Animal Health
Reviewed Combined Interim Results
for the period ended 31 December 2020

Index

The reports and statements set out below comprise the reviewed combined interim results presented to the shareholder:

Index	Page
Condensed Statement of Financial Position	2
Condensed Statement of Profit or Loss and Other Comprehensive Income	3
Condensed Statement of Changes in Equity	4
Condensed Statement of Cash Flows	5
Accounting Policies	6 - 8
Notes to the Reviewed Combined Interim Results	9 - 21

Animal Health

Reviewed Combined Interim Results for the period ended 31 December 2020

Condensed Statement of Financial Position as at 31 December 2020

	Notes	31 December 2020 R
Assets		
Non-Current Assets		
Plant and equipment		5 797 053
Right-of-use assets		12 792 474
Intangible assets and goodwill	3	519 072 689
		537 662 216
Current Assets		
Inventories	5	107 752 078
Loans to related parties	6	231 329 354
Trade and other receivables	7	71 639 770
Cash and cash equivalents		4 954 718
		415 675 920
Total Assets		**953 338 136**
Equity and Liabilities		
Equity		
Common control reserve		540 969 057
Accumulated loss		(1 022 758 758)
		(481 789 701)
Liabilities		
Non-Current Liabilities		
Lease liabilities		9 799 383
Deferred tax	4	59 017 622
		68 817 005
Current Liabilities		
Trade and other payables	8	56 803 331
Loans from related parties	9	392 722 377
Derivative financial instruments		1 182 845
Lease liabilities		4 848 626
Current tax payable	14	18 091 981
Provisions		5 429 871
Financial guarantee liability	10	887 231 801
		1 366 310 832
Total Liabilities		**1 435 127 837**
Total Equity and Liabilities		**953 338 136**

Condensed Statement of Profit or Loss and Other Comprehensive Income

	Notes	6 months ended 31 December 2020 R
Revenue	11	280 400 685
Cost of sales		(141 197 237)
Gross profit		**139 203 448**
Other income		99 156
Selling and distribution costs		(20 334 339)
Administrative costs		(53 041 281)
Reversal of ECL on financial guarantee liability	10	515 198 131
Net reversal of impairment on financial assets		3 616 772
Operating expenses	2	(15 841 160)
Operating profit		**568 900 727**
Finance income		9 431
Finance costs		(929 550)
Profit before taxation		**567 980 608**
Taxation	12	(34 971 897)
Profit for the period		**533 008 711**
Other comprehensive income		-
Total comprehensive income for the period		**533 008 711**

Animal Health

Reviewed Combined Interim Results for the period ended 31 December 2020

Condensed Statement of Changes in Equity

	Common control reserve R	Accumulated loss R	Total equity R
Balance at 01 July 2020	**540 969 057**	**(1 555 767 469)**	**(1 014 798 412)**
Profit for the period	-	533 008 711	533 008 711
Other comprehensive income	-	-	-
Total comprehensive income for the period	**-**	**533 008 711**	**533 008 711**
Balance at 31 December 2020	**540 969 057**	**(1 022 758 758)**	**(481 789 701)**

Condensed Statement of Cash Flows

	Notes	6 months ended 31 December 2020 R
Cash flows from operating activities		
Cash generated from operations	13	41 363 592
Interest received		9 431
Interest paid		(929 550)
Tax paid	14	(12 256 184)
Net cash from operating activities		**28 187 289**
Cash flows from investing activities		
Purchase of plant and equipment	2	(885 986)
Purchase of intangible assets	3	(4 363 370)
Sale of intangible assets	3	2 195 088
Loans advanced to related parties		(21 799 864)
Net cash used in investing activities		**(24 854 132)**
Cash flows from financing activities		
Payment on lease liabilities		(1 748 659)
Total cash and cash equivalents movement for the period		**1 584 498**
Cash and cash equivalents at the beginning of the period		3 370 220
Total cash and cash equivalents at end of the period		**4 954 718**

Accounting Policies

1. Significant accounting policies

1.1 Basis of preparation

Description of business

On 19 July 2021, Ascendis Health Limited ("Ascendis") announced its intention to dispose of its operations related to the manufacture and distribution of animal health products to Acorn Agri & Food Limited ("AAF"), through its nominee, Sun Valley Estates Proprietary Limited (the "Purchaser") and AAF Invest Proprietary Limited, a wholly-owned subsidiary of AAF (the "Guarantor"). In terms of the proposed transaction, Ascendis group will dispose of its entire shareholding in the following entities:

- Ascendis Animal Health Proprietary Limited;
- Ascendis Vet Proprietary Limited;
- Kyron Laboratories Proprietary Limited;
- Kyron Prescriptions Proprietary Limited;

(collectively, referred to as "Animal Health").

The group's operations related to animal health products were historically conducted through the separate legal entities set out above; the combination of these operations is referred to as Animal Health.

Although the animal health operations is a separate operating segment of the Ascendis group, the entities that form Animal Health for the purposes of the combined carve-out historical financial information historically did not exist as a reporting group and no separate consolidated financial statements were prepared for Animal Health for the period presented. For the purpose of presenting the historical performance of Animal Health for the proposed disposal by Ascendis, combined carve-out historical financial information has been prepared.

International Financial Reporting Standards ("IFRS") compliance

The combined carve-out historical financial information for the six months ended 31 December 2020 are prepared in accordance with the requirements of the JSE Limited Listing Requirements and the requirements of the Companies Act of South Africa, No. 71 of 2008. The JSE Limited Listing Requirements require interim financial statements to be prepared in accordance and containing the information required by IAS 34 Interim Financial Reporting, as well as the SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council.

The financial statements for the period ended 31 December 2020 are prepared for the sole purpose of the JSE listing requirements, announcements and circulars. For this specific announcement, the JSE listing requirements do not require comparative information.

These interim financial statements have been prepared using the same accounting policies as those in the historical financial information for the years ended 30 June 2020, 30 June 2019, and 30 June 2018.

Basis of preparation

The combined carve-out historical financial information of Animal Health was derived from the consolidated condensed interim financial statements of Ascendis for the six months ended 31 December 2020, which were prepared in accordance with IFRS. The combined carve-out historical financial information has been prepared for the purpose of presenting the financial position, results of operations, and cash flows of Animal Health on a stand-alone basis.

As IFRS does not provide specific guidance for the preparation of combined carve-out historical financial information, principles outlined in IAS 8 were used in the preparation of the combined carve-out historical financial information for inclusion in circulars. IAS 8 requires consideration of the most recent pronouncements of other standard-setting bodies, other financial reporting requirements and recognised industry practices. The combined carve-out historical financial information has consequently been prepared as a combination of the historical financial information recognised in the Ascendis consolidated financial statements related to Animal Health (i.e. predecessor accounting). The assets of Animal Health recognised in the combined carve-out historical financial information include goodwill and intangible assets recognised in the Ascendis consolidated financial statements that relate to the Animal Health.

The accounting policies utilised in the combined carve-out historical financial information are consistent with those applied by Ascendis in its consolidated financial statements. The combined carve-out historical financial information is:

- Presented in South African Rand (ZAR).
- Prepared using the historic cost convention except for certain financial instruments including derivative instruments, which are stated at fair value.

Accounting Policies

1.1 Basis of preparation (continued)

- Prepared on the going concern basis. As at 31 December 2020 the current liabilities exceed the current assets due to the recognition of a financial guarantee liability in respect of the Ascendis group's senior debt. Animal Health will be released from its financial guarantee obligation related to Ascendis group's senior debt on disposal from Ascendis which will restore Animal Health to a solvent position with current assets exceeding current liabilities. Management therefore has a reasonable expectation that Animal Health's operations have adequate resources to continue in operational existence for the foreseeable future.

The following principles and assumptions have been applied in the preparation of the combined carve-out historical financial information:

Equity:

- Share capital and earnings per share - As Animal Health did not historically constitute a combined legal group there is no issued share capital. The information on earnings per share for Animal Health pursuant to IAS 33 has not been presented, as no capital structure has been presented in the combined carve-out historical financial information.
- Other reserves: no other reserves have been presented as there are no categories in equity that will be recycled to profit or loss in the future.

Goodwill and intangible assets:

Goodwill and intangible assets that arose on the acquisition of the entities comprising Animal Health by the Ascendis group, such as customer relationships, contracts and drug master files, have been recognised in the combined carve-out historical financial information. During the reporting periods presented, goodwill was tested for impairment at a Cash-generating unit ("CGU") level, being the CGUs used at that time by Ascendis to monitor goodwill. This was determined to also be the appropriate level for testing of goodwill impairment for Animal Health.

- Allocation of central costs - Management and similar functions for the South African operations of Ascendis group were primarily performed at an Ascendis Management Services (Pty) Ltd ("Ascendis Management Services") level (a subsidiary of Ascendis); these functions include payroll, accounting, centralised purchasing, marketing, executive management, rent, advertising, legal, insurance, IT, company secretarial and other administrative functions. Any central management fees and similar costs that were incurred by Ascendis Management Services on behalf of Animal Health were historically recharged to the entities comprising Animal Health. For 2018 – 2020 financial years, central costs were allocated on EBITDA basis, this was because majority of entities in the group to which corporate services were provided were making profits. Allocating these costs on EBITDA basis provided a reasonable allocation based on extent to which services were consumed. However due to financial difficulties within the group, a number of entities have been making losses. As a result, the basis of allocation was changed in 2021 financial year to revenue so that entities that consumed corporate services were allocated an appropriate portion of the central costs.
- Taxation: The entities that comprise Animal Health have historically filed separate tax returns in South Africa. All entities will continue to file separate tax returns. The income taxes have been accounted for using the separate tax return method by aggregating the tax positions of the individual entities of Animal Health.
- Intercompany: Transactions and balances with the Ascendis group of companies have been disclosed as related party transactions and balances in the combined carve-out historical financial information. All intergroup transactions and balances between the entities comprising Animal Health are eliminated. Directors' remuneration has been excluded due to Animal Health not constituting a combined legal group for the historical reporting periods and not having a separate board of directors.
- Interest: The interest charge reflected in the combined carve-out historical financial information is based on the interest charge historically incurred by the entities within Animal Health on specific external borrowings or related party financing provided by Ascendis group companies.

Limitations inherent to carve-out

As the combined carve-out historical financial information of Animal Health has been prepared on a combined basis (i.e. did not comprise a single reporting entity historically), this combined carve-out historical financial information may not be indicative of Animal Health's future performance and what its combined results of operations, financial position and cash flows would have been, had Animal Health operated as a separate reporting entity for the periods presented.

Accounting Policies

1.1 Basis of preparation (continued)

Subsequent events

The combined carve-out historical financial information of Animal Health was authorised for issue by the board of directors of Ascendis on__________________2021. Subsequent events have been considered from 31 December 2020 up to the date that the combined carve-out historical financial information was authorised for issuance. Refer to note 18.

1.2 Principal accounting policies

The principal accounting policies applied in the preparation of the condensed interim statements are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous annual financial statements for the period ended 31 December 2020.

1.3 Significant estimates and accounting judgements

In preparing these condensed interim financial statements, management made estimates and accounting judgements that affect the application of the going concern assumption, accounting policies and the reported amounts of assets, liabilities, income and expenses.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to have the actual results materially different from estimates. Detailed information about each of these estimates and judgements is included in the notes to the annual financial statements for the year ended 30 June 2020.

Significant estimates and judgements were made on the following items:

Key estimates

- Estimation of inventory obsolescence allowance.
- Estimation of the expected credit loss allowance.
- Future forecasts - assessing going concern and the impact of Covid-19.
- Impairment testing and allocation of cash-generating units.
- The useful lives and residual values of property, plant and equipment and intangible assets.
- Leases incremental borrowing rate.
- Leases renewal and termination options.
- The useful lives of right-of-use assets associated to leased assets.
- Recoverability of deferred tax assets.

Accounting judgements

- Revenue recognition.
- Lease and non-lease components.

Seasonality

The seasonality of the operations had no significant impact on the condensed reviewed interim results. Refer to note 2.

Notes to the Reviewed Combined Interim Results

2. Explanatory notes on other significant movements

To the extent that there is no note included to explain the significant movement, the financial position and performance of the group was particularly affected by the following:

Additions to property, plant and equipment

The group recognised additions in property, plant and equipment of R 888 986 which is mainly contributed by the purchases made by Kyron Labaratories for plant, equipment and motor vehicles of R 817 000.

Right-of-use asset

Right-of-use assets decreased as a result of depreciation.

Inventory

The inventory reduced from prior year as the group is under stocked due to cash flow constraints.

Trade and other payables

Trade and other payables have reduced because some suppliers are requesting prepayment of stock orders .

Revenue

Revenue has increased in the period under review because the group was recovering from the lost sales as a result of COVID.

Cost of sales

Cost of sales increased in line with the increase in revenue, however the group has mantained the same margin from June 2020 to December 2020.

Other Income

Other income reduced significantly from prior year because in the 2020 financial year, there was an amount of R160 million which was related to a once-off disposal transaction of Biosciences 1.

Selling and disrtibution costs

Selling and distribution costs have increased in line revenue. The increase is mainly contributed by delivery costs which increased by 14%

Finance costs

Finance costs have reduced significantly because the terms of the loan from Ascendis Financial Services was changed to interest free.

Administration expenses

The decrease in administration expenses has been contributed by the significant decrease in payroll related expenses which have reduced by approximately 91% as opposed to the same period last year.

Lease liability

Lease liability decreases as a result of repayments of R 1 748 659 that were made during the six months up to 31 December 2020.

3. Intangible assets and goodwill

	2020		
	Cost R	Accumulated amortisation R	Carrying value R
Drug master files	7 711 339	(3 138 381)	4 572 958
Brand names and trademarks	72 618 326	(26 698 722)	45 919 604
Computer software	15 531	(15 508)	23
Contracts	121 817 244	(23 659 467)	98 157 777
Client relationships	102 142 554	(29 353 752)	72 788 802
Goodwill	468 651 028	(171 017 503)	297 633 525
Total	**772 956 022**	**(253 883 333)**	**519 072 689**

Reconciliation of intangible assets and goodwill - 2020

	Opening balance R	Additions R	Disposals R	Amortisation R	Closing balance R
Drug master files	6 279 889	599 650	(2 195 088)	(111 493)	4 572 958
Brand names and trademarks	45 380 355	3 763 720	-	(3 224 471)	45 919 604
Computer software	1 051	-	-	(1 028)	23
Contracts	102 218 352	-	-	(4 060 575)	98 157 777
Client relationships	77 503 747	-	-	(4 714 945)	72 788 802
Goodwill	297 633 525	-	-	-	297 633 525
	529 016 919	**4 363 370**	**(2 195 088)**	**(12 112 512)**	**519 072 689**

4. Deferred tax

Deferred tax asset

Expected credit loss on intercompany loans	21 000 581
Lease liabilities	4 101 442
Other	446 868
Total deferred tax asset	**25 548 891**

Deferred tax liability

Plant and equipment	(53 278)
Intangible assets	(62 531 795)
Prepayments	(54 586)
Provisions	(17 457 906)
Right-of-use assets	(3 581 893)
Other	(887 055)
Total deferred tax liability	**(84 566 513)**

The deferred tax asset and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Deferred tax asset	25 548 891
Deferred tax liability	(84 566 513)
Total net deferred tax liability	**(59 017 622)**

Notes to the Reviewed Combined Interim Results

4. Deferred tax (continued)

Reconciliation of deferred tax liabilities

	6 months ended 31 December 2020 R
At beginning of year	(48 163 064)
Charged to the statement of profit or loss	
- Plant and equipment	27 580
- Intangible assets	2 884 414
- Expected credit loss on intercompany loans	1 284 635
- Lease iability	(489 624)
- Right-of-use asset	609 842
- Provisions	(14 607 486)
- Other	(539 022)
- Prepayments	(24 897)
At end of year	**(59 017 622)**

Deferred tax asset is recognised because the group expects to make future taxable profits in excess of profits arising from reversal of existing taxable temporary differences and as such have recognised the deferred tax assets. The deferred tax asset recoverability assessment considers the probability of forecasted future taxable income.

5. Inventories

	6 months ended 31 December 2020 R
Raw materials	36 088 387
Finished goods	72 111 926
Goods in transit	3 137 728
	111 338 041
Provision for write-downs*	(3 585 963)
	107 752 078

* The provision for write downs increased because based on the assessment, the reporting entity is expecting to write off more inventory items as compared to June 2020.

The cost of inventories recognised as an expense and included in cost of sales amounted to R 137 459 740.

Amount of write-down of inventory recognised as an expense amounted to R 999 335.

6. Loans to related parties

Counterparty

	Gross amount	Expected credit loss allowance	Net carrying amount
Ascendis Health Limited	12 307 630	-	12 307 630
Ascendis Financial Services Limited	192 802 109	(47 448 601)	145 353 508
Klub M5 Proprietary Limited	42 280 918	(870 987)	41 409 931
Ascendis Biosciences Proprietary Limited	58 940 773	(26 682 488)	32 258 285
	306 331 430	**(75 002 076)**	**231 329 354**

The loans are unsecured, bear no interest and have no fixed terms of repayment.

Notes to the Reviewed Combined Interim Results

	6 months ended 31 December 2020 R

6. Loans to related parties (continued)

Reconciliation of loss allowances

The following table shows the movement in the loss allowance (12 month expected credit losses) for loans to related parties:

Opening balance	(79 590 058)
Increase in ECL on new loans	(5 364 947)
Reversal of ECL due to change in the ECL %*	9 952 929
Closing balance	**(75 002 076)**

*The reversal is mainly contributed by the ECL % that has improved from Klub M5 Proprietary Limited. This is because Klub M5 Proprietary Limited has reported improved operational performance for the 6 months ended 31 December 2021 which has changed the credit profile. The ECL on all other counter parties did not change.

7. Trade and other receivables

Financial instruments:	
Trade receivables	71 222 931
Loss allowance	(3 631 340)
Trade receivables at amortised cost	67 591 591
Deposits	302 514
Staff loans	35 000
Other receivables	2 388 089
Non-financial instruments:	
Prepayments	1 322 576
Total trade and other receivables	**71 639 770**

8. Trade and other payables

Financial instruments:	
Trade payables	28 790 381
Trade payables - related parties	6 104 418
Refund liability for product returns	661 255
Accrued expenses	10 665 824
Other payables	2 594 616
Non-financial instruments:	
Other accrued payroll liabilities	5 405 420
Value added taxation	2 581 417
	56 803 331

Notes to the Reviewed Combined Interim Results

	6 months ended 31 December 2020 R
9. Loans from related parties	
Ascendis Health Limited	60 000 000
Ascendis Biosciences Proprietary Limited*	641 189
Ascendis Financial Services Proprietary Limited**	332 081 188
	392 722 377

*This loan is unsecured, interest free and has no fixed terms of repayment.
**The above loan is unsecured, has no fixed repayment terms and bears interest at 11%.
***The above loan is unsecured, has no fixed repayment terms and bears no interest. Ascendis Health Limited has issued a letter of support to Kyron Laboratories Proprietary Limited and undertakes to continue to provide adequate financial support to the group by providing or procuring funding to the extent that the group is unable to meet its debts and obligations in full.

10. Financial guarantee liability

In terms of IFRS 9, the group is required to recognise financial guarantee contracts where the company is a guarantor. A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument.

Financial guarantee contracts issued by the group are initially measured at their fair value and are subsequently measured at the higher of:

- The expected credit loss (ECL) in accordance with IFRS 9; or
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IFRS 15.

The ECLs are a probability weighted estimate of credit losses (the cash shortfalls) over 12 months or the expected life of the guarantee. Accordingly, the cash shortfalls are the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the company expects to receive from the holder, debtor or any other party.

The company along with other subsidiaries has jointly and severally guaranteed the Ascendis group borrowing facilities recorded in Ascendis Financial Services Proprietary Limited, Ascendis Health International Holdings Limited, Scitec kft, Remedica Limited and Ascendis Financial Services International SARL. Under the terms of the guarantee, the company will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due. Refer to note 3 of the group financial statements for further details with regards to the borrowing facilities with face values disclosed below:

The following formula was used to determine the ECL: Exposure at Default x Probability of Default (PD) and Loss Given Default (LGD). The PD has been determined using Moody's CreditEdge model. The model is an adapted Merton type model which takes market data into account. An implied rating of Caa3 which was measured by CreditEdge was used. LGD was measured LGD using Moody's RiskCalc LGD module assuming a default with a post default recovery methodology.

For the six month period ended 31 December 2020, the financial performance of the Ascendis Group improved significantly as compared to 30 June 2020. This along with the progress made in relation to the Group's divestment programme has resulted in a reversal of a portion of the ECL balance recognised as at 30 June 2020.

Face Value	
Term loan - European debt	3 402 133 000
Term loan - South African debt	1 534 832 000
Revolving credit facility	1 373 676 000
	6 310 641 000

Notes to the Reviewed Combined Interim Results

	6 months ended 31 December 2020 R
10. Financial guarantee liability (continued)	
The group's financial liability relating to financial guarantee contracts amounts to:	
Financial guarantee liability	887 231 801
Financial guarantee movement:	
Opening balance	1 402 429 932
Reversal of ECL	(515 198 131)
Closing balance	**887 231 801**
11. Revenue	
Revenue from contracts with customers	
Sale of goods	280 400 685
Disaggregation of revenue	
Sale of goods - local sales	277 238 070
Sale of goods - international sales	3 162 615
	280 400 685
Timing of revenue recognition	
At a point in time	
Sale of goods	280 400 685

There are no performance obligations that are unsatisfied or partially unsatisfied at the reporting date.

12. Taxation	
Major components of the tax expense	
Current	
Local income tax - current period	15 754 999
Local income tax - recognised in current tax for prior periods	8 362 339
	24 117 338
Deferred	
Originating and reversing temporary differences	10 854 559
	34 971 897
Reconciliation of the tax income	
Reconciliation between applicable tax rate and average effective tax rate.	
Applicable tax rate	28.00 %
Non-deductible expenses	0.01 %
Amortisation and Impairment	(0.08)%
Reversal of ECL on financial guarantee liability	(25.40)%
Under / (Over) provision - previous years	3.63 %
	6.16 %

Notes to the Reviewed Combined Interim Results

13. Cash utilised in operations

	6 months ended 31 December 2020 R
Profit before taxation	567 980 608
Adjustments for:	
Depreciation and amortisation	15 194 838
Finance costs	929 550
Finance income	(9 431)
Net reversal of impairment on financial assets	(3 616 771)
Reversal of ECL on financial guarantee liability	(515 198 131)
Movement in provisions	(855 834)
Net foreign exchange losses	3 146 086
Changes in working capital:	
Inventories	3 357 962
Trade and other receivables	(1 685 397)
Trade and other payables	(27 879 888)
	41 363 592

14. Tax paid

	6 months ended 31 December 2020 R
Balance at beginning of the period	(6 230 827)
Current tax for the period recognised in profit or loss*	(24 117 338)
Balance at end of the period	18 091 981
	(12 256 184)

* The movement in the current tax was mainly contributed by the current year statement of profit or loss and other comprehensive income movement of about R 15.8 million and prior year under provision of tax of R 8.4 million.

15. Related parties

Relationships

Ultimate holding company	Ascendis Health Limited
Holding company	Kyron Laboratories Proprietary Limited
Subsidiaries	Kyron Animal Health Proprietary Limited
Fellow subsidiaries	Ascendis Financial Services Proprietary Limited Efekto Care Proprietary Limited Afrikelp Proprietary Limited Klub M5 Proprietary Limited Ascendis Biosciences Proprietary Limited Marltons Pets and Products Proprietary Limited Ascendis Pharma Proprietary Limited Ascendis Management Services Proprietary Limited

Related party transactions constitute the transfer of resources, services or obligations between the company and a party related to the Ascendis group of companies, regardless of whether a price is charged. For the purposes of defining related party transactions with key management, key management has been defined as directors and the executive committee and includes close members of their families and entities controlled or jointly controlled by these individuals.

Notes to the Reviewed Combined Interim Results

	6 months ended 31 December 2020 R
15. Related parties (continued)	
Related party balances	
Loans to related parties	
Ascendis Health Limited	12 307 630
Ascendis Financial Services Proprietary Limited	192 802 109
Ascendis Biosciences Proprietary Limited	58 940 773
Klub M5 Proprietary Limited	42 280 918
	306 331 430
Loans from related parties	
Ascendis Health Limited	(60 000 000)
Ascendis Biosciences Proprietary Limited	(641 189)
Ascendis Financial Services Proprietary Limited	(332 081 188)
	(392 722 377)
Amounts included in trade payables regarding related parties	
Ascendis Pharma Proprietary Limited	4 099 380
Ascendis Management Services Proprietary Limited	2 005 038
	6 104 418
Related party transactions	
Management fees paid to related parties	
Ascendis Management Services Proprietary Limited	10 011 090

16. Fair value estimation

The carrying value less impairment provision of trade and other receivables, cash and cash equivalents and trade and other payables are assumed to approximate their fair values due to the short term nature of trade and other receivables, cash and cash equivalents and trade and other payables. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

Fair value is a market-based measurement and is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

A financial instrument's categorisation within a three-level valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Notes to the Reviewed Combined Interim Results

16. Fair value estimation (continued)

The three levels are defined as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Recurring fair value measurements at 31 December:

2020	Level 1	Level 2	Level 3	Total
Measured at fair value on a recurring basis				
Financial liabilities at fair value through profit and loss				
Derivative financial instruments	-	1 182 845	-	1 182 845

The following methods and assumptions were used to estimate the respective fair values:

Derivative financial instruments

The group enters into derivative financial instruments with various financial institutions. Derivative financial instruments are valued using valuation techniques which employ the use of observable inputs. The future cash flows on forward exchange contracts and interest rate swaps are estimated based on the forward exchange rates and forward interest rates at the end of the period discounted at a rate that reflects the credit risk of various counterparties.

17. Going concern

We draw attention to the fact that as at 31 December 2020 the company's total liabilities exceeded its assets by R 856 million. As a result, it is technically insolvent. The net liability position is mainly driven by the recognition of the financial guarantee of R 887 million. Included in Animal Health are 2 entities that are guarantors of the Ascendis group's debt facilities.

In considering whether the technical insolvency results in a going concern problem, management considered whether the financial guarantee liability is expected to result in a cash outflow. The significant value of the financial guarantee liability is as a result of the financial difficulty being experienced by Ascendis Health Group ("group") as a whole and thereby resulting in a material uncertainty relating to the going concern of the company. As such, the group's going concern assessment and the management's plans in relation to the repayment of the group's debt is relevant to Animal Health's assessment of going concern.

Material Uncertainty of the Ascendis Health Group:

In determining the appropriate basis of preparation of the group annual financial statements, the directors are required to consider whether the group and the company can continue to operate for the foreseeable future, being at least the 12 months following 31 December 2020.

At 31 December 2020 the majority of the group's debt was reclassified as current in line with the repayment date of 31 December 2021. As a result, the group's current liabilities exceed the current assets by R5.1 billion. This position reflects that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. In making the going concern assessment, the directors have taken into account the continued strong operational performance of the underlying operations, together with progress to date on the Group Recapitalisation as well as the Interest Forbearance Agreement that was signed on 28 February 2021, and the implications of this agreement and the recapitalisation on liquidity and solvency. The directors have concluded that the group can continue to operate as a going concern subject to successful implementation of the Group Recapitalisation. More information on the Debt, Group Recapitalisation and Liquidity is described in further detail below.

Financial Performance

The group has benefited from a largely COVID-19-defensive portfolio with strong operational performance in both its European and South African based businesses. The half year results reflect an increase in revenue from continuing operations of 33% to R3.98 billion, and an increase in Normalised EBITDAPM from continuing operations of 50% to R793.77 million.

Notes to the Reviewed Combined Interim Results

17. Going concern (continued)

Debt and Group Recapitalisation

On 5 June 2020 the group entered into a Senior Facilities Agreement ("SFA") with its lender consortium to restructure its existing debt facilities and provide for the advance of new facilities. This arrangement enabled the group to extend the repayment obligations of its debt to 31 December 2021, with no capital payments required in advance of that date, other than repayments triggered as a result of assets disposals and repayment of any excess cash beyond that which the business required. The debt has been classified as current in the half-year financial statements due to the timing of this repayment.

This debt extension enabled the operations to focus their attention on driving performance, whilst a cash sweeping arrangement implemented at group-level allowed improved oversight of the governance related to capital allocation. The intention of the debt extension was also to allow the group to attempt to maximise the exit values of assets targeted for disposal under the lender-prescribed divestment program.

At 31 December 2020 the following progress had been made on the divestment programme:

- **Remedica:** Non-binding offers had been received for the sale of the business and while various due diligence processes had commenced, management's judgement was that the execution risk on this disposal remained high as at 31 December 2020 and therefore Remedica is not classified as a discontinued operation.
- **Sun Wave:** Progress was made in reducing the outstanding deferred vendor payment to R48.8 million at 31 December 2020. This was subsequently settled in full after half year.
- **Medical Devices:** Management requested an extension on the commencement of this disposal process in September 2020. This delay in initiating the disposal process enabled the group to benefit from the business's strong performance as reflected in the half-year results. The disposal process had not yet commenced at 31 December 2020 and therefore Medical Devices continues to be included as a continuing operation.
- **Animal Health:** The business was in an active process of divestment commencing in September 2020 with binding offers having been received by 31 December 2020. The business was therefore classified as held for sale as at the interim reporting date and continues toward divestment.
- **Biosciences:** The business was disclosed as a discontinued operation at the 2020 financial year reporting date and management continued to do so at the interim reporting date as an active sales process and negotiations were ongoing.
- **Dezzo Trading 392 Proprietary Limited ("Dezzo Trading"):** The entity conducting the group's public sector SA pharma business was identified as a disposal group held for sale in the 2020 financial year. The business continues to be classified as such and the disposal was concluded during March 2021.

In January 2021, the board of directors received communication from Blantyre Capital Limited ("Blantyre") and L1 Health GP SARL ("L1 Health") confirming that, as part of the lender consortium, they had increased their aggregated exposure to the SFA debt to more than 75%. This level of exposure enables Blantyre and L1 Health to provide or withhold all waiver, deferrals and consents requiring majority lender approval under the SFA.

Blantyre and L1 Health also communicated their view that the divestment of core assets is not in the best long-term interest of the company and its stakeholders, and the disposal processes for Remedica and Sun Wave were terminated. Dezzo, Animal Health and Biosciences were confirmed as non-core assets and these disposal processes continue.

The directors are advanced in their engagements with Blantyre and L1 Health in respect of a recapitalisation and restructure of the group ("Group Recapitalisation").

The directors have provided due consideration to the following matters in determining their engagement on the Group Recapitalisation:

- **Cost of funding and its impact on the capital loan balances:** The SFA signed on 5 June 2020 resulted in an extremely high cost of funding for the group. Interest is charged at EURIBOR plus 10% to 14% (4% - 5% related to margin and an additional 5% - 10% payment in kind ("PIK") charge) on the Euro-denominated facilities and JIBAR plus 10% to 14.2% (3.75% - 5% related to margin and an additional 5%-10% PIK charge) for the ZAR denominated facilities. As a result the average effective cost of debt was approximately 14.4% and 16.9% for European and South African denominated facilities respectively. This resulted in funding costs comprising R196 million of interest plus R280 million related to the PIK margin. The SFA provides for a PIK strike of a further 2,5% in certain circumstances as described in more detail under "divestment related milestones". Importantly, the PIK interest is capitalised to the value of the debt and therefore the aggregate debt balance continues to grow by the value of the PIK.

Notes to the Reviewed Combined Interim Results

17. Going concern (continued)

- **Liquidity:** Reduced credit facilities available to the group due to the inclusion of the upcoming debt repayment in credit insurers risk profiles put pressure on liquidity as a number of suppliers required advance payments for orders placed with them. The impact of these reduced credit facilities was particularly pronounced in the Medical Devices business where there was a need to ensure sufficient cash to manage the escalated working capital requirements brought about by the increase in demand as a result of COVID-19. Medical Devices houses the Respiratory Care Africa ("RCA") and The Scientific Group ("TSG") subsidiaries that supply high flow oxygen units, Airvos, and ventilators that are critical in the treatment of COVID-19 and the testing equipment used to detect the virus. The Group Recapitalisation enabled engagement with the majority lenders on the most appropriate way of ensuring headroom was available in the business. This culminated in the company entering into a forbearance agreement as escribed under the "liquidity" section.
- **Execution risk on disposals:** On review, the directors acknowledged that the lender-prescribed divestment program put the group at a disadvantage related to extraction of maximum value for the assets during the disposal processes. Further, the upcoming debt repayment date of 31 December 2021 does not allow for any extension of the disposal programme despite the increased complexity of divesting multiple assets simultaneously. Importantly, the shares in Remedica and Sun Wave are subject to lender security and as such lender consent would have been required to release the security to implement a disposal. Consideration of these factors, in turn, increased overall execution risk of the divestment program.
- **Divestment related milestones:** The SFA includes a number of disposal milestones. Certain disposal milestones result in events of default while others cumulatively result in an increase in the PIK margin of 2.5%. As discussed above, delays were experienced in certain milestones related to the disposals of Sun Wave, Medical Devices and Biosciences that were required to have been met by 31 January 2021. This resulted in an increase of the PIK margin applicable to all facilities of 2.5% from this date. This PIK strike will result in an additional c.€4 million and R51 million on EURO and Rand denominated facilities respectively in financing costs being incurred between that point and maturity of the debt.

In light of the above factors, the directors are of the view that successful implementation of the Group Recapitalisation will provide a stable platform to address the group's high financial leverage and punitive funding structure, short term debt maturities and operational liquidity requirements.

Liquidity

Management prepares annual budgets for each business unit and head office. A revised forecast is performed for each business unit and head office quarterly. This revised forecast takes into consideration expected operational performance and working capital requirements. Group Treasury manages liquidity and works closely with each business on ensuring accurate forecasting of cash inflows and cash requirements. It regularly updates its robust liquidity model which includes cash flow forecasts covering a period of 18 months from the date of these group annual financial statements. Cash flow forecasts are prepared weekly by the business units and reviewed by Group Treasury. These are shared with the consortium lenders every fortnight.

At 31 December 2020, the group's consolidated cash and cash equivalents totalled R311 million (including restricted cash of R60 million), having improved from R204 million (including restricted cash of R79 million) at 30 December 2019. The group has managed to meet its short-term obligations as these have fallen due.

In order to address the group's short-term liquidity requirements and further potential events of default under the SFA, the group entered into a forbearance agreement with L1 Health and Blantyre. Under the forbearance agreement, L1 Health and Blantyre have agreed not to take enforcement action in respect of certain events of default and the non-payment of interest of approximately R79 million due on 31 March 2021. In addition, pursuant to the forbearance agreement, the business has been able to increase its facilities with the Bank of Cyprus after the interim reporting date as well as retain the eventual proceeds received on disposal of Dezzo. The above factors have provided the group with the required short term liquidity headroom.

The forbearance agreement caters for certain other events of default and remains in place until 30 April 2021 ("forbearance period"). The forbearance period may be extended by agreement between the group and the majority lenders. The parties aim to reach agreement on the transaction structure for the Group Recapitalisation by 30 April 2021, which should lead to an extension of the forbearance period.

The group entered into an amendment to the SFA on 10 March 2021 ("Amended SFA") in order to accommodate additional and modified conditions until the completion of the Group Recapitalisation, including further liquidity support measures (as outlined above).

Notes to the Reviewed Combined Interim Results

17. Going concern (continued)

Covenants

In terms of the Amended SFA, management is required to provide the lender consortium with a quarterly covenant certificate. The certificate only requires a single financial covenant ratio: total net debt/adjusted EBITDA (adjusted EBITDA is defined as the last 12 months' EBITDA (including 12 months EBITDA for acquisitions made in the last 12 months and excluding EBITDA for disposals in the last 12 months)). The ratio assesses the group's ability to service its leveraged capital structure and interest cover and is reset following each disposal.

The lender consortium has set quarterly targets for this ratio until the repayment date of 31 December 2021. At 31 December 2020, the target ratio was less than or equal to 7.3x. Ascendis achieved a ratio of 4.4x, demonstrating an acceptable margin below the target ratio.

Under the Amended SFA, a condition was introduced to remove a concessionary adjustment previously included in the target ratio for the adverse effects of the COVID-19 pandemic. This condition will require that prospectively upon the next reset of the covenant (triggered by a business disposal), the target ratio calculation may no longer include the COVID-19 adjustment.

A sensitivity analysis reflects that the group will continue to meet the covenant after the abovementioned amendment.

COVID-19

The COVID-19 pandemic has been an unprecedented development arising in the prior financial year and a situation rendering adaptation to what could be considered a new status quo for society.

The resurgence of the virus was experienced in the various markets in which the group operates. The second wave in South Africa was a more contagious viral strain, propelling the country back into a stricter lockdown throughout the wave's peak faced through until January 2021.

Other major territories of operation such as Cyprus, Romania and Spain experienced unique challenges. Cyprus' island location benefitted in the containment of the virus, but mainland Spain and Romania were more severely impacted, leading to harsher and more prolonged lockdown regulations, particularly in response to a second wave of infections from October 2020. Vaccination campaigns in the European Union ("EU") have been extensive and at the forefront globally in terms of the pace of the roll-out.

As highlighted, the group benefits from a predominantly COVID-19 defensive business and this has reflected in exceptional operational performance during the period.

The pandemic presented several operational challenges and opportunities, including:

- Inventory challenges due to port and shipping delays;
- Restricted access to customers through hard lockdowns and access to medical facilities;
- Increases in freight and distribution costs, for both domestic and international logistics;
- Cost savings continue to be realised following lower levels of travel and marketing across the group;
- Production facility closures due to virus outbreaks among employees have been minimal; and
- The postponement of elective surgeries impacted on sales across the Medical Devices segment although opportunities to supply personal protective equipment and other equipment related to treating the virus were maximised.

The impact of the second wave was less disruptive due to key response processes now being embedded into the business.

Management acknowledges the uncertainty regarding the outlook and developments relating to COVID-19 but continue to actively monitor its impacts on staff, customers and the business operations. The group takes its responsibility seriously to continue to ensure that products are available to customers to assist in the humanitarian response.

Notes to the Reviewed Combined Interim Results

17. Going concern (continued)

Conclusion

As outlined above, the directors have considered various points of mitigation against the material uncertainty related to going concern. This includes considering the continued support of the company's lenders, investors and customers and the progress and plans for the Group Recapitalisation, in conjunction with progress on the disposals of the identified non-core operating units. They have also considered the financial plans and forecasts, and the actions taken by the company. In particular, the going concern of the business is premised on a successful implementation of the Group Recapitalisation. Accordingly, and based on the information available to them, the directors are of the opinion that the going concern assumption is appropriate in the preparation of the group's interim financial statements.

Based on the assessment above, it is assessed that the reporting entity is able to continued as a going concern. Therefore, the financial statements are prepared on a going concern basis.

18. Events after the reporting period

The businesses within the Animal Health reporting entity were identified as non-core assets as per the Ascendis group's long-term strategy. Therefore, the businesses are being divested. The sale-purchase agreement was signed in July 2021 and the transaction is expected to close by 31 October 2021.

For the purposes of Animal Health reporting entity, this is a non-adjusting event.