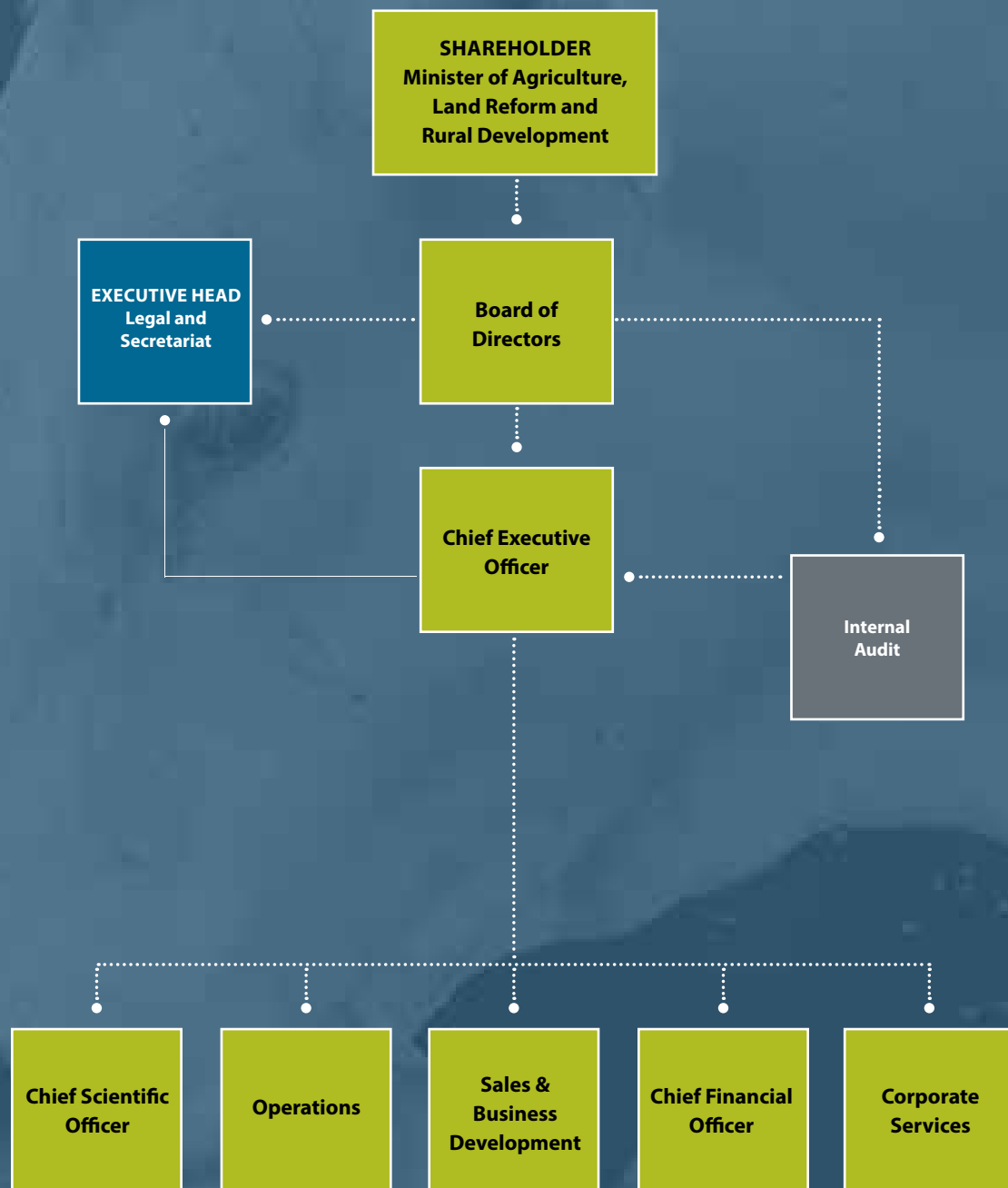
- As a state-owned company, we have a responsibility to provide for the public as stakeholders.
- We have a responsibility to society and to the environment.

Key Strategic Goals

1. Build a successful, high performance organisation.
2. Improve business processes and management practices.
3. Facilitate a more aggressive national and international market access and implement an effective distribution strategy.

ORGANISATIONAL STRUCTURE

MACRO STRUCTURE





LETTER TO THE MINISTER OF AGRICULTURE, LAND REFORM AND RURAL DEVELOPMENT

The Honourable Ms Thoko Didiza
Minister of Agriculture, Land Reform and Rural Development
Private Bag x100
Pretoria
0001

Dear Minister,

I have the honour of presenting to you the 2018/2019 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 2018 to 31 March 2019.

Yours faithfully,



Mr TR Ramabulana
Onderstepoort Biological Products SOC Ltd
Board Chairperson

CHAIRPERSON'S OVERVIEW

First and foremost, Onderstepoort Biological Products (OBP) welcomes the Honourable Minister of Agriculture, Land Reform and Rural Development, Ms Thoko Didiza and her Deputy Ministers, Mr. Mcebisi Skwatsha and Mr. Sdumo Dlamini.

In the same breath, a new Chief Executive Officer (CEO), Dr Baptiste (Baty) Dungu, was appointed effective 1 March 2019, following an extensive search by the Board to lead OBP. He brings to OBP a wealth of international experience in vaccinology including Good Manufacturing Practice (GMP). This will be key to strengthening operations, continued global expansion and modernising of infrastructure and processes for GMP compliance. His presence has also brought in expertise to help develop and improve production including internal processes thereby strengthening our core to compete in the market and deliver to the livestock farming communities.

My sincere appreciation goes to the former Minister of Agriculture, Forestry and Fisheries, Mr Senzeni Zokwana, and his Deputy, Mr Bheki Cele, the Director General, Mr Mike Mlengana and DAFF officials for their continued support to OBP during the year under review.

The OBP Board and I cannot thank you enough for your guidance and support in leading this organisation. To our customers, local and international, a heartfelt gratitude for the continued support you have shown throughout the years as reflected in our customer satisfaction survey results.

I would also want to extend my sincere appreciation to Dr Bethuel Nthangeni for holding the baton whilst we searched for a permanent CEO.

Finally, to the OBP staff, for their commitment, belief and loyalty to the organisation, the success achieved is through your dedication and hard work. Let us strive to make OBP a better organisation.



Mr TR Ramabulana
Onderstepoort Biological Products SOC Ltd
Board Chairperson





CORPORATE GOVERNANCE

Introduction

Exceptional governance framework plays an important role in assisting the Board to benefit from an enhanced understanding of its role. It is essential that an organisation's governance processes and practices are reviewed on a regular basis to guarantee that they are in line with best operating customs to address the constantly changing business climate and increasingly intricate corporate governance challenges.

Maintaining excellent governance structures increases business sustainability, profitability and also builds a positive reputation and a healthy culture within the organisation.

OBP envisions good corporate governance practices as fundamental to high-quality performance. In fulfilling its Shareholder mandate, OBP adhered to the statutory duties and responsibilities as outlined by the Companies Act of 2008 and Public Finance Management Act (PFMA) of 1999. OBP also adhered to the guidelines as set out in the Report on Corporate Governance in South Africa 2009 (King IV) as well as the Protocol on Corporate Governance in the Public Sector 2002. The organisation recognises that the underpinning component to a successful governance program is effective risk management.

Shareholding and Shareholder's Compact

The sole shareholder of OBP is the government of the Republic of South Africa (SA). The Minister of Agriculture, Land Reform and Rural Development is the Shareholder representative.

OBP's accounting authority, in consultation with the Minister of Agriculture, Land Reform and Rural Development sign a shareholder's compact annually, which governs the Board and Shareholder's role and responsibilities on OBP's mandate and key objectives.

Board Composition

The Minister of Agriculture, Land Reform and Rural Development is responsible for the appointment of OBP's Board of directors, whose structure consists of non-executive



CORPORATE GOVERNANCE



directors who have acquired diverse experience crucial for the advancement of the organisation.

Board meetings are planned annually and special meetings are scheduled as and when they are required to deal with critical 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 presents succinct overview of the role, authority, functions, role and responsibilities of directors, both collectively and independently. The Board has determined that as per the MOI, Shareholder's compact and relevant legislation, its main function and responsibilities are to:

- 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 (CP) and annual performance plan (APP) submitted to the Department of Agriculture, Land Reform and Rural Development 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 April 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 convene at least four meetings per year and any special meetings as and when required.

During the year under review, the Board held 4 scheduled board meetings, 1 special Board meeting and one strategic workshop to devise and endorse OBP's strategy.

Board Remuneration

The company provides full disclosure relating in terms of its directors' emoluments in the annual report. The consolidated directors' emoluments for OBP can be found on page xx 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 accordance 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 practices. Board members attend a selection of various training programmes crucial to adequately address the organisation's needs.



CORPORATE GOVERNANCE

Secretariat Function

The secretariat function provides guidance to directors on their roles 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 experts 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 (AR&IT)

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

The Committee reviews:

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

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

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

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

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

The Internal auditors (Morar Incorporated) and the external auditors (Auditor General) have unrestricted led access to the chairperson of the Audit, Risk and IT committee (IRAC) and the Board respectively. Six meetings were held during the year under review of which two were special

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, and
- Performance Management.

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

Four scheduled meetings were held during the year under review.

Research and Development Committee

The committee comprises of five non-executive directors.

The committee is responsible for:

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

CORPORATE GOVERNANCE



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

Four scheduled meetings were held during the year under review.

Operations, Sales and Marketing Committee

The committee comprises of four non-executive directors.

The committee is responsible for:

- Overseeing development of strategies, policies and standards related to the committee functions
- Advising management on the mobilisation of resources
- Overseeing the establishment of processes for the support of the core mandate of the organisation

Four scheduled meetings were held during the year under review.

Board and Committee Meetings attendance April 2018 to March 2019

BOARD MEMBERS APPOINTED 01ST AUGUST 2017

Name	Board	Special Board	Audit	Special Audit Risk & IT	Research Development Operations	Human Resources Remuneration and Ethics	Human Resources Remuneration & Ethics
Total Meetings Held	4	1	4	2	4	4	4
Board Members' Attendance							
* Mr T Ramabulana	4	1	-	-	3	3	4
** Mr Y Haffejee	4	1	4	2	-	-	4
*** Ms TK Mdlulwa	4	1	4	1	3	-	4
**** Dr P Vervoort	4	1	4	2	4	4	-
Dr C Nkuna	3	1	-	-	3	3	2
Ms F Mphuthi	4	1	4	2	4	4	-





REPORT OF THE CHIEF EXECUTIVE OFFICER



The South African economy has been under severe pressure in the last few years, it grew at 0.8% in 2018. The Agricultural sector is still recovering from the 2015/16 drought period. Livestock numbers were significantly reduced due to unfavourable drought conditions. Meanwhile the South African animal health sector saw new international entrants with more competitive products, and shift by competitors in supplying vaccines more adapted to the new stringent economic environment (such as combination products which reduce the vaccination costs to the farmers). Furthermore, production inefficiency linked to poor capacity and aging facility contributed to OBP's financial performance.

It is the objective of OBP to build a world class organisation with locally and globally competitive products to achieve high levels of financial stability. OBP experienced a decline in financial performance during the year under review from R173 million to R150 million, due to reduced local sales.

The international market continued to contribute significantly to the company's overall revenue performance and in line with our export strategies.

Progress has been made in upgrading the facility toward Good Manufacturing Practice (GMP) compliance. The targeted milestones for both Viral and Bacterial sites have progressed as planned.

OBP is determined to be a customer-driven organisation through innovative technology and service. It is the objective of OBP to improve and maintain customer satisfaction through implementing customer focused product development, marketing and distribution strategies. The results of the customer survey that OBP conducted has shown a 10% increase in customer satisfaction compared to the previous year of survey, 2010. The year under review saw OBP increasing its distribution channels in the rural areas; this was to ensure accessibility of OBP vaccines to emerging farmers.

During the year under review, OBP submitted product amendment and registration requests for market authorization in national and international regulatory authorities, and this is part of OBP's strategy of expanding its market share and to satisfy customer demands.

OBP employees attended a number of training programmes for personal development and to improve their effectiveness in the working environment. A significant step was to successfully recruit a long-term CEO, who joined OBP on 01 March 2019.

OBP achieved 46% of the projected performance, essentially due to non-achievement of financial targets. However, OBP is determined to improve its efficiency and regain market share through more effective marketing and innovative market-driven products.

Dr Baptise Dungu
Onderstepoort Biological Products SOC Ltd
Chief Executive Officer





REPORT OF THE SECRETARIAT



Risk Management

Risk Management at OBP SOC LTD is continually improved through learning and experience. OBP Risk management strategy aims to ensure pursuit of opportunities and flexibility in responding to the risks identified.

OBP SOC LTD recognises that in ensuring continual improvement of the organisational performance is interrelated to continual improvement of risk management performance. OBP is committed to continual risk management improvement, risk based decision making to reduce uncertainty in achieving objectives, minimize volatility and increase agility.

It is recognised by OBP SOC LTD that managing risk effectively depends solely in increasing the likelihood that the company objectives will be achieved in full.

The Risk Management Policy and framework of OBP SOC LTD sets out the approach to identifying, analyzing, managing and reporting internal and external risks and opportunities. Furthermore, defined within the policy is the roles and responsibilities, principles, standards, methods, tools and training measures to create the base for the independent, proactive and systematic management of risks by all staff including the Board of Directors (BoD) as the highest governance body providing oversight. A risk management process exists covering the entire company to identify and manage all types of risks with a potential impact to its business.

Managing Risks

OBP SOC LTD Risk management process comprises of deploying resources to ensure the achievement of the business performance plans, including the exploitation of available opportunities. Risk Profiles inherent to existing

activities are maintained within the acceptable levels there by creating value for our shareholder, stakeholders and sustained growth.

Risk assessments are conducted at all operating levels at least once a year notwithstanding that the process of risk management is continuous in line with the company's business context changes. Following the facilitation of risk assessments with the executive team and management, the risk department consolidates and analyzes the priority risks including submitting Risk Assessment Report to the RAI (Risk Audit and IT) Committee of the board for review and approval.

Mitigation strategies are developed by management to treat the risks to acceptable levels in alignment with strategy. Management may use the options available to decide to eliminate the risk through preventative processes, accept the risk by maintaining the risk at its current level, share the risk with an independent counterpart or manage the risk by implementing policies and procedures to reduce the risk. Line managers are responsible for ensuring that appropriate treatment action plans are implemented and internal controls are in place.

Periodically, management monitors the existing and emerging risks, risk response strategies and internal controls in place to manage risks to an acceptable level. The Audit, Risk and IT Committee of the Board of Directors are updated on the action plan progress and risk status.

Training and Awareness was conducted for all staff focusing on creating a risk management culture, risk smart workforce and embedded risk management within department's day to day activities.

Financial risk management is specifically described in the Finance Report.



REPORT OF THE SECRETARIAT

The table below outlines the 4 (four) priority risks, impacts and mitigation activities adapted from the 2018/19 Strategic Risk Register. Only those risks that are classified in our risk matrix as “high” are included. The sequence in which the risks are listed does not imply any order of significance.

KEY RISK	IMPACT	MITIGATION PLAN
Production inefficiencies	Production backlogs High product failure rate Failure to satisfy customer demand Loss of revenue High operational costs	GMP Plant upgrade Validation of processes Implementation of innovative process improvement and streamlining
Lack of market share growth/loss of market share	Decline in sales and turnover Financial constraints High stock levels/ expiry of product shelf life leading to stock write-offs	Review, update and effective implementation of marketing strategy Evaluation of performance against departmental operational plan/ performance contracts Re-evaluation of product list and diversity Improved forecasting Stakeholder engagement (provincial governments) Stability Programme to improve product shelf life (QC)
Governance, strategic and operational business failures	Poor organisational performance Business inefficiencies Loss stakeholder confidence Loss of relevance	Establish GMP Steering Committee Monitoring of strategy plan and operational plan implementation and achievement of performance objectives. Monitoring of the effectiveness of the committees in terms of performance and reporting.
Insufficient Research and Development output	Failure to improve and expand existing product range Low R&D success rate Loss of market share to competitors Negative brand perception	Review and update of R&D strategy GMP Project - Phase 3 to address R&D infrastructure Completion of Animal Facility feasibility study Collaboration projects with partners R&D, Production and Sales & Marketing integrated planning

Overall management assessment of opportunities and risks

OBP SOC LTD management focussed on the assessment of the effectiveness of risk-minimizing measures in the last two quarters of the year under review. The Risk Management department monitored key measures with regard to the planned implementation timeframe and the assumed risk-minimizing effect. Risk Management uses this information to determine the current risk profile for OBP SOC LTD, reporting this to the management and Audit Risk and IT committee of the board.

The Strategic Risk Register for 2017/18 financial year was reviewed following 2018/19 risk assessments conducted, changes were recorded and an updated risk register compiled consisting of 13(thirteen) risks and 4 (four) of these are high. The risk exposure on 5 (five) risks decreased and the risk exposure on 9 risks increased. This change was informed by the change in the internal and external operating environment. Further, there were risks that were reviewed to ensure that they were strategic and more encompassing, risks that were restated, reclassified as either a contributing factor, a consequence and operational risk and 1 (one) new risk.

REPORT OF THE SECRETARIAT

During the year under review, OBP's key risks continued to be managed. Management of these risks included identifying new action plans, enhanced the current action plans to ensure risk reduction to acceptable levels.

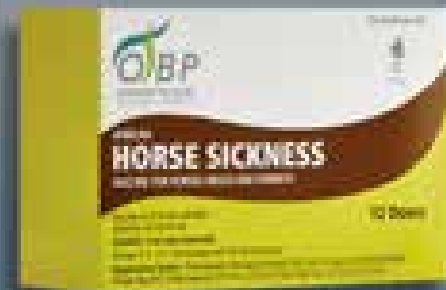
There is a continued effort by management and BoD to monitor the key risks and their aggregated impact to ensure that they do not endanger OBP's sustainability as business.

1. Communications

Without effective communication, companies find it difficult to relate with employees or relay desired messages to them. It is therefore imperative to make constant effort to improve communication channels within an organisation and to provide a comfortable and transparent environment for parties at all levels within the organisation. Internal and external communication are equally imperative channels that need to be maintained to ensure that there are no barriers formed and that communication is continuously used as an effective tool within the organisation.

During the year under review, the well-established communication channels that already exist for both internal and external publics were continuously maintained. The ever growing quarterly magazine Zwahashu, which strives in ensuring transparency between all internal publics, provided relevant information and continuous update for the organisation.

Keeping the lines of communication open for our external publics is vital and it is imperative for OBP to know how it is perceived by its external stakeholders. Print media such as the Farmer's Weekly magazine and other newspapers; provide an excellent platform for communication with our external stakeholders, which strengthens relationships and ensures that all parties involved are kept abreast of all developments at any given point in time. It is the Communication department's mission to continue to excel OBP's communication tools and platforms to keep the organisation constantly embryonic and in line with universal inclinations.





REPORT OF THE SECRETARIAT

2. Corporate Social Investment

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 within which it operates and these are predominantly in rural and underdeveloped areas. This is done through development of knowledge and skills either in monetary form or in kind.

FOCUS AREAS:

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

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

- Atteridgeville Prison
- Wolmer community centre
- Luthando orphanage
- Gracia youth centre
- Madatshitshi primary school
- Johannesburg Female Correctional (Sun City)

OBP collaborated with the Department of Agriculture, Land Reform and Rural Development, which was then known as the Department of Agriculture, Forestry and Fisheries (DAFF) in partnership with the Western Cape, the Food and Agriculture Organization (FAO) of the United Nations (UN) and other countries worldwide in observing World Food Day. The event took place on the 24th October, rather than 16th October due to unforeseen circumstances, at the Brandwacht (Brandwag) Sports grounds in Mossel Bay, Western Cape. The theme for the event was "Zero Hunger, Our Actions are our Future". 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.

World Food Day activities went across borders as OBP yet again collaborated with the Minister of Agriculture, Land Reform and Rural Development (previously known as DAFF) and other SOCs to assist Namibia with launching the commencement of their own World Food Day. The theme was #ZERO HUNGER world by 2030 is possible for the event that took place on the 30th October 2018.

Secondary CSI

OBP also participated in other initiatives by the Ministry where the CSI team interacted with emerging farmers at the following events:

- National Arbor Week - Nelspruit, Mpumalanga
- 8th Biennial National LandCare Conference – Bloemfontein

REPORT OF THE CORPORATE SERVICES EXECUTIVE



1. Brief Background

The company's Corporate Services division focuses in the provision of Human Resources, Employee Relations, and Occupational Health & Environment and Safety services in the company.

This function encompasses in a collective manner, management of human resources in the company. The company, Biological Products Limited (OBP SOC LTD) identified as one of its key strategic priorities the attraction and retention of human talent to ensure that it delivers on its mandate.

2. Workforce Profile

The company's headcount stood at 213, as end March 2019, made of permanent, fixed term employees, learners and interns.

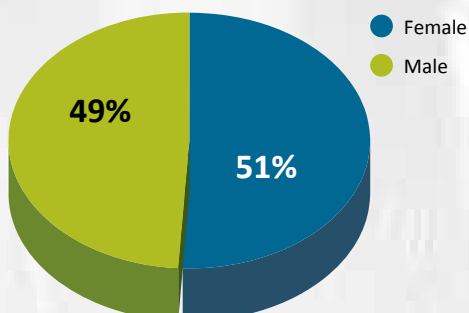
The following represents the racial and gender demographics during the period:

- 2.1. Female: 51% of the workforce
- 2.2 African: 89% of the workforce

Female employees accounts for 41% of management, i.e. Executive and Management Committee, respectively.

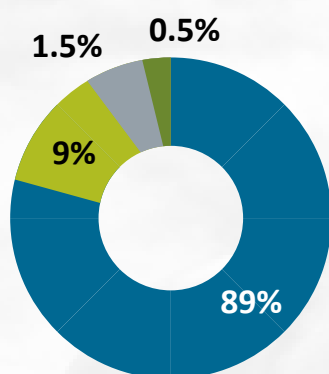
Workforce Profile by Gender

Gender Distribution
- OBP



REPORT OF THE CORPORATE SERVICES EXECUTIVE

Workforce Profile by Race



Race Distribution Management

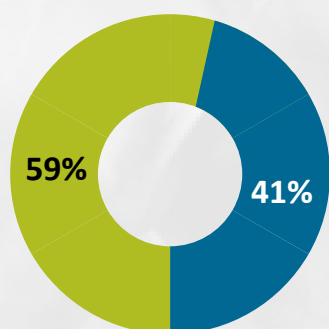
- African
- White
- Coloured
- Indian

The workforce profile is closely aligned with the economically active population statistics for the Gauteng Province. There is, however, less representation of Coloured, Indian and White employees. Whilst the company has done well with regards to the representation of females, the representation of people with disabilities is currently at 1.5%. Strategies are required to promote representation of people living with disabilities at all occupational levels.

3. Age Profile

Twenty-seven percent (27%) of staff are within the 50-59-year bracket and could be considered a retirement risk. Development of succession plans is an ongoing process to ensure skills retention and sustainability of the company.

Workforce Profile by Gender



Gender Distribution Management

- Female
- Male

4. Vacancy Rate

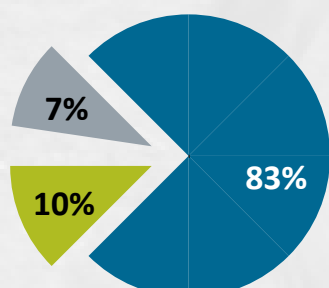
The vacancy rate is currently at 24, 9%. An increase of 10.9% has been observed compared to the vacancy rate in the previous financial year.

During the year under review, 42 employees were appointed in line with existing internal recruitment policies.

5. Turnover Rate

OBP's turnover rate for the year was 5%, a reduction of 3% as compared to the 2017/18 financial year. There were 10 terminations during the year under review.

Workforce Profile by Race



Race Distribution Management

- African
- White
- Coloured

6. Learning and Development

OBP has adopted a blended approach to learning and development.

This includes the following, among others:

- In-House training courses;
- External training courses;
- Granting of Bursaries;

REPORT OF THE CORPORATE SERVICES EXECUTIVE



- Learnership Programmes;
- Internship Programmes; and
- On-The-Job Training.

6.1 Employee training for the 2018/2019 financial year

OCCUPATIONAL LEVELS	MALE				FEMALE			
	A	C	I	W	A	C	I	W
Top management	0	0	0	0	0	0	0	0
Executive management	3	0	0	0	2	0	0	0
Management	5	2	0	3	8	0	0	0
Skilled employees	22	1	0	1	33	0	1	3
Semi-skilled employees	14	0	0	2	18	0	0	5
Basic – skilled employees	16	0	0	0	10	0	0	0
TOTAL PERMANENT	60	3	0	6	71	0	1	8
Temporary employees	2	0	0	0	3	0	0	0
GRAND TOTAL	62	3	0	6	74	0	1	8

6.2 Learnership and Internship Programmes

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

- Animal Production, and
- Pharmaceutical Sales Administrators

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

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

The interns for various divisions commenced in August 2018.

6.3 Bursaries

Bursaries are granted to current employees. The bursaries are managed through the Bursary Policy. There are currently 8 employees who are on the bursary scheme.

7. Performance Management

The purpose of the current policy is to promote a culture of a performance driven organization. A consistent application of this culture would assist in the improvement of the company's productivity and rewarding of good performance. A performance target of 80% was set as outlined in the Annual Performance Plan and only 46% were achieved.

8. Salary Increases

Salary increases for the bargaining unit (Salary Levels A to C) are negotiated at the Bargaining Forum and a proposal for level D management salary increases was submitted. The Executive salary increases are determined by the Board of Directors.

Employees within the said grading levels are represented by National Union of Public Services and Allied Workers (NUPSAW) and National Education Health & Allied Workers Union (NEHAWU) during the negotiations.

The 2018/19 wage negotiations were planned to commence February 2019 for implementation in April 2019.

9. Employee Relations

The company enjoys a cordial relationship with the recognized Trade Unions in the workplace. There were few cases referred to the CCMA for adjudication. Those referred ranged from unfair dismissals to unfair labour practices. Few cases were referred to the Labour Court.

10. Employee Wellness

OBP has implemented a comprehensive wellness programme which provides the following services until the end of August 2018:

- Occupational health services through our on-site clinic;
- 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;



REPORT OF THE CORPORATE SERVICES EXECUTIVE

- A chronic disease management programme; and
- A medical surveillance programme.

11. Security and Facilities Management

OBP operates under the National Key Point Act 102 of 1980 (NKP) 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 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 specifically by trained personnel in the prescriptions that entail the cleaning and maintenance of said laboratories.

12. Safety, Health and Environment (SHE)

During the year under review OBP SOC LTD continued its commitment in complying with the Occupational health and safety Act No 85 of 1993. During the risk assessments, only two significant risks were identified.

Two fire drills were conducted as per provisions of the Occupational health and safety Act No 85 of 1993. SHE Committee meetings also took place in accordance with Act.

The company continues to ensure that conducting periodic medical surveillance on existing staff and new staff is complied with.

There were 12 recorded incidences and only 25% of these were considered as major.

Training and awareness was conducted in line with the training gaps to increase staff understanding on safety.

In the next financial year 2019/20, the organisation aims to increase interventions in eliminating human error related incidents through training. Effective engineering controls will be implemented to eliminate machinery related high risks.

OBP, as an SOC finds itself confronted by many challenges in terms of ensuring its financial viability and attracting talent in its environment. To achieve these, would among others require effective and sustainable resolute by its Leadership Team to implement a new strategy in positioning itself as an employer of choice in the manufacturing of livestock vaccine. Internally, the company would be hard pressed to conduct a skills audit aimed at assessing its skills profile, vis-à-vis external skills requirements. Skills development remains a must and a strategic tool in ensuring the continued economic and financial viability of the organisation.

OBP has over achieved its EE targets for previously disadvantaged groups and would be best advised to now embark on a process of promoting diversity all levels of occupational categories.

REPORT OF THE SALES AND 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 did not perform as expected in the 2018/19 financial year against budget. Overall sales revenue generated was almost the same as the 2017/18 performance; however, the company was 6% above budget. Export market continued with growth trajectory ending 83% above budget. However, the department was 3% below 2017/18. Although Domestic did not achieve its budget, the department was 6% above the 2016/17 financial year. Figure 2 below depicts contribution by group which entails viral and bacterial products.

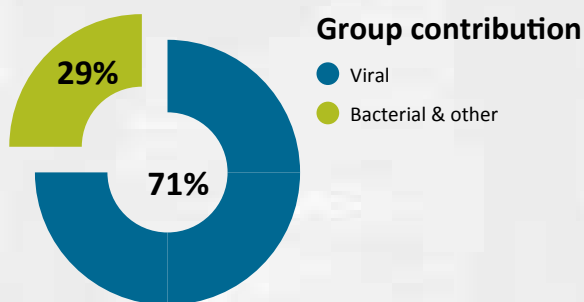


Figure 5: Group contribution of products

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



REPORT OF THE SALES AND MARKETING EXECUTIVE

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 (2018/19).

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 improve OBP's corporate brand exposure and services to all stakeholders e.g. participation in key stakeholder events like exhibitions, giving sponsorships, and training. Recent market research showed that stakeholders are able to distinguish between and associate OBP's services with its own brand identity.

3.3 Development of New Markets

The Export unit identified new markets and even distributing OBP products directly into these markets. These newly identified markets were in Europe, West Africa and the Middle East.

3.4 Increase in Current Markets

Although we were 35% below target on volumes we intended to achieve, the company managed to demonstrate market growth by 15%. There was a 10% and 21% market growth both in the domestic and export markets respectively as compared to 2018/19.

Table : Doses distributed

	2018 SALES GROWTH
Domestic	10% more 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 2017/18. The company continued to support entrepreneurship by supporting small coops in rural areas to improve accessibility of OBP's products.

4. Conclusion

The company has shown significant growth in the 2018/19 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 CHIEF SCIENTIFIC OFFICER

The Research and Development (R&D) unit exists to expand the product portfolio and introduce new production and quality control technologies within OBP. The major focus for the unit is to advance proof of concepts technologies and product development innovations to commercial implementations. This is in addition to troubleshooting activities of production process challenges that might be experienced by OBP. The primary deliverables for the R&D unit are new product dossiers, improved production processes and technology transfers within and outside OBP. It is the objective of R&D to pursue scientific excellence through investing in own staff and publishing scientific outputs in peer reviewed platforms and technical presentations in scientific meetings.

OBP rarely embarks on discovery research for new pharmaceutical ingredients. However, it relies on its national and international network of collaborators to source relevant innovations for upscaling, validation and adoption as new products and technologies provided certain pre-set performance criteria are fulfilled. The unit benefited from collaborations on vaccine development projects with the Agricultural Research Council (ARC), Council for Scientific and Industrial Research (CSIR), University of Pretoria (UP), University of Johannesburg (UJ), North-West, KwaZulu-Natal the Free State. National funding agents who funded OBP R&D activities included the Technology Innovation Agency and the National Research Foundation (NRF). The International Development Research Centre (IDRC) is funding some major product development projects, and all these are in addition to an appreciable investment made by OBP as part of its R&D funding budget.

During the year under review, OBP submitted new applications to Act 36/1947 for approval. These applications are currently being reviewed by Act 36 pending approval. One new product was approved by the Registrar of Act 36 during the course of this financial year. A number of technical documents were submitted to foreign customers for possible registration of vaccines in Western Europe, South West Asia and Africa. It is noteworthy that all vaccine development initiatives are in compliance with the regulatory and guideline prescriptions of the South African Veterinary Council (SAVC), National Council of Society for the Prevention of Cruelty to Animals (NCSPCA),





REPORT OF THE CHIEF SCIENTIFIC OFFICER

Animal Diseases Act (35 of 1984), the Fertilizers, Farm Feeds, Agricultural Remedies and Stock Remedies Act, 1947 Act (No. 36 of 1947) and the Genetically Modified Organism Act (No. 15 of 1997).

The R&D unit continued to invest in staff capacity building, with four staff members from the unit being registered or continuing with PhD's (three) and MSc (2) degrees with the Universities of Pretoria, North-West, KwaZulu-Natal, Free State and Johannesburg. Furthermore, there were two additional MSc students registered with the University of Johannesburg (UJ) who are working on projects co-supervised by OBP and UJ personnel. The unit also trained two interns in the field of vaccine development.

Funding opportunities

The R&D unit responded to a number of competitive funding calls and the following were awarded or renewed:

- Ms Boitumelo Moetlhoa and Mrs Nokukhanya Ncube's funding applications were approved for the NRF Thuthuka PhD track funding.
- Dr Leeann Naicker was approved for the NRF Thuthuka post-doctoral track.
- The International Development Research Centre funding funded R10 million between OBP and ARC-OVI.
- Drs Faranani Ramagoma and Nobalanda Mokoena were funded by the NRF on the Knowledge Interchange and Collaboration programme.
- Dr Faranani Ramagoma received the Bill and Melinda Gates Foundation Global Health Travel Award for the S5 Leveraging Genomic Diversity to Promote Animal and Human Health conference.
- Dr Christine Mwenge Kahinda- BactiVac received both the Grant Writing Workshop and the Travel Bursary Awards to University of Birmingham, United Kingdom.

Scientific presentations

- Dr Nobalanda Mokoena was invited to present at the Animal Health conference organized by Technology Innovation Agency held on the 7-8 August in Pretoria on the

topic: Developmental and Regulatory challenges when registering animal vaccines.

- Ms Boitumelo Moetlhoa presented a technical paper at the Biotrans Lyotalk Conference- 10- 11 October 2018, Orlando, Florida, USA on the topic: Formulation and Lyophilisation in veterinary vaccine development: South African Regulatory requirements.
- Ms Nokukhanya Ncube and Mr Boet Weyers presented a technical paper at the Third Global Conference and Expo on Vaccines Research & Development, March 25-26, 2019, Milan, Italy on the topic: Challenges towards understanding bacterial virulence traits for diseases: A prospective area of study for drug/vaccines development.

International visits

- Mr Vusi Dibakwane, Dr Christine Mwenge Kahinda, Mr Lloyd Ikaneng and Mr Boet Weyers attended the Seppic Adjuvant Training workshop, France, July 2018.
- Dr Faranani Ramagoma and Dr Nobalanda Mokoena visited the University of Chinhoyi, Zimbabwe, 01 to 13 July 2018 on the international exchange program funded by the NRF Knowledge Interchange and Collaboration programme.

REPORT OF THE OPERATIONS EXECUTIVE

The financial year of 2018/19 proved to be quite challenging and exciting all at the same time. Despite challenges, we managed to get the stock out to the market and satisfied our customers, a sterling effort from Raw Materials all the way to the Filling and Packaging departments.

On the other hand, the GMP Facility Upgrade Project gained momentum throughout the year resulting in restricted access to many areas and noise due to ongoing construction. Once again I would like to thank each and every staff member of OBP, including management, for their sterling effort and contribution in making this year a success in light of all that we went through. All we achieved was because of the sacrifices from each and every OBP employee.

This report will give an update on Production and the GMP Facility Upgrade Project,

1. Production Update

Having come out of a stock shortage phase and key antigen stockpiling, the next logical progression was to focus on improving efficiencies across operations in order to ensure that the products produced are transferred to distribution for sale as efficiently as possible. This is easier said than done with the challenges that we faced, particularly with losing a number of staff members to retirement from Operations. Whilst we welcome retirements as they provide an opportunity to bring in new talent, the honest truth is that the organization loses years of institutional memory that cannot be plugged in an instant.

Below are some of the highlights from this year:

- OBP Board of Directors approved the capital expenditure for crucial equipment including the freeze drier, labelling and packaging machines to improve efficiencies and relieve production bottlenecks. The packaging equipment can be expected to be delivered late in 2019;
- ACHEMA 2018 in Germany presented an opportunity for OBP to identify new equipment and explore technological advancements from suppliers across the globe under a single roof;







REPORT OF THE OPERATIONS EXECUTIVE



- Ms. Cynthia Ntsumele was appointed into the role Production Manager to lead vaccine production and drive the efficiencies as we move towards the GMP certification over the next 2 years;
- With inactivated antigens having been produced in advance, the formulation and filling was carried out in earnest despite some challenges;
- The review of processes and documentation as part of the preparations to migrate into the upgraded facility has commenced and is underway. This is going to be an immense undertaking and will require a coordinated effort between Production, Quality and other supporting departments. External expertise will be required as well to assist and ensure we are on the right track as we embark in this exercise.

2. Engineering, Maintenance and Utilities (EMU)

The manufacturing facility turned 50 years old in 2018 and continues to show signs of infrastructural decay that manifests in the form of unexpected breakdowns and production downtime. More than ever, the role of the EMU department in providing production support with reliable equipment and utilities to ensure that a continuous production state is maintained cannot be overemphasized. The previous year again saw the EMU department tirelessly working to ensure that OBP remained in operation. Whilst some success was achieved conducting most of the handy work in-house, there were some crunch moments towards the end of the year with some of the utilities and equipment breakdowns.

The focus for the coming year will be on putting systems in place to ensure robust maintenance planning and execution. The current staff compliment will need training to be multi-skilling to improve overall efficiency of the unit.

3. GMP Facility Upgrade/Modernization Project

Since the Board of Directors approved the commencement of the GMP Facility Upgrade/Modernization Project in the third quarter of 2016/17 financial year, progress has been made and as at the end of the fourth quarter 2018/19 the following has been achieved:

Building/Facility

- Plant Room Steel Rack constructed & Block T Roof Sheeting complete
- Concrete Slab on Block T Completed
- Drainage system for Phase 1 complete
- Clean room panelling for Phase 1 ready for shipment

Equipment

- Factory Acceptance Testing (FAT) for long lead items (Fermenters, Centrifuges, Autoclaves & Glassware Washers) successfully completed in March 2019.
- Viral Vaccine Roller equipment delivered from Germany. Commissioning expected in August 2019

Utilities

- Procurement of Steam Generation & CIP Systems, Process Mobile Vessels, Formulation Tanks/Skid and Steel Piping in progress.

4. Looking ahead into the 2019/20 FY, the following can be expected

- The Operations systems will be reviewed to align with the GMP requirements. Process reviews will be crucial in order to facilitate the process validation stages.
- 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.
- Process troubleshooting and streamlining ahead of the transfer will be crucial for success in the upgraded facility.
- 80% of new equipment for the upgraded facility expected to be delivered for completion
- Phase 1 construction for Bacterial, Viral and Formulation and Filling areas is expected to be completed in the coming year.



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 player's year on year and, in addition the competition has also increased over the number of years and eaten up the OBP's market share. The business is in the process of upgrading the production facility due to the aged infrastructure.

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 was 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.

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

2.1 Financial Management

This section focuses on maintaining and implementing sound financial management processes and controls, and ensuring



REPORT OF THE CHIEF FINANCIAL OFFICER



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.

2.2 Supply Chain and Distribution

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 integrated supply chain through effective planning, sourcing, manufacturing 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 in ensuring that these functions are fully supported. One of the key functions of the procurement sub-division is the management of a supplier base and inventory to ensure 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 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 spend of 37% on Black women-owned individuals/organisations and 55% spend on Black-owned individuals/organisations.

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

The company is in the process of obtaining the BEE certification in line with Generic verification guidelines as issued by the Department of Trade and Industry (DTI).

2.3 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, 56% of the commercial local sales was processed through customer E-commerce portal was introduced. The portal enables OBP customers to place and manage their products orders online.

The portal forms part of the IT department'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.

2.4 Results from Operations

The financial performance of the company has decline compared to prior year performance from revenue perspectives. Our international sales have continued to contribute significantly to the company's overall revenues performance in line with our strategic view of export is our future.

	2019	% Change	2018
Revenue	150 108 517	-15%	173 075 626
Expenditure	125 091 766	-8%	135 575 749
Property Plant and Equipment	245 150 537	33%	163 460 727
Cash and Cash Equivalents	394 608 052	-30%	511 398 044

REPORT OF THE CHIEF FINANCIAL OFFICER

2.4.1 Revenue

Revenue declined from R173 million in prior years to R150 million during the year under review. The decline in revenue is mainly attributable to loss of tender business from the EU markets as compared to prior year. We expect the positive production output and revenue trajectory to continue going forward.

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

2.4.2 Gross margin

A gross margin of 81% was realised compared to the gross profit of 83% 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.

2.4.3 Other Income

Other income amounted to R16 million for the year under review. The amount exceeded the prior year by R8 million. The performance of the South African rand against major trading currencies generated the gain of R15 million during the year under review and the foreign exchange gain is attributable to natural hedging through our Euro and Dollar dominated accounts.

2.4.4 Operating and Administrative Expenses

The overall business expenditure decreased by 7% year on year.

2.4.5 Investment income

Investment income remained at R30 million in the current financial year, same as the previous year.

2.5 Organisational Performance

FINANCIAL PERFORMANCE

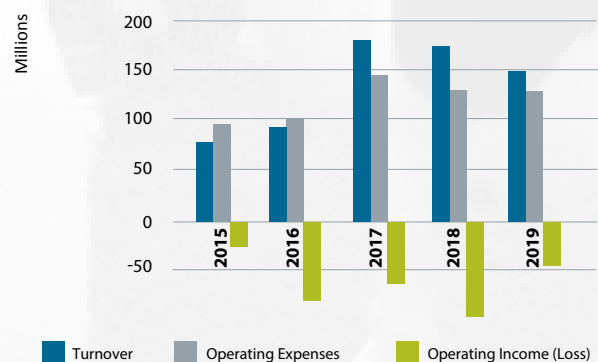


Figure: Five-year financial performance of Onderstepoort Biological Products SOC Ltd

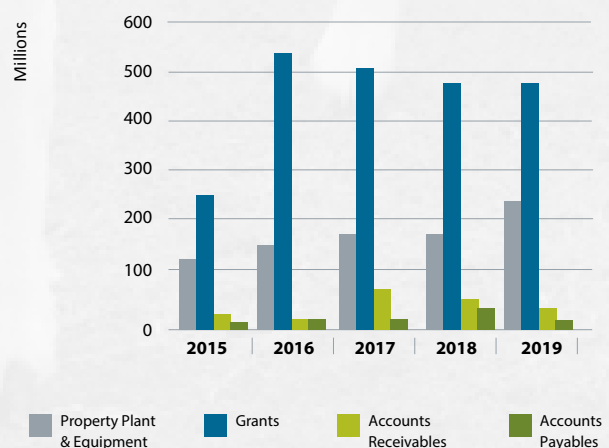


Figure: Five-year financial position of Onderstepoort Biological Products SOC Ltd

REPORT OF THE CHIEF FINANCIAL OFFICER

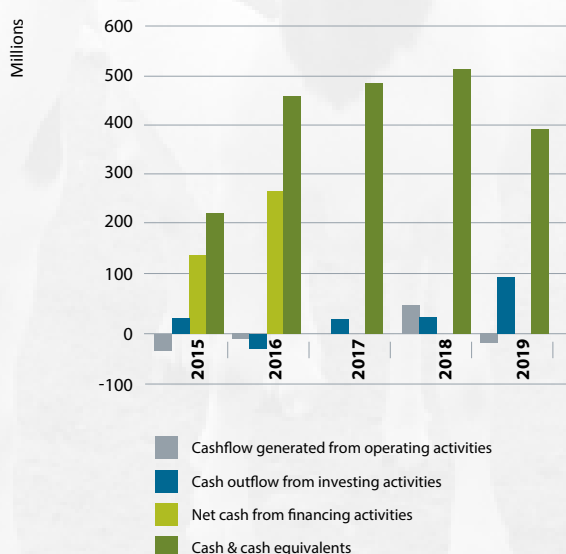


Figure: Five-year Cash Flows and Cash Reserves of Onderstepoort Biological Products SOC Ltd

2.6 Financial Position

Our financial position has improved over the past five years primarily due to the cash injection by the Shareholder for the plant recapitalisation programme.

Net cash balances at 31 March 2019 of R394 million represent and decrease of R116 million over the period under review. The decrease in cash position is due to the investment done on the modernisation and refurbishment project.

Our strong financial position allows us to modernise and refurbish our facility toward the achievement of current Good Manufacturing Practice (cGMP) certification, to access the international markets and to pursue growth opportunities across Africa and the rest of the world when they arise.

2.7 Delivering Value to Stakeholders

We return value to our shareholder by ensuring that government priorities are met, especially by alleviating poverty through food security and improved animal health within South Africa, SADC and the world at large.

2.8 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.

2.9 Key Financial Risks

A significant number of machinery acquisition 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.





CONTENTS



ANNUAL PERFORMANCE REPORT FOR 2018/2019

1. Executive Summary

2. Financial Analysis

3. Annual Performance Report for Financial Year 2018/19

3.1 Strategic Goal 1

To build a world-class organisation with globally competitive products to achieve high levels of financial sustainability

3.2 Strategic Goal 2

To be a customer-driven organisation through innovative technology and service

3.3 Strategic Goal 3

To drive performance in order to improve organisational effectiveness

3.4 Strategic Goal 4

To contribute to government priorities with respect to socio-economic development



ANNUAL PERFORMANCE REPORT FOR 2018/2019

1. Executive Summary

The organisational performance for the 2018/19 financial year against the set strategic goals and Annual Performance Plan for the year has brought the organisation to an achievement rate of 46%. In comparison to the previous year, OBP has experienced a decline of 18.25%.

The main reason for the decline has been highlighted further in the report as operational failures involving poor vaccine production outputs, aged equipment and utilities and the facility upgrade running parallel.

Considerable effort had gone into refurbishing the aged plant and procuring new compatible equipment to ensure that products are available when the market needs them.

OBP generated net sales of revenue of R148 million against a target of R240 million resulting in the under performance of R92 million.

The Corporate Plan for 2019/20 to 2021/22 was developed and approved. The focus for the 2019/20 financial year is on strengthening relationships with OBP clients to address the negatives from the customer perception survey. The organisational structure is being reviewed and aligned to ensure delivery of the new strategic objectives for the new financial period.



ANNUAL PERFORMANCE REPORT FOR 2018/2019

2. Financial Analysis

For the period ending March, OBP generated gross sales of R163.2 million, compared to the budget of R320 million. There is an under-performance of R156.8 million.

Vaccines sales revenue contributes 97% to OBP's overall revenue.

The Local market sales equates to 63%% of the total sales for the period ended March 2019, while the export market equates to 35%. The remaining 2% relates to government sales.

3. Annual Performance Report for Financial Year 2018/19

3.1 Strategic Goal 1

Strategic Goal 1	To build a world-class organisation with globally competitive products to achieve high levels of financial sustainability.
Goal statement	To be a world-class organisation underpinned by globally competitive products to ensure financial stability.
Strategic Objective 1.1	Ensure financial sustainability.
Objective Statement	Increase sales revenue Improve profitability (Profit Before Tax and Interest)
Baseline	R173,6 million (Revenue) R5,5 million (Profit before Tax and Interest)
Baseline	There is a need to ensure profitability and sustainability of the organisation.
Strategic Objective 1.2	Build a cGMP compliant facility
Objective Statement	Build a GMP compliant manufacturing plant to ensure manufacturing of high quality products.
Baseline	Phase 1: 100% completed
Justification	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.



ANNUAL PERFORMANCE REPORT FOR 2018/2019

Strategic Objective 1.3	Ensure good governance and a sound control environment
Objective Statement	To reduce findings by internal audit and Auditor-General resulting in a clean audit report.
Baseline	Unqualified audit
Justification	Compliance through the application of the relevant acts, regulations, governance circulars and internal policies
Strategic Objective 1.4	Ensure production efficiency.
Objective Statement	Ensure more efficient production
Baseline	Number of doses transferred to distribution: 31.5 million Average failure rate: 17%
Justification	There is a critical need to reduce costs, increase yields, and improve efficiencies and productivity across the organisation.
Strategic Objective 1.5	Increase market share.
Objective Statement	To increase 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.

ANNUAL PERFORMANCE REPORT FOR 2018/2019



Strategic Goal 1		To build a world-class organisation with globally competitive products to achieve high levels of financial sustainability.					
Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	Actual Output (2017/18)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2018/19	Actual 2018/19		
1.1 Ensure Financial Sustainability	Increase Sales Revenue	R173 million	R173 million	R320 million	R163 million	Not Achieved -R157 million	Product availability, short expiry dates and over-forecasting of products
	Improve profitability (Profit before Tax and Interest)	R5,5 million	R16.9 million	R72 million	R17.8 million	Not Achieved -R54.2 million	Refer to 1.1
1.2 Build a cGMP Compliant Plant	Complete reconstruction and modernisation of existing manufacturing facility to GMP compliance status	Phase 1: 100% completed	Stage 3 – 0% Stage 4 – 0% Stage 5 – 0%	80% of Bacterial & Viral Vaccine construction completed as per project plan	83% of Bacterial & Viral Vaccine construction completed as per project plan	Achieved +3%	Target achieved due to availability of resources ahead of time
1.3 Achieve a clean audit	Clean Audit	Unqualified audit	Unqualified audit	Clean Audit	Unqualified audit	Not Achieved	Target Unqualified audit opinion, material adjustments

ANNUAL PERFORMANCE REPORT FOR 2018/2019

Strategic Goal 1		To build a world-class organisation with globally competitive products to achieve high levels of financial sustainability.					
Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	Actual Output (2017/18)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2018/19	Actual 2018/19		
1.4 Ensure production efficiency	Percentage of doses transferred to distribution against forecast (Top 20 products)	No Baseline		75% of doses transferred to distribution aligned to forecast	48% doses transferred to distribution aligned to forecast	Not Achieved -27%	Refer to 1.1
	Percentage of sales against forecast (Top 20 products)	No Baseline		75% of sales aligned to forecast	49% of sales aligned to forecast	Not Achieved -26%	Refer to 1.1
	Overall batch failure rate	17%	38%	12%	21%	Not Achieved -9%	Equipment failure, and utilities unavailability
1.5 Increase market share	Number of doses sold	22 million doses sold	25.4 million	41 million doses	22.5 million doses	Not Achieved -18.5 million doses	Refer to 1.1.

ANNUAL PERFORMANCE REPORT FOR 2018/2019



3.2 Strategic Goal 2

Strategic Goal 2	To be a customer-driven organisation through innovative technology and service.
Objective statement	To improve customer satisfaction by developing, sourcing and registering combination vaccines.
Strategic Objective 2.1	Improve customer satisfaction
Objective Statement	To improve and maintain customer satisfaction by implementing a marketing strategy, customer relations strategy and distribution strategy.
Baseline	Customer satisfaction survey results 5.3 2 new generation recombinant technologies validated
Justification	The key requirement for the success of the organisation is its engagement with stakeholders and customer to ensure that their needs are met.

ANNUAL PERFORMANCE REPORT FOR 2018/2019

Strategic Goal 2		To be a customer-driven organisation through innovative technology and service.					
Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	Actual Output (2017/18)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2018/19	Actual 2018/19		
2.1 Improve customer satisfaction	2.1 (1) Customer satisfaction survey	No Baseline Customer survey results: Average: 5.3	Customer satisfaction survey improved by 15%	Achieve 70% customer-satisfaction	47% customer satisfaction achieved	Not Achieved -23%	Clients need better communication channels, new products, contact with senior managers, product availability on time and more interaction with sales reps
	2.1 (2) Develop, source and register new vaccine products	New vaccine dossiers submitted for registration: 1	1 new product dossier submitted	1	0	Not Achieved	Extended contractual negotiations with third party
	2.1 (3) Improve current products	Dossiers submitted to amend current product registration: 2	4 dossiers submitted	3	3	Achieved	N/A

ANNUAL PERFORMANCE REPORT FOR 2018/2019



3.3 Strategic Goal 3

Strategic Goal 3	To drive performance in order to improve organisational effectiveness.
Objective statement	To attain a high performing organisation underpinned by appropriate structures, high performing and skilled employees.
Strategic Objective 3.1	Manage performance of employees.
Objective Statement	To implement a new performance management policy throughout the organisation.
Baseline	Performance management policy.
Justification	Optimal organisational performance is dependent on an enabling environment, which is underpinned by behavioural standards agreed upon by all employees.
Strategic Objective 3.2	Implement a training plan
Objective Statement	To ensure institutional capability by implementing a training plan.
Baseline	Training plan for 2016/17
Justification	This objective will assist in ensuring that OBP is appropriately skilled to deliver on its mandate.



ANNUAL PERFORMANCE REPORT FOR 2018/2019

Strategic Objective 3.3	Align organisational structure to corporate plan
Objective Statement	To align organisational structure to OBP corporate plan.
Baseline	Macro organisational structure
Justification	This objective will assist in ensuring that OBP is appropriately resourced in terms of skills and headcount to deliver on its mandate.

ANNUAL PERFORMANCE REPORT FOR 2018/2019



Strategic Goal 3		To drive performance in order to improve organisational effectiveness.					
Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	Actual Output (2017/18)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2018/19	Actual 2018/19		
3.1 Manage performance of employees	Percentage of Performance agreements signed and performance reviews conducted	100% performance agreements signed and performance reviews conducted.	Revised performance management policy implemented.	100% performance agreements signed and 90% performance reviews conducted.	100% performance agreements signed and 90% performance reviews conducted.	Achieved	N/A
3.2 Implement a training plan	Percentage of training implemented against training plan	60% of training implemented against training plan	New indicator	80% of training implemented against training plan	84% of training implemented against training plan	Achieved +4%	Availability of employees to attend training
3.3 Align organisational structure to corporate plan	Organisational structure aligned to corporate plan approved and implemented	Macro organisational structure approved	Structure approved by the Board.	Organisational structure implemented	61% organisational structure implemented	Not Achieved -35%	Review of organisational structure and finalisation of career ladders

ANNUAL PERFORMANCE REPORT FOR 2018/2019

3.4 Strategic Goal 4

Strategic Goal 4	To contribute to government priorities with respect to socio-economic development.
Objective statement	Contribute and support emerging farmers, food security and economic growth through government programmes.
Strategic Objective 4.1	Ensure product accessibility to emerging farmers
Objective Statement	To support small holder and emerging farmer by implementing a distribution channels in rural areas to ensure product accessibility.
Baseline	No of current distribution channels
Justification	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.
Strategic Objective 4.2	Improve OBP BBBEE Scorecard
Objective Statement	Contribute in the transformation of the South African economy by allowing meaningful participation of previously disadvantaged individuals in the economy.
Baseline	Level 7
Justification	BBBEE needs to be implemented in an effective and sustainable manner to harness and enable full potential of previously disadvantaged individuals to contribute meaningfully in the South African economy.

ANNUAL PERFORMANCE REPORT FOR 2018/2019



Strategic Goal 4		To contribute to government priorities with respect to socio-economic development					
Strategic Objective	Key Performance Indicator (financial and non-financial)	Baseline	Actual Output (2017/18)	Actual Performance Against Target		Variance / Comment	Reason for Variance
				Target 2018/19	Actual 2018/19		
4.1 Ensure product accessibility to emerging farmers	Number of new distribution points in rural areas	Number of current distribution channels: 7	New	9	10	Achieved +1	Recruitment started early in the year
4.2 Improve OBP BBBEE Scorecard	BBBEE Scorecard Level	Level 7	Level 7	Level 5	Level 5 discounted to 6	Not Achieved	Lack of enterprise development identified as a gap



"INDIVIDUAL COMMITMENT TO A GROUP EFFORT..."



...THAT IS WHAT MAKES A TEAM WORK, A COMPANY WORK,
A SOCIETY WORK, A CIVILISATION WORK."



Index

FINANCIAL REPORT

54	Audit Committee Report
55	Accounting Authority's Responsibilities and Approval
56	Certificate by the Company Secretary
57	Report of the Auditor General to Parliament
62	Directors' Report
65	Statement of Financial Position
66	Statement of Comprehensive Income
67	Statement of Changes in Equity
67	Statement of Cash Flows
70	Accounting Policies
84	Notes to the Annual Financial Statements
100	Detailed Income Statement

Published

31 July 2019

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

AUDIT COMMITTEE REPORT

1. Audit Committee Members and Attendance

Name: Mr Y Haffeejee (Chairperson) | Ms K Mdlulwa | Dr P Vervoort | Ms F Mphuthi

* Respective membership of the Audit and Risk Committees from August 2017 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 (2018/19) the Audit Committee met four times with attendance as follows:

Schedule of attendance at Audit Committee meetings	Apr 2018	July 2018	Oct 2018	Jan 2019
Mr Yaasir Haffeejee (Chairperson)	N/A	YES	YES	YES
Ms KT Mdlulwa	NO	NO	YES	YES
Dr Pieter Vervoort	N/A	YES	YES	YES
Ms Fulufhelo Mphuthi	N/A	YES	YES	YES

2. The Effectiveness of Internal Control

The audit committee is committed to ensuring good governance and full compliance with relevant legislation and well as improvement in internal controls and the quality of reporting. The audit committee notes with concern the amount of irregular expenditure identified in the current financial year. This has warranted the need to perform various reviews and investigations which will be completed in the 2019/20 financial year.

3. Internal Audit

The Internal audit function of OBP was conducted by Morar Incorporated for the period ending 31 March 2019. 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 2019, 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 Morar Incorporated 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.

7. Investigations

An investigation into alleged supply chain management irregularities was concluded in the current financial year and the recommendations set out are expected to be implemented during the 2019/20 Financial Year.

On behalf of the Audit Committee
Chairperson of the Audit, Risk and IT Committee
Wednesday, 31 July 2019

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

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 2020 and, in the light of this review and the current financial position, is satisfied that the entity has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements, which have been prepared on the going concern basis, were approved by the Accounting Authority on 31 May 2019 and were signed on its behalf by:

Mr TR Ramabulana
Onderstepoort Biological Products SOC Ltd
Board Chairperson



FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

CERTIFICATE BY THE ACTING COMPANY SECRETARY

For the year ended 31 March 2019

I hereby confirm, in terms of the Companies Act, 2008 as amended, that for the year ended 31 March 2019 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.



Miss LL Mabena
Acting Company Secretary

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT



OPINION

1. I have audited the financial statements of the Onderstepoort Biological Products SOC LTD (OBP) set out on pages 65 to 101, which comprise the statement of financial position as at 31 March 2019, the 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 2019, and its financial performance and cash flows 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) (Companies Act).

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 sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) 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 codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. Responsibilities of 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 FRS and the requirements of the PFMA and the Companies Act 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 statements, the accounting authority is responsible for assessing the OBP's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public entity or to cease operations, or 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 is not a guarantee that an audit conducted in accordance with the ISAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of financial statements.
9. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT

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 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 for the year ended 31 March 2019:

SCHEDULE OF ATTENDANCE AT AUDIT COMMITTEE MEETINGS	PAGES IN THE ANNUAL PERFORMANCE REPORT
Objective 1 — competitiveness and sustainability	39-42
Objective 2 — research and development	43-44
Objective 4 — governance and stakeholder support	48-49

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.
14. I did not raise any material findings on the usefulness and reliability of the reported performance information for these objectives:
 - Objective 1 — competitiveness and sustainability
 - Objective 2 — research and development
 - Objective 4 — governance and stakeholder support

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

15. 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.
16. The material findings on compliance with specific matters in key legislations are as follows:

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT



ANNUAL FINANCIAL STATEMENT

17. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and, as required by section 55(1)(a) of the PFMA.
18. Material misstatements of tax prepayments, operating expenditure and administrative expenses and commitments identified by the auditors in the submitted financial statement were corrected, resulting in the financial statements receiving an unqualified audit opinion.

EXPENDITURE MANAGEMENT

19. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R42 282 762 as disclosed in note 32 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by awards that exceeded the 90-day validity period.
20. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R852 887, as disclosed in note 31 to the annual financial statements, as required by section 51 (1)(b)(ii) of the PFMA. The majority of the fruitless and wasteful expenditure was caused by a penalty charged on a payment to SARS.

PROCUREMENT AND CONTRACT MANAGEMENT

21. Sufficient appropriate audit evidence could not be obtained that goods, works and services were procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51 (I)(a)(iii) of the PFMA. This limitation was identified in the procurement processes for the GMP project.
22. One bid documentation for procurement of commodity designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).

OTHER INFORMATION

23. 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. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
24. My opinion on the financial statements and findings on compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
25. 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.
26. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, 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.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT

INTERNAL CONTROL DEFICIENCIES

27. 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.
28. Oversight over the financial reporting compliance with FRS was inadequate. This resulted in material adjustments to the annual financial statements submitted for auditing. Management did not exercise their responsibility regarding financial and related internal controls as the accounting officer did not properly review the financial statements before submitting them for auditing.
29. Financial statement contained material misstatements that had to be corrected as a result of inadequate reviews being performed at the required assurance levels to detect and correct such misstatement prior to the submission for auditing.
30. The entity's system to monitor compliance with applicable legislation was not always effective. Non-compliance with legislation and supply chain management processes could have been prevented had compliance been properly reviewed and monitored.

Auditor – General

Pretoria

31 July 2019



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019



ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

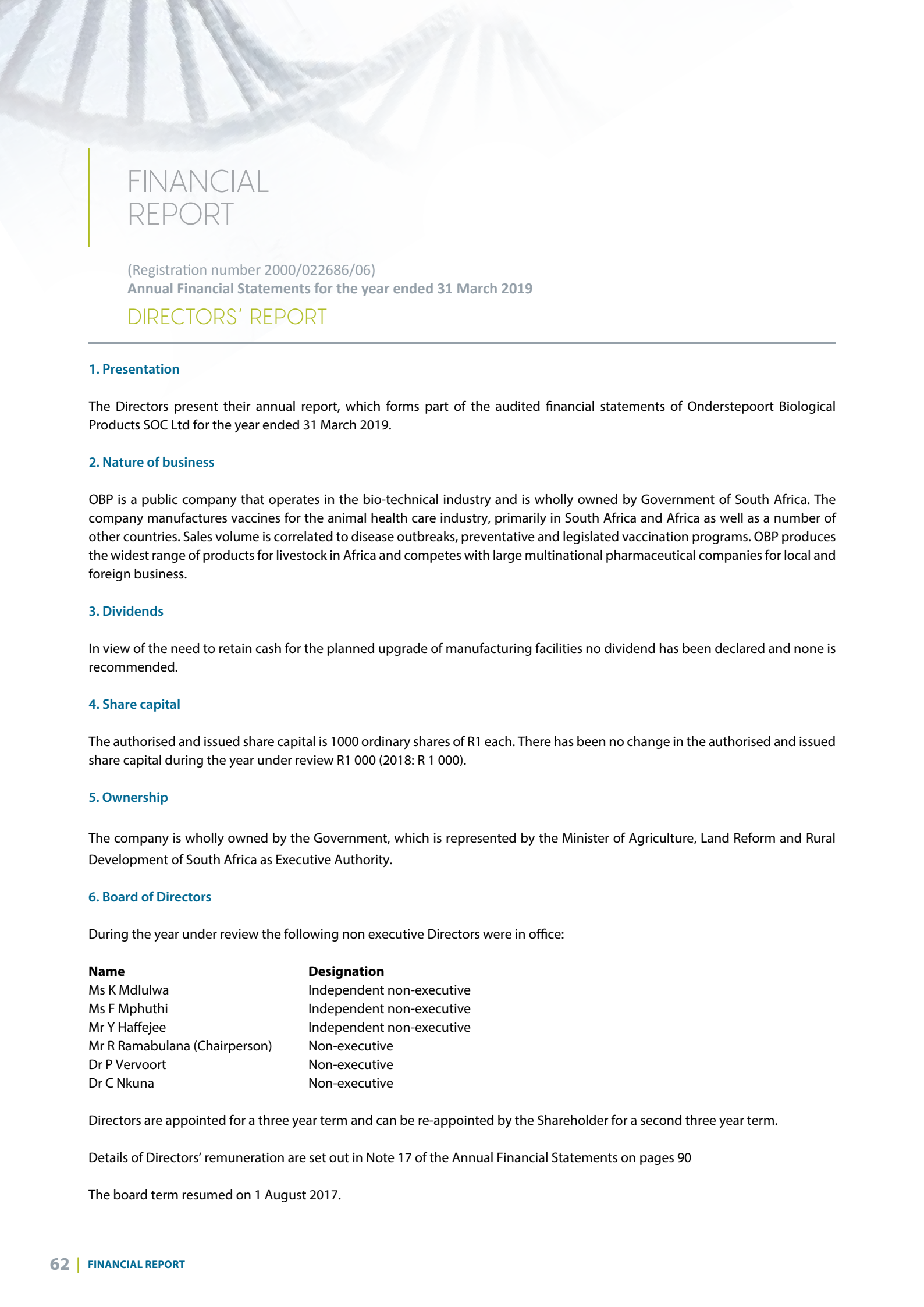
1. As part of an audit in accordance with the ISAs, I exercise professional judgment and maintain professional skepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with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

FINANCIAL STATEMENTS

2. In addition to my responsibility for the audit of the financial statements as described in this 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 board of directors, which constitutes the accounting authority
 - conclude on the appropriateness of the board of directors, which constitutes the 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 exist 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 this auditor's report. However, future events or conditions may cause a public entity to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent 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, where applicable, related safeguards.



FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

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 2019.

2. Nature of business

OBP is a public company that operates in the bio-technical industry and is wholly owned by 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 (2018: R 1 000).

5. Ownership

The company is wholly owned by the Government, which is represented by the Minister of Agriculture, Land Reform and Rural Development 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 K Mdlulwa	Independent non-executive
Ms F Mphuthi	Independent non-executive
Mr Y Haffeejee	Independent non-executive
Mr R Ramabulana (Chairperson)	Non-executive
Dr P Vervoort	Non-executive
Dr C Nkuna	Non-executive

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 17 of the Annual Financial Statements on pages 90

The board term resumed on 1 August 2017.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

DIRECTORS' REPORT



7. Company Secretary

The secretary of the company is Ms DN Mobeng of:

Business address	100 Old Soutpan Road Onderstepoort 0110	Postal address	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.

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 2019, the company had accumulated profits of R 272 051 916 and that the company's total assets exceed its liabilities by R 272 052 916. 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 2018/19 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

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

DIRECTORS' REPORT

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 four 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 2019.

16. National Key Point

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

17. Environment, health and safety

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

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

18. Materiality framework

In accordance with regulations 9.1.5 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 2019 represents any amount exceeding R12 million (2018: R12 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 has commenced in December 2017.



Mr TR Ramabulana
Onderstepoort Biological Products SOC Ltd
Board Chairperson

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

STATEMENT OF FINANCIAL POSITION



Figures in Rand	Note(s)	2019	2018
Assets			
Non-Current Assets			
Property, plant and equipment	2	245 150 537	163 460 727
Intangible assets	3	50 091	80 459
Deferred tax	4	3 874 156	4 292 192
		249 074 784	167 833 378
Current Assets			
Inventories	5	89 930 613	46 282 238
Trade and other receivables	6	24 284 642	30 655 162
Tax prepayment	22	19 423 530	1 344 105
Cash and cash equivalents	7	394 553 266	511 398 043
		528 192 051	589 679 548
Non-Current Assets		249 074 784	167 833 378
Current Assets		528 192 051	589 679 548
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		777 266 835	757 512 926
Equity and Liabilities			
Equity			
Share capital	8	1 000	1 000
Retained income		272 051 916	230 771 731
		272 052 916	230 772 731
Liabilities			
Non-Current Liabilities			
Deferred Recapitalisation Grant	9	450 353 838	455 545 666
Deferred government grant – small-animal facility	10	591 557	877 090
Deferred government grant – corporatisation of OBP Ltd	11	11 476 784	13 728 658
Deferred Research and Development Grant	12	24 138 411	18 498 719
		486 560 590	488 650 133
Current Liabilities			
Trade and other payables	13	7 580 495	21 200 350
Deferred Recapitalisation Grant	9	6 973 021	8 754 213
Deferred government grant – small-animal facility	10	285 532	285 532
Deferred government grant – corporatisation of OBP Ltd	11	2 251 875	2 251 875
Deferred Research and Development Grant	12	1 562 406	5 598 092
		18 653 329	38 090 062
Non-Current Liabilities		486 560 590	488 650 133
Current Liabilities		18 653 329	38 090 062
Liabilities of disposal groups		-	-
Total Liabilities		505 213 919	526 740 195
Equities		272 052 916	230 772 731
Liabilities		505 213 919	526 740 195
Total Equity and Liabilities		777 266 835	757 512 926

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

STATEMENT OF COMPREHENSIVE INCOME

Figures in Rand	Note(s)	2019	2018
Revenue	14	150 108 517	173 075 626
Cost of sales		(28 171 813)	(29 116 686)
Gross profit		121 936 704	143 958 940
Other income	15	15 885 318	8 188 013
Operating expenses		(101 577 333)	(112 695 883)
Administrative expenses		(24 514 433)	(22 476 993)
Operating profit	16	11 730 256	16 974 077
Investment revenue	18	30 065 127	30 676 293
Appreciation of deferred government grants		11 072 833	12 754 212
Operating profit		11 730 256	16 974 077
Non-operating expense (NET)		41 137 960	43 430 505
Profit before taxation		52 868 216	60 404 582
Taxation	19	(11 588 031)	(11 920 479)
Profit (loss) for the year from continuing operations		41 280 185	48 484 103
Profit (loss) for the year from discontinued operations		-	-
Profit for the year		41 280 185	48 484 103
Total comprehensive income for the year		41 280 185	48 484 103

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

STATEMENT OF CHANGES IN EQUITY



Figures in Rand	Note(s)	2019	2018
Balance at 01 April 2017	1 000	182 287 628	182 288 628
Profit for the year	-	48 484 103	48 484 103
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	48 484 103	48 484 103
Balance at 01 April 2018	1 000	230 771 731	230 772 731
Profit for the year	-	41 280 185	41 280 185
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	41 280 185	41 280 185
Balance at 31 March 2019	1 000	272 051 916	272 052 916

STATEMENT OF CASH FLOWS

Figures in Rand	Note(s)	2019	2018
Cash flows from operating activities			
Cash receipts from customers		153 565 233	196 793 146
Cash paid to suppliers and employees		(177 448 117)	(153 000 058)
Cash used in operations	21	(23 882 884)	43 793 088
Interest income		30 065 127	30 676 293
Tax paid	22	(29 127 856)	(25 429 254)
Net cash from operating activities		(22 945 613)	49 040 127
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(93 899 165)	(20 018 607)
Sale of property, plant and equipment	2	-	443 029
Net cash from investing activities		(93 899 165)	(19 575 578)
Total cash movement for the year		(116 844 778)	29 464 549
Cash at the beginning of the year		511 398 043	481 933 492
Total cash at end of the year	7	394 553 265	511 398 041







FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

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.

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.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

ACCOUNTING POLICIES



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:

Useful lives and residual values

The entity re-assess the useful lives and residual values of Property Plant and Equipment on an annual basis. In re-assessing the useful lives and residual values of property plant and equipment, management considers the condition and use of the individual assets to determine the remaining period over which the asset can and will be used.

1.1 Property, plant and equipment

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

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

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

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

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

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



FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

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

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

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.

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

1.3 Financial instruments

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

Embedded foreign currency derivatives:

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

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.



FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

ACCOUNTING POLICIES

Classification

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

- 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);
- Financial liabilities measured at amortised cost

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

Recognition and measurement

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

Cash and cash equivalents

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

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

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

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

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

Trade and other receivables

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

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

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

ACCOUNTING POLICIES



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 IFRS 9 (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.

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 and are measured at amortised cost and fair value through profit and loss.

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.



FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

ACCOUNTING POLICIES

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

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

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

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

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

ACCOUNTING POLICIES



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;
- 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.



FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

ACCOUNTING POLICIES

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 plan and the contributions to the defined contribution plan are charged to the Statement of Comprehensive Income in the year to which they relate. The plan is administered by the Government Employee Pension Fund and Alexandra 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

Revenue is income arising in the course of OBP ordinary activities. Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services.

Revenue from contracts with customers is recognised when the following criteria are met:

- Contract with customer identified;
- Identify the performance obligation in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance;
- Recognise revenue when the entity satisfies a performance obligation.

The performance obligation for OBP is when the promised goods or services are transferred to the customer. 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.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

ACCOUNTING POLICIES



Other operating income

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

1.11 Borrowing costs

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

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those 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 Cash and cash equivalents

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



FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

ACCOUNTING POLICIES

1.14 Comparatives

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

1.15 Research and development

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

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

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

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

1.16 Foreign currency transactions

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

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

1.17 Government grant – corporatisation of OBP

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

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

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

ACCOUNTING POLICIES



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 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 is recognised in the income statement once the related asset is commissioned in line with the amortisation of the asset.





FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2019	2018
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2. Property, plant and equipment

	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	5 105 340	-	5 105 340	5 105 340	-	5 105 340
Buildings	75 690 756	(48 302 926)	27 387 830	75 651 590	(43 139 464)	32 512 126
Furniture and fixtures	1 793 982	(1 750 327)	43 655	1 791 374	(1 662 287)	129 087
Motor vehicles	241 200	(192 970)	48 230	241 200	(192 970)	48 230
Office equipment	187 487	(183 364)	4 123	187 487	(183 364)	4 123
IT equipment	13 647 322	(8 117 293)	5 530 029	13 387 188	(6 997 540)	6 389 648
Property, plant and equipment	141 236 831	(78 985 409)	62 251 422	140 490 386	(73 092 956)	67 397 430
Capital work in progress	144 779 908	-	144 779 908	51 874 743	-	51 874 743
Total	382 682 826	(137 532 289)	245 150 537	288 729 308	(125 268 581)	163 460 727

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Depreciation	Total
Land	5 105 340	-	-	5 105 340
Buildings	32 512 126	39 166	(5 163 462)	27 387 830
Furniture and fixtures	129 087	2 608	(88 040)	43 655
Motor vehicles	48 230	-	-	48 230
Office equipment	4 123	-	-	4 123
IT equipment	6 389 648	206 081	(1 065 700)	5 530 029
Property, plant and equipment	67 397 430	746 145	(5 892 153)	62 251 422
Capital work in progress	51 874 743	92 905 165	-	144 779 908
	163 460 727	93 899 165	(12 209 355)	245 150 537

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 - 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
	156 560 490	20 018 607	(443 037)	(12 675 333)	163 460 727

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.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



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 above on all asset groups.

3. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Patent	566 657	(566 657)	-	566 657	(566 657)	-
Trademark	260 022	(209 931)	50 091	260 022	(179 563)	80 459
Total	826 679	(776 588)	50 091	826 679	(746 220)	80 459

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Trademark	80 459	(30 368)	50 091

Reconciliation of intangible assets - 2018

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

4. Deferred tax

Figures in Rand	2019	2018
Deferred tax asset		
Deferred tax	3 874 156	4 292 192
Reconciliation of deferred tax asset (liability)		
Accelerated depreciation for tax purposes	(4 229 642)	(4 219 135)
Accrual for leave	658 650	522 748
Income received in advance	7 196 229	6 747 107
Prepaid expenses	(109 333)	(67 222)
Provisions	358 252	1 308 694
	3 874 156	4 292 192

The accelerate depreciation for tax purposes of R4 229 642 is due to the recapitalisation cost.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2019	2018
5. Inventories		
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)
	46 282 238	45 477 194

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
	1 337 004	591 455

6. Trade and other receivables

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
	30 334 950	52 434 063

Accrued interest relates to the Standard Bank and FNB investment, interest is paid at maturity date.

Trade and other receivables past due but not impaired

The ageing of amounts past due but not impaired is as follows:

Neither past due nor impaired		
Current	8 686 291	8 318 602
30 – 60 days	11 406 125	5 620 056
Past due but not impaired		
61 – 90 days	162 531	2 487 012
90 days and older	4 233 523	3 360 345
	24 488 470	19 786 015

Reconciliation of provision for impairment of trade and other receivables

Opening balance	4 603 850	1 634 387
Provision for impairment	(289 061)	2 969 463
	4 314 789	4 603 850

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

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



Figures in Rand	2019	2018
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	11 421	11 694
Short term cash investments and deposits	350 509 804	482 254 975
Current account bank balance	44 032 041	29 131 374
	394 553 266	511 398 043
8. Share capital		
Authorised		
1 000 ordinary shares of R1 each	1 000	1 000
Issued		
1 000 ordinary shares of R1 each	1 000	1 000
9. Deferred Recapitalisation Grant		
Non-current	450 353 838	455 545 666
Current liabilities	6 973 021	8 754 213
	457 326 859	464 299 879
Opening carrying amount	464 299 879	473 054 092
Amortised	(6 973 020)	(8 754 213)
Closing net carrying amount	457 326 859	464 299 879
The grant relates to the funding received from the Treasury for OBP's Recapitalisation programme. The grant was approved in 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 R6.9 million was realised into the income statement as a Deferred Government Grant.		
10. Deferred government grant – small-animal facility		
Opening carrying amount	1 162 622	1 448 154
Amortised	(285 533)	(285 532)
Closing net carrying amount	877 089	1 162 622
Maturity analysis		
Non-current	591 557	877 090
Current	285 532	285 532
	877 089	1 162 622
The government grant is amortised in relation to the depreciation of assets for which the grant was utilised. The small-animal facility was taken into use on 1 April 2004 and the grant has been amortised since that date.		
11. Deferred government grant – corporatisation of OBP Ltd		
Opening carrying amount	15 980 533	18 232 408
Amortised	(2 251 874)	(2 251 875)
Closing net carrying amount	13 728 659	15 980 533

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2019	2018
11. Deferred government grant – corporatisation of OBP Ltd (continued)		
Maturity analysis		
Non-current	11 476 784	13 728 658
Current	2 251 875	2 251 875
	13 728 659	15 980 533
The deferred income is recognised as income on a systematic and rational basis over the useful life of the remaining assets.		
12. Deferred Research and Development Grant		
The grant relates to the funding received from the Tshwane Animal Health innovation Cluster (TAHIC) for OBP's research projects. The grant was received towards the end of March 2013. The total amount expensed in the income statement for the grant is R827 thousand during the 2018/19 financial year		
Opening carrying amount	24 096 811	25 559 403
Addition	3 166 412	-
Amortised	(1 562 406)	(1 462 592)
	25 700 817	24 096 811
Maturity analysis		
Non-current	24 138 411	18 498 719
Current	1 562 406	5 598 092
	25 700 817	24 096 811
13. Trade and other payables		
Trade payables	584 739	16 968 141
Accruals	5 161 327	2 860 839
Other payables	1 834 429	1 371 370
	7 580 495	21 200 350
14. Gross to net revenue reconciliation		
Sale of goods	150 108 517	173 075 626
The amount included in revenue arising from exchanges of goods or services included in revenue are as follows:		
Sale of goods	150 304 018	173 075 626
Gross revenue	163 026 312	185 712 364
Discount Granted	(15 528 134)	(15 371 896)
Net revenue – vaccines	147 498 178	170 340 468
Revenue - dry ice	548 496	523 591
Revenue – transportation service	2 061 844	2 211 567
Other	(1)	-
	150 108 517	173 075 626

Net revenue decreased from R173 million in 2018 to R150 million in 2019 financial year. The decrease is attributable to a drop in foreign sales mainly in the Europe countries.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



Figures in Rand	2019	2018
15. Other income		
Rental income	703 286	643 505
Other income	469 841	-
Forex gains	14 712 191	7 544 508
	15 885 318	8 188 013
16. Included in operating and administrative expenses		
The following items have been charged/(credited) in arriving at operating and administrative cost:		
Depreciation and amortisation		
Buildings	5 163 462	5 178 998
Furniture and fixtures	88 040	98 596
Computer equipment	1 120 053	1 110 159
Factory plant and equipment	5 892 153	6 287 580
Intangible assets	30 368	20 020
	12 294 076	12 695 353
Auditor's remuneration		
Total fees paid for the statutory audit	2 529 864	1 872 082
Other disclosures		
Employee benefits – defined contributions plans	3 053 129	2 237 007
Research and development expenditure	3 254 285	2 824 160
Repair and maintenance expenditure	6 757 831	7 281 475
Amounts paid to employees	82 400 666	63 825 335
Average number of employees	202	201

Employee benefits

The amount paid to employees increased from R63 771 231 to R81 531 945 in the 2019 financial year. This is mainly due to the bonus paid of R5.6 million and the R63 million was after adjusting a reversal of bonus provision for R7.8 million. The company declared an average annual increase of 7.25% 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 Alexandra 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 17.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Notes on Treasury Regulation 28.1.1:

• Fees for services

All fees paid to individuals for services delivered or Board meeting and Board committee meeting attendances.

• Basic salary (including fixed monthly payments)

Payment made to individuals is on a salary basis.

• Bonuses and performance related payments

Bonuses are based on the actual performance of the company and the employee for the previous year, and are approved by the Board of Directors.

• Expense allowances

All payments made to individuals are in respect of travel allowances as well as personal expenses incurred for official business. Cell phone allowances, non-taxable daily allowance for overseas travel and travel with own vehicle for business purposes at a rate per kilometer are disclosed separately.

• Contributions to pension fund

Fixed payments made on behalf of individuals (which form part of the executives' total cost to company salary packages).

• Contributions to directors or 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.

17. Disclosure of emoluments of executive and Non-executive Directors as per Treasury Regulation 28.1.1:

Executive

2019

	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 BK Dungu - Chief Executive Officer*	226 625	-	-	18 375	1 122	-	246 122
Mr. Gololo, M - Chief Financial Officer	1 302 017	131 755	-	111 052	6 731	-	1 551 555
Ms. Mobeng, DN - Company Secretary	1 262 463	126 632	27 700	95 662	6 731	-	1 519 188
Dr. Modumo, J - Business Development Officer	1 190 750	125 738	27 546	157 787	6 731	-	1 508 552
Mrs. Ramutle, NV - HR Executive	1 213 794	120 077	14 335	74 026	6 731	-	1 428 963
Dr. Nthangeni MB**	1 119 155	115 828	27 986	123 095	6 731	150 207	1 543 002
Mr. SV Ntombela	1 111 737	111 104	1 646	79 856	6 731	-	1 311 074
	7 426 541	731 134	99 213	659 853	41 508	150 207	9 108 456

* The CEO was appointed with effect from the 1 March 2019.

** Dr. Nthangeni MB received an acting allowance until end of February 2019.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



17. Disclosure of emoluments of executive and Non-executive Directors as per Treasury Regulation 28.1.1: (continued)

Non-executive

2019

	Fees for services as director or executive member	Expenses	Insurance liability cover	Total
Mr TR Ramabulana* Chairperson	150 308	6 852	6 731	163 891
Ms TK Mdlulwa** Director	124 209	4 909	6 731	135 849
Dr P Vervoort* Director	165 136	3 624	6 731	175 491
Mr. Y Haffejee*	131 891	6 498	6 731	145 120
Dr CC Nkuna*	81 416	3 119	6 731	91 266
Ms FV Mphuthi*	142 879	4 592	6 731	154 202
	795 839	29 594	40 386	865 819

* 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.

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 P Vervoort* Director	59 436	1 981	5 833	67 250
Mr Y Haffejee* Director	55 983	4 225	5 833	66 041
Dr. Adams, JH	30 369	-	-	30 369
Dr Mashego, M	33 228	667	-	33 895
Dr CC Nkuna* *	52 481	2 257	5 833	60 571
Ms Mdlulwa, TK	70 565	3 089	5 833	79 487
Dr Mogajane, ME	3 408	1 914	-	5 322
Ms FV Mphuthi*	50 225	2 151	5 833	58 209
	504 251	21 586	34 998	560 835

18. Investment revenue

Interest revenue

Bank and other cash	30 065 127	30
	-	-
	30 065 127	30

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2019	2018
19. Taxation		
Major components of the tax expense		
Current		
Income tax expense	11 169 995	7 759 205
Deferred tax (Income) / expense	418 036	4 160 990
	11 588 031	11 920 195
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) and various other educational grants. As at 31 March 2018 R26 435 866 was remaining.		
Current	11 588 031	11 920 195
Deferred	-	-
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate.		
Statutory taxation rate	28,00 %	28,00 %
Asset written off / (back)	- %	0,21 %
Other taxable items	1,97 %	3,77 %
Amortisation of government grant - research	(3,69)%	(4,06)%
Amortisation of recapitalisation grant	(0,83)%	(2,59)%
Disallowed deduction on production building	6,48 %	5,80 %
Amortisation of government grant – small-animal facility	(0,15)%	(0,13)%
Amortisation of government grant – corporatisation	(1,19)%	(1,04)%
Other non-taxable items	(2,59)%	(1,96)%
	28,00 %	28,00 %
20. Auditor's remuneration		
Fees	2 529 864	1 872 082
21. Cash used in operations		
(Loss) / Profit before taxation	52 868 216	60 404 582
Adjustments for:		
Depreciation and amortisation	12 294 076	12 695 353
Interest received	(30 065 127)	(30 676 293)
Movements in provisions	-	(13 047 066)
Changes in working capital:		
Inventories	(43 648 375)	(805 044)
Trade and other receivables	6 370 520	22 079 963
Trade and other payables	(13 619 855)	5 895 805
Deferred Recapitalisation Grant	(6 973 020)	(8 754 213)
Deferred Research and Development Grant	1 428 089	(1 462 592)
Movement in deferred government grant – small-animal facility	(285 533)	(285 532)
Movement in deferred government grant – corporatisation of OBP Ltd	(2 251 875)	(2 251 875)
	(23 882 884)	43 793 088

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



Figures in Rand	2019	2018
22. Tax refunded (paid)		
Balance at beginning of the year	1 344 105	(16 991 382)
Current tax for the year recognised in profit or loss	(11 169 995)	(11 254 756)
Tax paid during the year	29 667 456	25 429 253
Deferred tax movement	(418 036)	4 160 990
	19 423 530	1 344 105
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 nd provisional tax of R9.3 million. During the year the company paid R8.3 million for the first provisional tax.		
23. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	222 900 400	343 136 042
• Contracts	3 752 473	1 646 256
Operating leases – as lessor (income)		
Minimum lease payments due		
- within one year	183 747	304 478
- in second to fifth year inclusive	336 936	449 619
	520 683	754 097

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

The company had R222 900 400 disclosable capital commitments at 31 March 2019 not reflected elsewhere for the GMP upgrade of the manufacturing facility.

There are also commitments relating to contracts entered before 31 March 2019 of which expiry is after 31 March 2019. These commitments amount to R3 752 473.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

24. Contingencies

OBP has pending cases with employees at CCMA and labour court. The amounts could not be reliably measured at year end.

OBP is aware of a litigation 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 outstanding debt could be payable by OBP. As at 31 Mar 2019 the amount of liability could not be reliably measured.

25. Related parties

Relationships

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

Figures in Rand	2019	2018
Related party transactions		
Product sold to state departments	(2 574 348)	(2 076 577)
Payments to the Agricultural Research Council (ARC)	5 866 840	6 417 310
Rent paid to (received from) related parties		
SA Post office rental received	(264 370)	(249 591)
Related party balances		
Accounts receivable (for products or services sold)	(796 650)	(583 347)
Agricultural Research Council	-	15 228 434

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, Land Reform and Rural Development 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.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



26. Comparative figures

No comparative figures have been reclassified.

The effects of the reclassification are as follows: Assets: loans and receivables to amortised cost and available for sale to fair value through profit and loss. Liabilities: fair value to fair value through profit and loss.

27. Financial assets by category

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

2019

	Loans and receivables	Fair value through profit or loss	Bank balances- Amortised cost	Carrying amount	Fair value
Trade receivables (incl doubtful debt provision)	19 580 039	-	-	19 580 039	19 580 039
Prepaid expenses	296 358	-	-	296 358	296 358
Bank balances	-	-	350 521 225	350 521 225	350 521 225
Investments	-	44 032 041	-	44 032 041	44 032 041
	19 876 397	44 032 041	350 521 225	414 429 663	414 429 663

2018

	Loans and receivables- Amortised cost	Fair value through profit or loss	Bank balances- Amortised cost	Carrying amount	Fair value through profit and loss
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
	20 468 857	29 131 374	482 266 669	531 866 900	531 866 900

See note 29 for the fair value determination

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

28. Financial liabilities by category

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

2019

	Financial liabilities at amortised cost	Carrying amount	Fair value through profit and loss
Trade payables	584 739	584 739	584 739
Accruals	5 161 327	5 161 327	5 161 327
Income received in advance and other payables	1 834 429	1 834 429	1 834 429
	7 580 495	7 580 495	7 580 495

2018

	Financial liabilities at amortised cost	Carrying amount	Fair value
Trade payables	16 968 141	16 968 141	16 968 141
Accruals	2 860 839	2 860 839	2 860 839
Income received in advance and other payables	1 371 370	1 371 370	1 371 370
	21 200 350	21 200 350	21 200 350

See note 29 for the fair value determination

29. Risk management

Financial risk management objectives

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

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

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



29. Risk management (continued)

Significant accounting policies

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

Market risk

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

Interest rate risk

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

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

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

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

Interest rate sensitivity analysis

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

Liquidity risk

Sufficient cash is maintained to manage the entity's liquidity risk. Limitations are imposed by Treasury Regulations 32 to the Public Finance Management Act (Act 1 of 1999) on 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 2019, 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

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand	2019	2018
29. 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	19 876 397	20 468 857
Bank balances and cash	350 521 225	482 266 669
	370 397 622	502 735 526

Fair value

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

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

Management considers the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statement to approximate their fair values on 31 March 2019 as a result of the short-term maturity of these assets and liabilities.

30. Events after the reporting period

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

31. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	27 322	-
Fruitless and wasteful expenditure - Current year	852 887	27 322
Amounts condoned by Accounting Authority	(27 567)	-
Fruitless expenditure awaiting condonement	852 887	27 322

Management has made an assesment during the financial year and there was R852 887 fruitless and wasteful expenditure relating to income tax late payment to SARS. The penalty was charged on the 1 April 2018 relating the second provisional tax payment for the the financial year ending 31 March 2018.

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



Figures in Rand	2019	2018
32. Irregular expenditure		
Reconciliation of irregular expenditure		
Opening balance	-	-
Irregular expenditure incurred and identified in the current year	11 915 388	-
Irregular expenditure incurred in prior years and identified in the current year	30 367 374	-
Irregular expenditure awaiting condonement	42 282 762	-

The irregular expense relates to the grass and professional fees contracts which were awarded in 2014. The grass was awarded after ninety days validity period has expired as stipulated in the policy. This implies that the bids were technically not valid after the ninety day period. Professional fees Expenditure relating to the GMP project was identified in the current year as irregular expenditure as a result of some tender documents not provided for audit and procurement processes not properly followed in terms of SCM policy.

33. Statements approved and not yet effective (IAS 8)

IFRS 3, Business Combinations: Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests. Effective on financial year ending on or after 1 January 2019. Not affected.

IFRS 11, Joint Arrangements: Clarification that when an entity obtains control of a business that is a joint operation, the entity does not remeasure previously held interests. Effective on financial year ending on or after 1 January 2019. Not affected.

IFRS 16, Leases: Introduction of a single lease accounting model. Effective on financial year ending on or after 1 January 2019. Affected

IAS 12 Income Taxes: Clarification that all income tax consequences of dividends should be recognised in profit or loss, regardless how the tax arises. Effective 1 January 2019. Not affected

IAS 19 Employee Benefits: The amendments require an entity to use the updated assumptions from a remeasurement net defined benefit liability or asset resulting from a plan amendment, curtailment or settlement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Effective 1 January 2019. Not affected.

IAS 23 Borrowing Costs: borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. Effective from 1 January 2019. Not affected

IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation specifies how an entity should reflect the effects of uncertainties in accounting for income taxes. Effective from 1 January 2019. Affected

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

DETAILED INCOME STATEMENT

Figures in Rand	Note(s)	2019	2018
Revenue	14	150 108 517	173 075 626
Cost of sales		(28 171 813)	(29 116 686)
Gross profit		121 936 704	143 958 940
Other income		45 950 445	38 864 306
		(126 091 766)	(135 172 876)
Expenses (Refer to page 41)		(126 091 766)	(135 172 876)
Operating profit		41 795 383	47 650 370
Deferred government grants		11 072 833	12 754 212
Profit before taxation		52 868 216	60 404 582
Taxation	19	11 588 031	11 920 479
Profit (loss) before taxation		52 868 216	60 404 582
Taxation		11 588 031	11 920 479
Profit for the year		41 280 185	48 484 103
Other comprehensive income		-	-
Total comprehensive income for the year		41 280 185	48 484 103

FINANCIAL REPORT

(Registration number 2000/022686/06)

Annual Financial Statements for the year ended 31 March 2019

DETAILED INCOME STATEMENT



Figures in Rand	Note(s)	2019	2018
Operating and administrative expenses			
Advertising		(2 280 376)	(2 238 137)
Assets Written-Off		-	(443 029)
Auditor remuneration	20	(2 529 864)	(1 872 082)
Bank charges		(267 787)	(246 039)
Cleaning		(770 390)	(1 304 977)
Conference Seminar		(55 084)	(43 804)
Consumables		(1 297 871)	(2 216 525)
Depreciation, amortisation and impairments		(12 294 076)	(12 695 353)
Donations		(365 001)	(2 297)
Employee costs		(82 400 666)	(63 825 335)
Entertainment		(1 261 219)	(865 642)
Hire		(38 721)	(38 880)
IT expenses		(3 412 037)	(2 410 386)
Insurance		(1 299 554)	(1 186 599)
Legal expenses		(1 940 584)	(1 113 110)
Library Costs		-	(51 753)
Loss on disposal of assets		-	(8)
Medical expenses		(886 223)	(612 392)
Motor vehicle expenses		(270 375)	(1 047)
Other expenses		(1 065 634)	113 841
Petrol and oil		(74 972)	(271 785)
Postage		(157)	-
Printing and stationery		(1 257 272)	(657 399)
Production direct cost and cost adjustments		34 944 745	(2 782 591)
Professional fees		(2 269 750)	(1 726 765)
Promotions		(221 658)	-
Protective clothing		(1 246 006)	(1 069 244)
Realised foreign exchanges losses		(7 518 373)	(5 195 716)
Recruitment Costs		(524 274)	(39 261)
Repairs and maintenance		(6 757 831)	(7 281 475)
Research and development costs		(3 254 285)	(2 824 160)
Security		(2 111 750)	(1 702 196)
Software expenses		(716 546)	(600 708)
Telephone and fax		(853 131)	(1 030 039)
Terrain Maintenance		(1 369 459)	(1 160 068)
Training		(2 546 661)	(6 312 039)
Transport and freight		(55 800)	(51 324)
Travel		(5 718 214)	(3 828 959)
Utilities		(12 104 910)	(7 585 593)
Total		(126 091 766)	(135 172 876)

ACRONYMS

AHS	African Horse Sickness	MTEF	Medium Term Expenditure Framework
APP	Annual Performance Plan	NEHAWU	National Education Health & Allied Workers Union
AR&IT	Audit, Risk & Information Technology Committee	NKP	National Key Point Act of 1980 (No. 102 of 1980)
ARC	Agricultural Research Council	NRF	National Research Foundation
BOD	Board of Directors	NSPCA	National Society for the Prevention of Cruelty to Animal
BT	Blue Tongue	OBP	Onderstepoort Biological Products SOC Ltd
BV	Bacterial Vaccines	OVI	Onderstepoort Veterinary Institute
CapEx	Capital Expenditure	PAA	Public Audit Act
CCMA	Commission for Conciliation, Mediation and Arbitration	PAYE	Pay As You Earn
CEO	Chief Executive Officer	PFMA	Public Finance Management Act
CFO	Chief Financial Officer	POC	Proof of Concept
cGMP	current Good Manufacturing Practices	PPPF	Preferential Procurement Policy Framework
CP	Corporate Plan	QA	Quality Assurance
CSI	Corporate Social Investments	QC	Quality Control
CSIR	Council for Scientific and Industrial Research	QMS	Quality Management System
CSO	Chief Scientific Officer	R&D	Research and Development
DAFF	Department of Agriculture Forestry and Fisheries	RDB	Research Development & Bacterial
DALR&RD	Department of Agriculture, Land Reform & Rural Development	RDV	Research Development & Viral
EAP	Economically Active Population	RM	Raw Material
EE	Employment Equity	RSA	Republic of South Africa
EMU	Engineering, Maintenance and Utilities	RVF	Rift Valley Fever
ERP	Enterprise Resource Planning	SA	South Africa
ExCo	Executive Committee	SADC	South African Development Community
FAO	Food and Agriculture Organisation	SAPS	South African Police Services
FAT	Factory Acceptance Test	SARS	South African Revenue Service
FD	Freeze Dried	SAVC	South African Veterinary Council
FY	Financial Year	SCM	Supply Chain Management
GAAP	Generally Accepted Accounting Principles	SHE	Safety Health and Environment
GMP	Good Manufacturing Practice	SOC	State-owned Company
HR	Human Resources	SOP	Standard Operating Procedure
IAS	International Accounting Standards	SOPs	Standard Operating Procedures
IDRC	International Development Research Centre	SPCA	Society for the Prevention of Cruelty to Animals
IESBA code	International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants	SSA	State Security Agency
IFRS	International Financial Reporting Standards	TIA	Technology Innovation Agency
ISAs	International Standards on Auditing	UAT	User Acceptance Testing
ISO	International Organisation Standardisation	UIF	Unemployment Insurance Fund
IT	Information Technology	UJ	University of Johannesburg
King IV	The third report on Corporate governance in South Africa	UN	United Nations
KPI	Key Performance Indicators	UP	University of Pretoria
LSD	Lumpy Skin Disease	VP	Vaccines Packaging
Ltd	Limited	VV	Viral Vaccine
ManCo	Management Committee	YTD	Year To Date
MOI	Memorandum Of Incorporation	ZAR	Zuid-Afrikaanse Rand (South African Rand)





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