Ascendis Health Europe Business Unit
Combined Annual Financial Statements
for the year ended 30 June 2020, 30 June 2019 and 30 June 2018

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The reports and statements set out below comprise the combined annual financial statements presented to the shareholder:

Statement of Financial Position as at 30 June 2020

	Notes	2020 R '000	2019 R '000	2018 R '000
Assets				
Non-Current Assets				
Property, plant and equipment	4	817 950	588 107	599 952
Right-of-use assets	5	58 391	-	-
Intangible assets and goodwill	6	4 460 722	3 687 438	3 729 982
Other financial assets		21 018	2 714	-
		5 358 081	**4 278 259**	**4 329 934**
Current Assets				
Inventories	8	690 201	502 911	428 373
Loans to related parties	9	1 094 092	530 978	941 844
Trade and other receivables	10	1 541 712	989 166	680 747
Current tax receivable	24	-	1 172	22 830
Cash and cash equivalents	11	93 414	212 085	310 903
		3 419 419	**2 236 312**	**2 384 697**
Total Assets		**8 777 500**	**6 514 571**	**6 714 631**
Equity and Liabilities				
Equity				
Equity Attributable to Equity Holders of Parent				
Share capital		18	18	18
Reserves		1 535 373	1 162 942	1 164 265
Accumulated losses		(130 296)	(467 114)	(129 343)
		1 405 095	695 846	1 034 940
Non-controlling interest		(3 054)	(2 915)	42
		1 402 041	**692 931**	**1 034 982**
Liabilities				
Non-Current Liabilities				
Borrowings	13	237 674	101 795	148 927
Lease liabilities	5	38 031	13 863	18 970
Deferred tax	7	175 526	149 031	155 780
Deferred vendor liabilities	14	-	154 476	652 023
		451 231	**419 165**	**975 700**
Current Liabilities				
Trade and other payables	15	655 079	508 270	362 926
Loans from related parties	12	4 609 798	3 806 366	3 857 400
Borrowings	13	69 546	92 715	87 382
Lease liabilities	5	19 684	10 361	8 953
Current tax payable	24	8 236	-	-
Financial guarantee liability	16	517 024	154 771	-
Deferred vendor liabilities	14	995 647	762 998	315 634
Bank overdraft	11	49 214	66 994	71 654
		6 924 228	**5 402 475**	**4 703 949**
Total Liabilities		**7 375 459**	**5 821 640**	**5 679 649**
Total Equity and Liabilities		**8 777 500**	**6 514 571**	**6 714 631**

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2020 R '000	2019 R '000	2018 R '000
Revenue	17	3 057 489	2 267 838	1 893 177
Cost of sales	18	(1 380 828)	(1 137 353)	(943 433)
Gross profit		**1 676 661**	**1 130 485**	**949 744**
Other income	19	26 959	325 568	242 546
Selling and distribution costs	18	(447 114)	(309 100)	(242 426)
Administrative expenses	18	(284 442)	(256 531)	(228 624)
Expected credit loss allowance on financial guarantee liability	18	(362 253)	(154 771)	-
Impairment losses on financial assets	18	(53 710)	(440 307)	(2 138)
Operating expenses	18	(163 785)	(111 341)	(110 403)
Operating profit		**392 316**	**184 003**	**608 699**
Finance income	20	45 744	27 308	11 191
Finance costs	21	(84 892)	(62 060)	(45 332)
Profit before taxation		**353 168**	**149 251**	**574 558**
Taxation	22	(15 446)	(34 505)	(14 922)
Profit for the year		**337 722**	**114 746**	**559 636**
Other comprehensive income:				
Items that will not be reclassified to profit or loss:				
Revaluation of property, plant and equipment	4	13 768	-	-
Income tax relating to items that will not be reclassified		(1 721)	-	-
Total items that will not be reclassified to profit or loss		**12 047**	**-**	**-**
Items that may be reclassified to profit or loss:				
Exchange differences on translating foreign operations		13 013	56 575	32 689
Other comprehensive income for the year net of taxation		**25 060**	**56 575**	**32 689**
Total comprehensive income for the year		**362 782**	**171 321**	**592 325**
Profit attributable to:				
Owners of the parent		337 861	114 678	559 594
Non-controlling interest		(139)	68	42
		337 722	**114 746**	**559 636**
Total comprehensive income attributable to:				
Owners of the parent		362 921	174 278	592 283
Non-controlling interest		(139)	(2 957)	42
		362 782	**171 321**	**592 325**

Ascendis Health Europe Business Unit

Combined Annual Financial Statements for the year ended 30 June 2020, 30 June 2019 and 30 June 2018

Statement of Changes in Equity

	Foreign currency translation reserve	Revaluation reserve	Common control reserve*	Total reserves	Accumulated losses	Total attributable to equity holders of the group / company	Non-controlling interest	Total equity
	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Balance at 01 July 2017	**(65 698)**	**-**	**1 179 037**	**1 113 339**	**(123 819)**	**989 520**	**-**	**989 520**
Profit for the year	-	-	-	-	559 594	559 594	42	559 636
Other comprehensive income	(32 689)	-	(187 708)	(220 397)	-	(220 397)	-	(220 397)
Foreign currency translation	-	-	271 323	271 323	-	271 323		271 323
Dividends	-	-	-	-	(565 118)	(565 118)	-	(565 118)
Balance at 01 July 2018	**(98 387)**	**-**	**1 262 652**	**1 164 265**	**(129 343)**	**1 034 922**	**42**	**1 034 964**
Profit for the year	-	-	-	-	114 678	114 678	68	114 746
Other comprehensive income	59 599	-	-	59 599	-	59 599	(3 025)	56 574
Total comprehensive income for the year	**59 599**	**-**	**-**	**59 599**	**114 678**	**174 277**	**(2 957)**	**171 320**
					-		-	
Foreign currency translation reserve	-	-	(60 922)	(60 922)		(60 922)	-	(60 922)
Dividends	-	-	-	-	(420 701)	(420 701)	-	(420 701)
Balance at 01 July 2019 as previously reported	**(38 788)**	-	**1 201 730**	**1 162 942**	**(435 366)**	**(727 576)**	**(2 915)**	**(724 661)**
Changes in accounting policies								
IFRS 9 adjustment	-	-	-	-	(31 748)	(31 748)	-	(31 748)
Balance at 01 July 2019 as restated	**(38 788)**	**-**	**1 201 730**	**1 162 942**	**(467 114)**	**695 828**	**(2 915)**	**692 913**
Profit for the year	-	-	-	-	337 861	337 861	(139)	337 722
Other comprehensive income	13 013	12 047	-	25 060	-	25 060	-	25 060
Total comprehensive income for the year	**13 013**	**12 047**	**-**	**25 060**	**337 861**	**362 921**	**(139)**	**362 782**
Foreign currency translation reserve	-	2 830	344 819	347 649	-	347 649	-	347 649
Reclassification of reserves into retained earnings	(278)	-	-	(278)	-	(278)	-	(278)
Dividends	-		-	-	(1 043)	(1 043)	-	(1 043)
Balance at 30 June 2020	**(26 053)**	**14 877**	**1 546 549**	**1 535 373**	**(130 296)**	**1 405 077**	**(3 054)**	**1 402 023**

Notes

* Common control reserve relates to all equity adjustments relating to the restructuring of the reporting entity in order to exclude the items that have been carved out.

Statement of Cash Flows

	Notes	2020 R '000	2019 R '000	2018 R '000
Cash flows from operating activities				
Cash generated from operations	23	606 884	655 254	(2 092 698)
Interest received		6 219	644	(4 140)
Interest paid		(8 390)	(3 644)	6 709
Tax paid	24	(12 936)	(16 295)	(18 475)
Net cash from / (used in) operating activities		**591 777**	**635 959**	**(2 108 604)**
Cash flows from investing activities				
Purchase of property, plant and equipment	4	(162 963)	(45 247)	(91 409)
Proceeds on sale of property, plant and equipment	4	2 153	1 089	2 407
Purchase of intangible assets	6	(63 616)	(62 326)	(68 965)
Proceeds on sale of intangible assets	6	-	7 127	-
Payments received for loans advanced to related parties		402 633	-	4 676 051
Loans advanced to related parties		-	(11 082)	-
(Purchase) / proceeds from sale of financial assets		(2 103)	1	159
Repayments of deferred vendor liabilities		(172 232)	(78 219)	(396 274)
Net cash (utilised in) / from investing activities		**3 872**	**(188 657)**	**4 121 969**
Cash flows from financing activities				
Repayment of loans from related parties		(765 263)	(60 922)	(1 489 927)
Proceeds from borrowings		145 200	38 576	250 124
Repayment of borrowings		(75 877)	(89 711)	(51 946)
Payment of lease liabilities		(14 365)	(9 489)	(9 252)
Dividends paid		(1 043)	(420 701)	(565 118)
Net cash utilised in financing activities		**(711 348)**	**(542 247)**	**(1 866 119)**
Total cash and cash equivalents movement for the year		**(115 699)**	**(94 945)**	**147 246**
Cash and cash equivalents at the beginning of the year		145 091	239 249	88 928
Effects of foreign exchange differences on cash and cash equivalents		14 808	787	3 075
Total cash and cash equivalents at end of the year	11	**44 200**	**145 091**	**239 249**

Accounting Policies

1. Significant accounting policies

The principal accounting policies applied in the preparation of these combined annual financial statements are set out below.

1.1 Basis of preparation

Description of business

Ascendis Health Limited ("Ascendis"), working with its transaction advisor (Rothchild), negotiated with its lender consortium a proposed structure in which the reporting entity's debt of circa R 6.9 billion is to be converted to equity. The Ascendis Board and lender consortium has agreed on the terms and structure of the Group recapitalisation ("Group recap") and have signed a Restructuring Support Agreement ("RSA") that outlines the details.

The key terms of the RSA are as follows:

- Participating Senior Lenders will exchange the reporting entity's outstanding debt, that is expected to be approximately €447 million at the estimated closing date of the Proposed Transaction, for:
  - 100% of the shares in Remedica and Sun Wave
  - the 49% shareholding in Farmalider (Ascendis will have the opportunity to share in any upside if the reporting entity's share in Farmalider is sold for more than €5 million);
  - the net proceeds from the sale of Animal Health, Biosciences and Respiratory Care Africa ("RCA"). Lenders will receive
    R 1 069 million from the disposal of RCA, Animal Health and Biosciences. Because the cash flowing from these disposals will not coincide with the closure of the Group recap, a Facility A amounting to the R 1 069 million will be put in place.

- Ascendis will also be provided, by the Participating Senior Lenders, with the following new facilities:
  - Access to a new draw down facility in the amount of the ZAR-equivalent of €20 million to fund future working capital requirements
  - A two-year Term Loan in the amount of the ZAR-equivalent of € 15 million, to settle outstanding and unpaid interest at closing and transaction costs

- Ascendis will retain all the businesses within the Medical Devices division (excluding RCA), Consumer Health SA and Pharma SA divisions, as well as 50% upside participation on the anticipated future sale of Farmalider.

However, subsequent to the announcement of the RSA terms, the majority shareholder of Farmalider has entered into negotiations with the Ascendis Board and lenders and will acquire the 49% share held by Ascendis in Farmalider in June 2021 before the issue of the shareholder circular for the Group Recap. Farmalider will therefore not form part of the Group Recap transaction.

This Group Recap will be achieved through the sale of the 99.92% shareholding of Ascendis Health Europe Holdings (Luxembourg) in Ascendis Health International Holdings Proprietary Limited ("AHIH"), resulting in AHIH and all its subsidiaries being acquired by the lenders, except for the disposal of Farmalider before implementation of the Group Recap.

The new facilities mentioned above will not form part of the HFIs, but will be included in the pro-forma effects of the Group Recap of Ascendis.

The reporting entity's European operations were historically conducted through the separate legal entities and disclosed as segments (Remedica & Sun Wave) in the Ascendis Group financial statements; the combination of these European operations is referred to as Ascendis Europe.

Although the entities comprising Ascendis Europe had a single holding company (AHIH), not all entities that historically formed part of the AHIH sub-group are part of the subject of the proposed disposal to the lenders in terms of the Group recap. Scitec was disposed of in July 2020 and has not been included in Ascendis Europe. The entities that form Ascendis Europe 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 Ascendis Europe.

For the purpose of presenting the historical carve-out performance of Ascendis Europe for the proposed Group recap, combined carve-out historical financial information has been prepared.

Accounting Policies

1.1 Basis of preparation (continued)

International Financial Reporting Standards ("IFRS") compliance

The combined carve-out historical financial information of Ascendis Europe is prepared in compliance with International Financial Reporting Standards ("IFRS") and interpretations of those standards as issued by the International Accounting Standards Board ("IASB"), the South African Institute of Chartered Accountants ("SAICA") Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council and the JSE Limited ("JSE") Listings Requirements.

Basis of preparation

The combined carve-out historical financial information of Ascendis Europe was derived from the consolidated financial statements of Ascendis for the three years ended 30 June 2020, 30 June 2019 and 30 June 2018, 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 Ascendis Europe 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 Ascendis Europe (i.e. predecessor accounting). The assets of Ascendis Europe recognised in the combined carve-out historical financial information include goodwill and intangible assets recognised in the Ascendis consolidated financial statements that relate to Ascendis Europe.

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), rounded to the nearest thousand.
- Prepared using the historic cost convention except for certain financial instruments including derivative instruments, which are stated at fair value.
- Prepared on the going concern basis. As at 30 June 2018 the current assets of Ascendis Europe exceed its current liabilities. As at 30 June 2019 and 30 June 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 and payables to Ascendis group companies. Ascendis Europe will be released from its intercompany payables and financial guarantee obligation related to Ascendis group's senior debt on disposal from Ascendis which will restore Ascendis Europe to a solvent position with current assets exceeding current liabilities. Management therefore has a reasonable expectation that Ascendis Europe'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:

- Earnings per share – The information on earnings per share for Ascendis Europe pursuant to IAS 33 has not been presented, as no capital structure has been presented in the combined carve-out historical financial information.
- Contribution from parent - As a result of applying predecessor accounting, the contribution from Ascendis is recognised at the carrying value of the net assets contributed to Ascendis Europe at the earliest comparative period presented. This contribution represents the aggregated combined share capital and retained earnings of the entities included in the combined carve-out historical financial information of Ascendis Europe at the earliest comparative period presented. The opening balance and movements in aggregated combined share capital and retained earnings of the entities included in the combined carve-out historical financial information of Ascendis Europe has been described as 'Contribution from parent' in the combined carve-out statement of changes in equity of Ascendis Europe.

Accounting Policies

1.1 Basis of preparation (continued)

Goodwill and intangible assets:

Goodwill and intangible assets that arose on the acquisition of the entities comprising Ascendis Europe 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 an individual company level, being the cash-generating units used at that time by Ascendis to monitor goodwill. This was determined to also be the appropriate level for testing of goodwill impairment for Ascendis Europe.

Allocation of central costs:

Management and similar functions for the European operations of Ascendis group were primarily performed at an AHIH level (a subsidiary of Ascendis); these functions include payroll, accounting, executive management, legal, insurance, IT, company secretarial and other administrative functions. AHIH is part of Ascendis Europe and as such, no additional central costs were required to be allocated to Ascendis Europe.

Taxation:

The entities that comprise Ascendis Europe have historically filed separate tax returns in the countries where these legal entities are tax resident. 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 Ascendis Europe. Deferred tax has been re-assessed and any resultant deferred tax asset/liability has been recognised. The additional deferred tax is related to the amounts that have been carved out in relation to Scitec.

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 Ascendis Europe are eliminated.

Directors' remuneration has been excluded due to Ascendis Europe 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 Ascendis Europe on financing provided by the Ascendis group companies for all periods presented.

Financial guarantee liability:

A financial guarantee liability ("FGL") has been recognised in terms of IFRS 9 due to the reporting entity acting as guarantor of the Ascendis Group's Senior Facilities Agreement (SFA). This financial guarantee will be cancelled upon the disposal of Ascendis Europe from Ascendis. The FGL will be included in the carve-out historical financial information, but removed from the pro-forma financial information.

Limitations inherent to carve-out

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

Accounting policies

The accounting policies applied in the preparation of the carve-out historical financial information as of 30 June 2020 are consistent with those applied for the years ended 30 June 2019 and 2018, except for the adoption of IFRS 16 'Leases', IFRS 9 'Financial Instruments', and IFRS 15 'Revenue from Contracts with Customers'. IFRS 16 and the Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosure' were adopted on 1 July 2019 and IFRS 9 and IFRS 15 took effect on 1 July 2018. IFRS 9, IFRS 15 and IFRS 16 were adopted using the modified retrospective approach, where the comparative financial information is not restated as permitted by the standard.

Accounting Policies

1.1 Basis of preparation (continued)

Subsequent events

The combined carve-out historical financial information of Ascendis Europe was authorised for issue by the board of directors of Ascendis on_______________2021. Subsequent events have been considered from 30 June 2020 up to the date that the combined historical financial information was authorised for issuance. Refer to note 31.

1.2 Significant judgements and sources of estimation uncertainty

The preparation of combined annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The preparation of combined annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgements

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Lease term

The reporting entity determines the lease term as the non-cancellabe term of the lease together with any periods covered by an option to extend or terminate the lease. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise an termination option.

The following factors are the most relevant:

- The period which the reporting entity has leased the asset;
- Management's future plans in terms of leasing the item;
- The significance of leasehold improvements, if any;
- The costs and disruption to business if the leased asset is to replaced.

Most extension options have been included in the lease liability because of the factors listed above, where applicable, it was assessed that it is reasonably certain that the reporting entity will exercise the extension option.

Accounting estimates

Allowance for slow moving, damaged and obsolete inventory

An allowance is made for inventory to write inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the expenses by nature note as part of cost of sales.

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 reporting entity for similar financial instruments.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment of non-financial assets

Determining whether non-financial assets, including goodwill are impaired requires an estimation of the recoverable amount of the CGUs or group of CGUs to which the assets, including goodwill has been allocated. The recoverable amount calculation requires the reporting entity to estimate the future cash flows expected to arise from the CGU (or group of CGUs) and a suitable discount rate in order to calculate the present value. The recoverable amount is calculated as the higher of value-in-use or fair-value-less-cost-to-dispose. Historically, the reporting entity has principally applied the value-in-use approach. The following inputs are used in the calculation of the value-in-use:

Free cash flows - In determining the free cash flow, the reporting entity uses the approved budget for the following financial year as the basis. The budget cycle is a robust process managed by the Ascendis group FP&A team using the reporting entity issued guidelines for inflation, administered prices and exchange rates. The forecast period is usually between 3 years and 5 years. The budget and the forecast income statement and balance sheets include the operating cash flows, working capital cash flows, capital expenditure and research and development cashflows and tax cash flows. These are adjusted for all CGU specific items.

Sales growth - this is the expected average annual growth rate used in the determination of the five year sales forecast. It is CGU specific and based on current industry trends, including inflation forecasts for the different geographies in which business is conducted. Other operating costs growth - these costs are those that do not vary significantly with sales volumes or prices and are based on current structures and ignore future unplanned restructurings or cost-saving measures. Their growth rate is based on current industry trends, including inflation forecasts for the different geographies in which business is conducted.

Annual capital and research and development expenditure - these are based on a short/medium term expenditure plan and the cash flows are included in the CGUs forecasts. In accordance with the value-in-use model, it is assumed these expenditures will not generate additional revenue, or result in additional costs.

Long-term growth rate - this is the expected growth rate used to determine cash flows beyond the budget and forecast period, which is used to and reflect the weighted annual growth rate.

Discount rates - these are CGU specific and reflect the specific risks relating to the relevant segments and the geographies in which they operate.

Residual values and useful lives of assets

Residual values and useful lives of tangible and intangible assets are assessed on an annual basis. Estimates and judgements in this regard are based on the historical experience and expectations of the manner in which the assets are to be used, together with the expected proceeds likely to be realised when the assets are disposed at the end of their useful lives. Such expectations could change over time and, therefore, impact both the depreciation and amortisation charges and carrying values of tangible and intangible assets in the future.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets

Deferred tax assets are raised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised, as well as the acceptability and ability to execute tax planning strategies. Assessment of future taxable profit is performed at every reporting date, in the form of future cash flows using a suitable growth rate, as well as the acceptability and ability to execute tax planning strategies. The inputs used in forecasting estimated taxable income, such as growth rates, margins, etc., are consistent with those used in forecasting cash-flows for non-financial assets impairment testing and would align with the reporting entity's budgets approved by executive management.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Allowances for expected credit losses (ECL) on financial assets (applicable from 1 July 2018)

The reporting entity recognised a credit loss allowance on a forward-looking basis. The measurement of ECL requires the use of complex models and significant assumptions about the future economic conditions and credit behaviour. The ECL allowance is based on assumptions about the risk of default and expected loss rates. The reporting entity uses judgements in making these assumptions and selecting the inputs to the ECL calculation which are related to history, existing market conditions as well as forward looking estimates that are linked to macro and micro economic factors. Refer to note 2 Change in accounting policy for further details regarding the forward-looking information.

Provision for doubtful debts (applicable before 1 July 2018)

The reporting entity assesses its trade receivables, loans and receivables for impairment at the end of each reporting period.

The impairment for trade receivables, loans and receivables is calculated on an individual basis, based on payment history, adjusted for national and industry-specific economic conditions and other indicators such as the credit terms of the customer and financial difficulties of the specific customer present at the reporting date that correlate with defaults on the individual receivable.

Leases – Estimating the incremental borrowing rate (applicable from 1 July 2019)

The reporting entity cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the reporting entity would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the reporting entity ‘would have to pay’, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The reporting entity estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments to this rate.

1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the reporting entity holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the reporting entity, and the cost of the item can be measured reliably.

Plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset.

Plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses.

Land and buildings are shown at fair value. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amount due to revaluation is credited to other comprehensive income and shown as reserve in equity. Decreases that offset previous increases of the same asset are charged to other comprehensive income and debited against the reserve. All other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued amount is charged to the income statement and the depreciation based on the original cost is transferred from the revaluation reserve to retained earnings.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the reporting entity. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. However, from 2020 financial year these leased assets are assessed in terms of the requirements of IFRS 16: Leases which requires right of use assets to be depreciated over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

Plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

1.3 Property, plant and equipment (continued)

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

Item	**Average useful life**
Buildings	25 - 50 years
Computer equipment	3 - 7 years
Plant and machinery	5 - 15 years
Motor vehicles	3 - 6 years
Office furniture	5 - 7 years
Leased assets*	2 - 10 years
Leasehold improvements#	3 - 10 years

* As a result of adopting IFRS 16, leased assets are disclosed separately. Refer to note 5.
# Depreciated over the shorter of the lease term or useful life.

Land is not depreciated.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.4 Intangible assets and goodwill

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Average useful life**
Brands and trademarks	5 - 25 years
Customer relationships	10 - 30 years
Drug master files	25 - 30 years

1.4 Intangible assets and goodwill (continued)

Research and development costs

Research and development expenditures that do not meet the requirements in terms of IAS 38 Intangible Assets are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in the subsequent period.

Development costs directly attributable to the production of new or substantially improved products, processes or computer software controlled by the reporting entity are recognised when the following criteria are met:
- it is technically feasible to complete the asset so that it will be available for use;
- management intends to complete the asset and use or sell it;
- there is an ability to use or sell the asset;
- it can be demonstrated how the asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the asset are available; and
- the expenditure attributable to the asset during its development can be reliably measured.

Capitalised development costs are in terms of existing dossiers which have passed proof of concept for which further research and development is performed to enhance the product. The reporting entity is further incentivised through government funding and tax incentives to enhance product development.

Directly attributable costs that are capitalised as part of the intangible asset include the employee costs and an appropriate portion of overheads. Capitalised development costs are recorded as an intangible assets and amortised from the point at which the asset is ready for use.

Development costs are capitalised until the date of commercial production and are amortised from the commencement of commercial sale of the product to which they relate, being the date at which all regulatory requirements necessary to commercialise the product have been met.

All the remaining development costs that do not meet the recognition criteria are recognised as an expense (other operating expenses) as incurred.

Intangible assets within the reporting entity includes the following:

(a) Brands and trademarks

The reporting entity capitalises marketing-related brands and trademarks acquired through business combinations. Brands and trademarks are words, names or symbols used in trade to indicate the source of a product and to distinguish it from the service or products of other entities. Trade names are capitalised at the date of acquisition at the fair value determined by an independent valuer. The fair values are determined by a relief- from-royalty method which entails quantifying royalty payments, which would be required if the trade name were owned by a third party and licensed to the reporting entity.

(b) Drug master files

The reporting entity capitalises technical know-how relating to the drug master files acquired as part of a business combination. The assets generate the right to use the drug master file by customers while the reporting entity retains the assets.

(c) Client relationships

Client relationships acquired as part of business combinations.

(d) Goodwill

Goodwill arises on the acquisition of businesses and represents the excess of the consideration transferred over the reporting entity's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill is measured at cost less accumulated impairment losses and is not amortised but tested for impairment annually or more frequent if events and changes in circumstances indicate a potential impairment. Impairment losses are recognised immediately as an expense in the statement of profit or loss.

1.4 Intangible assets and goodwill (continued)

Goodwill is allocated to each of the Cash Generating Units ("CGU"), or groups of CGUs expected to benefit from the business combination in which goodwill arose. Each CGU or group of CGUs to which goodwill is allocated represents the lowest level within the entity at which goodwill is monitored for internal management purposes.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Determining whether goodwill is impaired requires an estimation of the value in use of each CGU to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value of these cash flows.

1.5 Financial instruments

IFRS 9: Financial Instruments (applicable from 1 July 2018)

Accounting for Financial Instruments

Financial instruments comprise other financial assets, trade and other receivables (excluding prepayments), cash and cash equivalents, loans to and from related parties, other non-current liabilities (excluding provisions), derivatives and trade and other payables.

Recognition and classification

Financial assets and liabilities are recognised in the reporting entity's statement of financial position when the reporting entity becomes party to the contractual provisions of the instruments. Financial assets are classified as current if expected to be realised or settled within 12 months from the reporting date; if not, they are classified as non-current. Financial liabilities are classified as non-current if the reporting entity has an unconditional right to defer payment for more than 12 months from the reporting date.

The reporting entity classifies financial assets on initial recognition as measured at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL) based on the reporting entity's business model for managing the financial asset and the cash flow characteristics of the financial asset. Financial assets are not reclassified unless the reporting entity changes its business model. In rare circumstances where the reporting entity does change its business model, reclassifications are done prospectively from the date that the reporting entity changes its business model. Financial liabilities are classified as measured at amortised cost except for those derivative liabilities that are measured at FVTPL.

Measurement at initial recognition

At initial recognition, financial assets are measured at fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss. Trade receivables without a significant financing component are initially recognised at the transaction price. All financial liabilities, excluding derivative liabilities, are subsequently measured at amortised cost using the effective interest method.

Derivative liabilities are subsequently measured at fair value with changes therein recognised in profit or loss.

Subsequent measurement

Financial assets

The classification and subsequent measurement of financial assets depend on the reporting entity's business model for managing the financial assets and the contractual terms of the cash flows.

Financial assets are subsequently classified as financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

1.5 Financial instruments (continued)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets that are not measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Financial liabilities

All financial liabilities, excluding derivative liabilities are subsequently measures at amortised cost using the effective interest method. Derivative financial liabilities are subsequently measures at fair value with changes being recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the reporting entity has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire. On derecognition of a financial asset/liability, any difference between the carrying amount extinguished and the consideration paid is recognised in profit or loss.

Offsetting financial instruments

Offsetting of financial assets and liabilities is applied when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The net amount is reported in the statement of financial position. No offsetting of financial instruments was done for all the periods presented.

Impairment

Expected credit losses associated with debt instruments carried at amortised cost and FVOCI are assessed on a forward-looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The reporting entity calculates its allowance for credit losses (ECLs) for financial assets that are measured at amortised cost. ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls i.e., the difference between the cash flows due to the company in accordance with the contract and the cash flows that the reporting entity expects to receive. ECLs are discounted at the original effective interest rate (EIR) of the financial asset.

The reporting entity applies the simplified approach to determine the ECL for trade receivables. This results in calculating lifetime expected credit losses for trade receivables.

For purposes of determining the credit loss allowances on loans to related parties, management applies the 3-stage general impairment model to determine the impairment stage that the loans to related parties sit within. At initial recognition, the loans to related parties are generally performing which requires a 12-month ECL to be calculated for each outstanding balance. The model requires the monitoring of the credit risk associated with the loan to consider if there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk (the loans to related parties are doubtful or in default (credit impaired)), a lifetime ECL is recognised.

Accounting Policies

1.5 Financial instruments (continued)

The table below sets out the general impairment model which is applied by management for loans to related parties

Internal credit grade	Description	Basis for recognising expected credit losses
Stage 1 - performing	Low risk of default and no amounts are past due	12-month ECL
Stage 2 - doubtful	Either 30 days past due or there has been a significant increase in credit risk since initial recognition. The assessment is based on the whether there will be a risk of default over the expected life of the financial asset.	Lifetime ECL
Stage 3 - in default*	Either 90 days past due or there is evidence that the asset is credit impaired	Lifetime ECL
Write-off#	There is evidence indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.	Amount is written off

*The reporting entity defines a financial instrument as in default when the counterparty fails to make contractual payments within 90 days of when they fall due. This is fully aligned with the definition of credit-impaired assets.
#The reporting entity writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery.

Significant increase in credit risk

In assessing whether the credit risk on a loan has increased significantly since initial recognition, the reporting entity compares the risk of a default occurring on the loan as at the reporting date with the risk of a default occurring as at the date of initial recognition.

The reporting entity considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information.

By contrast, if a loan is assessed to have a low credit risk at the reporting date, then it is assumed that the credit risk on the loan has not increased significantly since initial recognition.

The reporting entity regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increases in credit risk before the amount becomes past due.

Qualitative criteria

Irrespective of the outcome of the above assessment, the credit risk on a loan is always presumed to have increased significantly since initial recognition if the contractual payments are more than 30 days past due, unless the reporting entity has reasonable and supportable information that demonstrates otherwise.

Qualitative indicators

The reporting entity considers available reasonable forward-looking information and the following indicators are incorporated:

- Changes in macro-economic environment, for example gross domestic product, inflation, unemployment rates, sovereign rates.
- Expected delay in payment.
- Actual or expected significant adverse changes in business impacting the ability of the customer to pay;
- Internal and external credit ratings.

Accounting Policies

1.5 Financial instruments (continued)

Definition of default

For purposes of internal credit risk management purposes, the reporting entity consider that a default event has occurred if internal or external information indicates that the counterparty is unlikely to pay its creditors in full (without taking collateral into account).

Irrespective of the above analysis, the reporting entity considers that default has occurred when a loan instalment is more than 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Write off policy

The reporting entity writes off a loan when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Loans written off may still be subject to enforcement activities under the reporting entity recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Financial guarantee contracts

The reporting entity is required to recognise a financial guarantee liability in relation to financial guarantee contracts where the reporting entity is the guarantor of a debt. 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 contract issued by the company is initially measured and recognised at fair value and is subsequently measured at the higher of:

- the expected credit loss in accordance with IFRS 9; or
- the amount initially recognised less, where appropriate, cumulative amortisation recognized in accordance with IFRS 15.

The ECLS are a probability weighted estimate of credit loss (the cash shortfalls) over the expected life of the guarantee. Accordingly, the cash shortfalls are the expected payments to reimburse the holder for a credit loss that is incurred less any amounts that the company expects to receive from me from the holder, debtor or any other party.

The following formula was used to determine the ECL: Exposure at Default (EAD) 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 using Moody's RiskCalc LGD module assuming a default with a post default recovery methodology. The ECL% is calculated at 10.8% in 2020 and 10.7% in 2019.

IAS 39: Financial Instruments – Measurement and Recognition (applicable before 1 July 2018)

Classification

The reporting entity classifies financial assets and financial liabilities into the following categories:

- Loans and receivables;
- Financial liabilities measured at amortised cost.

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments. The reporting entity classifies financial instruments, or their components parts, on initial recognition as a financial asset, financial liability, or equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets. For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Subsequently financial instruments at fair value through profit or loss are subsequently measured at fair value with gains and losses arising from changes in fair value being included in the statement of profit or loss and other comprehensive income for the period. Financial instruments at amortised cost are subsequent measurement amortised cost using the effective interest method less any accumulated impairment losses.

1.5 Financial instruments (continued)

Impairment of financial assets

At each reporting date the reporting entity assesses all financial assets other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets have been impaired.

Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Impairment losses are reversed when an increase in the financial assets' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Derecognition

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income of finance costs.

Finance assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the reporting entity has transferred substantially all the risks and rewards of ownership.

Loans to (from) group companies

These include loans to and from holding companies, fellow subsidiaries or subsidiaries, and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are classified as financial liabilities measured at amortised cost using effective interest method.

Trade and other receivables

Trade receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss and other comprehensive income when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization and default or delinquency on payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The carrying amount of the asset is reduced through the use of an allowance account, when a receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of profit or loss and other comprehensive income.

Trade and other receivables are classified as financial assets held at amortised cost.

Trade and other payables

Trade and other payables are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method. Trade payables are obligations on the basis of the normal credit terms and no not bear interest. Trade payables denominated in foreign currency are translated into Rands using the exchange rates at the reporting date. Foreign exchange gains and losses are included in the other income or other expenses.

Trade and other payables are classified as financial liabilities held at amortised cost.

Accounting Policies

1.5 Financial instruments (continued)

Cash and cash equivalents and bank overdrafts

Cash and cash equivalents comprise cash on hand and demand deposits, bank overdrafts and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are classified as financial assets held at amortised cost.

Bank overdrafts are disclosed separately on the face of the statement of financial position.

Financial guarantee contracts

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 a debt instrument. Financial guarantee contracts issued by the company are initially measured at their fair values and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

1.6 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.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 other than a business combination, which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill.

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.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Accounting Policies

1.6 Tax (continued)

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.7 Leases - IFRS 16 (applicable from 1 July 2019)

The reporting entity assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the reporting entity has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Reporting Entity as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the reporting entity is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the reporting entity recognises the lease payments as an operating expense (note 18) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

However as an exception to the preceding paragraph, the reporting entity has elected not to separate the non-lease components for leases of land and buildings.

Details of leasing arrangements where the reporting entity is a lessee are presented in note 5 Right-of-use assets.

Accounting Policies

1.7 Leases - IFRS 16 (applicable from 1 July 2019) (continued)

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the reporting entity uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the reporting entity under residual value guarantees;
- the exercise price of purchase options, if the reporting entity is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the reporting entity is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 18).

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note 21).

The reporting entity remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the reporting entity will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs incurred; and
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the reporting entity incurs an obligation to do so, unless these costs are incurred to produce inventories.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the reporting entity expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease. The lease term ranges from 1 year to 55 years.

Accounting Policies

1.7 Leases - IFRS 16 (applicable from 1 July 2019) (continued)

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

1.8 Leases- IAS 17 (applicable before 1 July 2019)

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This asset or liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.9 Inventories

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The carrying values of finished goods and work-in-progress include raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but exclude borrowing costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Impairment of non-financial assets

The reporting entity assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the reporting entity estimates the recoverable amount of the asset.

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 is recognised immediately in profit or loss.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

1.10 Impairment of non-financial assets (continued)

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation is recognised immediately in profit or loss.

1.11 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.

Ordinary shares are classified as equity.

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.13 IFRS 15: Revenue from contracts with customers applicable from 1 July 2018

The reporting entity generates revenue in the normal course of business through the following types of transactions:

- Sale of a range of medicines in the wholesale market;
- Sale of drug master files.

Sale of goods – wholesale

The reporting entity manufactures and sells a range of medicines in the wholesale market. This policy applies to both in-country sales and export sales. Revenue is recognised when the control of the products has transferred, being when the products are delivered to the wholesaler. The wholesaler has full discretion over the channel and price to sell the products and there is no unfulfilled obligation that could affect the wholesaler's acceptance of products. Delivery occurs when the products have been shipped to the wholesaler's specified location, risk of obsolescence and loss have been transferred to the wholesaler or either the wholesaler has accepted the products in accordance with the contract. Delivery for export sale is not a separate performance obligation as it is highly dependent on the sale of the products to the wholesaler hence it is not separately identifiable. The performance obligation is the sale of goods and it is satisfied at a point in time.

The products are sold with volume discounts, early settlement discount and rebates and revenue is recognised based on the price specified in the contract net of estimated discounts and rebates. The discounts and rebates are measured based on the expected value method using accumulated experience and revenue is recognised only to the extent that it is highly probable that a significant reversal will not occur. A liability which is included as part of trade and other payables is recognised for the expected discounts and refunds payable to the customer in relation to sales made until the end of the reporting period.

As per the reporting entity's standard contract terms, customers have the right of return within 7 days. At the point of sale, a refund liability and a corresponding adjustment to revenue are recognised for those products expected to be returned. At the same time, the reporting entity has the right to recover the product when the customers exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to the cost of sales recognised in profit or loss. The reporting entity uses the accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method.

It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.

1.13 IFRS 15: Revenue from contracts with customers applicable from 1 July 2018 (continued)

The transaction price is the relative stand-alone selling price of the products net of any variable consideration which is determined above.

A receivable is recognised by the reporting entity when the products are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Sale of drug master files right to sell fees

The reporting entity generates revenue from the right to sell a product manufactured by the reporting entity in a specific region. This constitutes a license fee and entails the seller of the product paying the reporting entity for the right to do so.

Revenue is recognised at a point in time.

IAS 18: Revenue applicable before 1 July 2018

Sale of goods are recognised when a reporting entity has delivered products to the wholesaler, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the reporting entity has objective evidence that all criteria for acceptance have been satisfied.

Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. No element of financing is deemed present as the sales are made with a credit term, which is consistent with the market practice.

Sale of drug master files: The reporting entity being an acquisitive business often acquires duplicate or inactive pharmaceutical licences and dossiers as part of a business combination. The reporting entity strategy is to optimise synergies between the various business operations, duplicate or inactive pharmaceutical licences and dossiers identified as part of a business combination will be sold to a willing buyer.

Since the future economic benefits of the assets are expected to realise from the sale of such assets and not through its continued use the reporting entity will classify these assets as part of inventory. The reporting entity aims to align its accounting policy with its strategy to generate economic benefits for the owners. The sale of pharmaceutical licences and dossiers is expected to occur with such frequency that it is considered in the normal course of business.

The service consideration for third-party manufacturing is recognised once a right of payment has been established. The customer accepts and takes physical possession of the manufactured inventory. Manufacturing service consideration is recognised using the percentage-of-completion method when reliable estimates are available. Estimating the stage of completion requires group management to exercise its judgement. The reporting entity applies contract accounting using the output-method to determine the amount of consideration to be recognised based on the number of units produced or delivered depending on the contract.

Revenue is presented net of indirect taxes, estimated returns and trade discounts and rebates.

1.14 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Accounting Policies

1.15 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in the respective currencies, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous combined annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in the respective currencies by applying to the foreign currency amount the exchange rate between the Rands and the foreign currency at the date of the cash flow.

Functional and presentation currency

Items included in the historical financial information are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The annual financial statements are presented in Rands, which is the reporting entity's presentation currency.

Foreign currency

The reporting entity financial statements are presented in South African Rand (Rand), which is the Ascendis Group (Ultimate parent) presentation currency. All the entities within the reporting entity presented, have their own functional currency which is different from the Ascendis group's presentation currency. The reporting entity owns the following entities which operate in primary economic environment that is different to the reporting entity:
- Remedica – Cyprus
- Ascendis Wellness (Sun Wave Pharma) – Romania
- Ascendis Health International Holdings – Malta: Euro
- Ascendis Financial Services International - Luxembourg

For each of these entities, a functional currency assessment has been performed. Where the reporting entity has a functional currency different to that of the group's presentation currency, they are translated upon consolidation in terms of the requirements of IFRS.

Translations and balances

Foreign currency transactions are translated into functional currency using the exchange rate at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.15 Translation of foreign currencies (continued)

Group companies

The results, cash flows and financial position of reporting entity entities that have a functional currency different from the presentation currency of the reporting entity are translated into the presentation currency as follows:

- Assets and liabilities (including goodwill and fair value adjustments arising on the acquisition), are translated at the closing rate at the reporting date.
- Income and expenses are translated at average exchange rates.
- Foreign currency translation differences are recognised as other comprehensive income and accumulated in the foreign currency translation reserve, except to the extent the difference is allocated to non-controlling interests.
- On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale. IAS21(47) Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The exchange rates relevant to the reporting entity are disclosed in note 28.

1.16 Deferred vendor liabilities

The reporting entity structures its acquisitions to include contingent and deferred consideration which is included in the cost of the business combination at the fair value on the date of the acquisitions.

Contingent consideration is initially measured at fair value and the amount is included in the determination of goodwill or bargain purchase. Subsequently, to the extent that the additional consideration relates to an asset or liability, the contingent consideration is measured at fair value and gains and losses are recognised in profit or loss.

Deferred consideration is initially measured at fair value and subsequently measured at amortised cost.

All deferred vendor liabilities raised relate to business combinations.

Notes to the Combined Annual Financial Statements

2. Changes in accounting policies

Change in accounting policies from 1 July 2019

The reporting entity has adopted IFRS 16 Leases (IFRS 16) and IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23) as issued by the International Accounting Standard Board (IASB), which were effective for the reporting entity from 1 July 2019.

IFRS 16

IFRS 16 introduced a single, on balance sheet accounting model for lessees. As a result, the reporting entity, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. After the adoption of IFRS 16, the reporting entity recognised a depreciation expense on the right-of-use assets and an interest expense accruing on the lease liabilities and no longer recognised an operating lease expense for these leases. Cash generated from operations increased as lease costs are no longer in this category. Interest paid increased, as it includes the interest portion of the lease liability payments included in operating activities and capital portion of lease liability repayments is included in financing activities. Lessor accounting remains similar to previous accounting policies.

The reporting entity adopted IFRS 16 retrospectively from 1 July 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard, i.e., modified retrospective approach. The reclassifications and the adjustments arising from the adoption of IFRS 16 are therefore recognised in the opening statement of financial position on 1 July 2019.

The reporting entity's leasing activities and significant accounting policies:

The reporting entity's leases include land and buildings and motor vehicles. Rental contracts are typically made for fixed periods varying between two to fifty-five years but may have renewal periods as described below.

As a lessee, the reporting entity previously classified leases as operating, or financing leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Payments made under operating leases (net of any incentives from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, the reporting entity recognised right-of-use assets and lease liabilities at the lease commencement date for most leases. However, the reporting entity has elected not to recognise right-of-use assets and leases for some leases of low value assets and for short term leases, i.e. leases that at commencement date have lease terms of 12 months or less. The reporting entity defines low-value leases as leases of assets for which the value of the underlying asset when it is new is R50 000 or less and is dependent on the nature of the asset. The reporting entity recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The recognised right-of-use asset relate to the following types of assets:	**1 July 2019* R '000**
Land	4 091
Motor vehicles	24 330
	28 421

* The balance as at 1 July 2019 consists of R4.5 million right-of-use asset recognised from previously operating leases and R23.9 million right-of-asset recognised from previously recognised finance leases.

The lease liability is initially measured at the present value of the following lease payments, where applicable:
- Fixed payments (including in-substance fixed payments), less any incentives receivable.
- Variable lease payments that are based on an index or rate, measuring using the index or rate as at the lease commencement date.
- Amounts that are expected to be payables by the lessee under residual value guarantees.
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option.
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the reporting entity's incremental borrowing rate is used being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The reporting entity used its incremental borrowing rate as the discount rate. The average IBR applied is 6.31%.

2. Changes in accounting policies (continued)

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Interest costs are charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability each period. It is remeasured when there is a change in the scope or in future lease payments arising from a change in index or rate, a change in the estimate of the amount payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The right-of-use assets are initially measured at cost comprising the following:

- The amount of the initial measurement of the lease liability.
- Any lease payments made at or before the commencement date less any lease incentives received.
- Any initial direct costs.
- Decommissioning costs.

The right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

Renewal and termination options

A number of lease contracts include the option to renew the lease for a further period or terminate the lease earlier. The majority of extension and termination options held are exercisable only by the reporting entity and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or period after the termination options) are only included in the lease if it is reasonably certain that the lease will be extended (or not terminated). The reporting entity applies judgement in assessing whether it is reasonably certain (likely) that the options will be exercised. Factors considered include how far in the future an option occurs, the reporting entity's business planning cycle and past history of terminating/not renewing leases.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

A number of leases entitle both the reporting entity and the lessor to terminate the lease without a termination penalty. In determining whether the reporting entity has an economic incentive to not exercise the termination option, the reporting entity considers the broader economics of the contracts and not only contractual termination payments.

Lease and non-lease components

In the event that the lease contract includes both lease and non-lease components, the reporting entity allocated the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone selling prices. The stand-alone selling prices of each component are based on available market prices. Non-lease components are accounted for as operating expenses and are recognised in profit or loss as they are incurred.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the reporting entity's incremental borrowing rate, for the remaining lease terms, as at 1 July 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The reporting entity used the following practical expedients as permitted by the standard, when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Accounted for leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases.
- Accounted for low value leases as leases of assets for which the value of the underlying asset when it is new is R50 000 or less and is not considered fundamental to the reporting entity's operations.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Reliance on a previous assessment of onerous leases prior to the application of the IFRS 16 standard.
- Not to reassess whether a contract is, or contains a lease at the date of initial application. For all contracts entered into before the transition date, the reporting entity relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement Contains a Lease (IFRIC 4).

Notes to the Combined Annual Financial Statements

2. Changes in accounting policies (continued)

The reporting entity classified a number of leases of property, plant and machinery as finance leases under IAS 17. For finance leases, the carrying amount of the right-of-use asset and lease liability as at 1 July 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before the date of initial application.

Impact on financial statements

Impacts on transition.

On transition to IFRS 16, the reporting entity recognised right-of-use assets and lease liabilities. The impact on transition is summarised below:

	1 July 2019 R '000
Property, plant and equipment	(23 896)
Right-of-use asset	28 421
Total assets	**4 525**
Lease liabilities	4 525
Total liabilities	**4 525**

When measuring lease liabilities for leases that were classified as operating leases, the reporting entity discounted lease payments using its incremental borrowing rate at 1 July 2019. A reconciliation of the operating lease commitments disclosed as at 30 June 2019 discounted using the incremental borrowing rate at 1 July 2019 to the lease liability recognised on 1 July 2019 is disclosed below:

	1 July 2019 R '000
Leases recognised,not previously included in commitments (discounted using the incremental borrowing rate at 1 July 2019,including extension options reasonably certain to be exercised)*	4 525
Finance lease liability recognised as at 30 June 2019	24 224
Lease liabilities recognised as at 1 July 2019	**28 749**
Of which are	
Current lease liabilities	10 649
Non-current lease liabilities	18 100
	28 749

*There are no lease commitments disclosed as at 30 June 2019.

IFRIC 23 and related IFRIC agenda decision

IFRIC 23 and the IFRIC agenda decision in relation to the presentation of liabilities or assets related to uncertain tax treatments in September 2019 respectively clarifies the application of the recognition and measurement requirements in IAS 12 Income Taxes and the presentation requirements in IAS 1 Presentation of Financial Statements when there is uncertainty over income tax treatments. This did not have an impact on the reporting entity because all uncertain tax treatments are recognised as current tax liabilities.

Change in accounting policies from 1 July 2018

The reporting entity has adopted the following new accounting pronouncements as issued by the International Accounting Standard Board (IASB), which were effective for the reporting entity from 1 July 2018:

- IFRS 15 Revenue from Contracts with Customers; and
- IFRS 9 Financial Instruments.

The reporting entity applied the modified retrospective approach in transitioning to IFRS 9 and IFRS 15.

Notes to the Combined Annual Financial Statements

2. Changes in accounting policies (continued)

The table below shows the adjustments recorded in each line item. Line items that were not affected by the changes have not been included:

Current assets	**30 June 2018 As originally reported**	**IFRS 9**	**IFRS 15**	**1 July 2018 Restated**
	R '000	**R '000**	**R '000**	**R '000**
Loans to related parties	941 844	(19 125)	-	922 719
Trade and other receivables	680 747	(14 425)	-	666 322
Cash and cash equivalents	93 414	-	-	93 414
	1 716 005	**(33 550)**	**-**	**1 682 455**
Non current liabilities				
Borrowings	148 927	-	-	148 927
Deferred vendor liability	1 391 668	-	-	1 391 668
Deferred tax liability	155 780	(1 803)	-	153 977
	1 696 375	**(1 803)**	**-**	**1 694 572**

IFRS 15: Revenue from contracts with customers

Adoption of IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15 revenue is recognised at an amount that reflects the consideration an entity expects to receive for transferring goods or services to a customer.

The core principle of IFRS 15 is that any entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The standard requires the apportionment of revenue earned from contracts to identified performance obligations in the contracts on a relative stand-alone selling price basis based on a five-step model. The standard also requires the capitalisation of costs incremental to obtaining the contract and recognition of these costs as an expense over the term of the contracts.

The reporting entity principally generates revenue from manufacturing and distribution of pharmaceutical products. Revenue is measured based on the consideration agreed with the customer excluding indirect taxes, estimated returns and trade discounts and rebates. Refer to accounting policies in note 1 for the detailed accounting policy.

In accordance with the transition provisions in IFRS 15, the reporting entity has adopted the new standard and there has not been any changes to the revenue amounts that the reporting entity previously reported.

Adoption of IFRS 9 Financial Instruments

The adoption of IFRS 9 had the following impact on the reporting entity:
- Change from IAS 39 incurred loss model to the ECL model to calculate impairments of financial instrument;
- Change in the classification of the measurement categories for financial instrument.

Initial classification and measurement

IFRS 9 changed the measurement categories for financial assets. The classification has changed from loans and receivables to amortised cost based on the reporting entity’s business model and solely payments of principal and interest (SPPI). The reporting entity has assessed which business models apply to the financial assets held at the date of initial application of IFRS 9 and has classified its financial instruments into appropriate IFRS 9 categories. It was determined that all the financial asset which were classified as loans and receivables under IAS 39, satisfy the conditions for classification at amortised cost under IFRS 9. Therefore, there is no change in the measurement of these assets. There has been no change to the classification of the reporting entity's financial liabilities as they continue to be classified and measured at amortised cost.

2. Changes in accounting policies (continued)

The table below indicates the classification changes from IAS 39 to IFRS 9:

Financial assets	**Original classification under IAS 39**	**New classification under IFRS 9**	**Original carrying amount under IAS 39**	**New carrying amount under IFRS 9**
Loans to related parties	Loans and receivables	Amortised cost	941 844	922 719
Trade and other receivables	Loans and receivables	Amortised cost	680 747	666 322
Cash and cash equivalents	Loans and receivables	Amortised cost	93 414	93 414
Financial liabilities				
Loans from related parties	Amortised cost	Amortised cost	3 857 400	3 857 400
Trade and other payables	Amortised cost	Amortised cost	497 385	497 385
Borrowings	Amortised cost	Amortised cost	194 510	194 510
Deferred vendor liability	Amortised cost	Amortised cost	917 474	917 474

Impairment

Before the adoption of IFRS 9, the reporting entity calculated the allowance for credit loss using the incurred loss model. Under this model, the reporting entity assessed whether there was any objective evidence of impairment at the end of each reporting period. The allowance for credit losses was calculated on an individual basis based on payment history, adjusted for national and industry-specific economic conditions and other indicators such as the credit terms of the customer, financial difficulties that correlate with the defaults of the individual receivable.

Significant judgement

In applying the requirements of IFRS when determining the ECL for trade receivables, analysis of empirical evidence of historical defaults and losses was done. Significant judgement is applied and generally includes the specific country's benchmark data. Material and concentrated exposures were assessed separately. The measurement of risk is projected forward based on macroeconomic forecasts. Macro-economic forecast is applied with a probability average of the forecasts and scenarios. For customers that were identified as individually significant, a specific risk was applied by applying the published credit ratings.

Estimation was applied in determining the correlation of macro-economic variables to defaults. The basis of the correlations applied was based on the Moody's Analytics Impairment Calculation.

Provision matrix

IFRS 9 requires the reporting entity to record expected credit losses on all of its receivables and other financial assets, either on 12-month or lifetime basis. The expected credit losses (ECLs) are a probability weighted estimate of credit losses. The reporting entity applies the simplified approach to determine the ECL for trade receivables without a significant financing component. This results in calculating lifetime expected credit losses for these trade receivables. ECL for trade receivables is calculated using a provision matrix.

ECLs are calculated by applying a loss ratio to the aged balance of trade receivables at each reporting date. The loss ratio is calculated according to the ageing/payment profile of sales by applying historic/proxy write-offs to the payment profile of the sales population. In instances where there was no evidence of historical write-offs, management used a proxy write-off based on the previous provision for bad debts that was raised. Trade receivable balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay. Similarly, the sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with future payment expectations. The historic loss ratio is then adjusted for forward looking information to determine the ECL for the portfolio of trade receivables at the reporting period to the extent that there is a strong correlation between the forward looking information and the ECL.

In applying the requirements of IFRS when determining the ECL for trade receivables. Analysis of empirical evidence of historical defaults and losses was done. Significant judgement is applied and generally includes the relevant country's benchmark data. Material and concentrated exposures were assessed separately. The measurement of risk is projected forward based on macroeconomic forecasts. Macro-economic forecast is applied with a probability average of the forecasts and scenarios. For customers that were identified as individually significant, a specific risk was applied by applying the published credit ratings.

Notes to the Combined Annual Financial Statements

2. Changes in accounting policies (continued)

General impairment model

The reporting entity applies the general impairment model to loans receivable from related parties which uses a PD*LGD*EAD over the longest contractual period that the reporting entity is exposed to credit risk.

- the PD (probability of default) - that is, the likelihood that the counterparty would not be able to repay.
- the LGD (loss given default) - that is, the loss that the occurs if the counter party is unable to pay.
- the EAD (exposure at default) - that is the outstanding balance at reporting date.

Expected credit loss are measured at a probability weighted amount that reflects the possibility that a credit loss occurs. The assessment of the PD is based on whether the counterparty has sufficient assets to repay the loan when its due and the assessment of LGD is based on whether there has been a significant increase in credit risk since the initial recognition of the loans. For the loans that are performing, a 12 months ECL is applied and for the loans that are doubtful and in default, a lifetime ECL is applied. The ECLs are adjusted for forward looking information such as the relevant country's GDP, sovereign rates, the expectation that the loan will be repaid by the counterparty and expected period of repayment.

Estimation was applied in determining the correlation of macro-economic variables to defaults. The basis of the correlations applied was based on the Moody's Analytics Impairment Calculation.

The adjustment to opening retained earnings for the transition to the expected credit loss model (impairment of trade receivables) as at 1 July 2018 is as follows:

Increase in provision for trade receivables	(14 425)
Expected credit loss allowance for loans receivables from related parties	(19 126)
Expected credit loss allowance for loans receivables from related parties	1 803
Impact on retained earnings	**(31 748)**

Notes to the Combined Annual Financial Statements

3. New Standards and Interpretations

3.1 Standards and interpretations effective and adopted in the current year

The reporting entity has adopted the following standards that were effective for all reporting periods presented in line with the Ascendis group:

Plan Amendment, Curtailment or Settlement - Amendments to IAS 19

The amendment deals with the determination of past service cost and gains or losses on settlement, when a plan is amended, curtailed or settled ("the event"). Specifically, when determining the past service cost or gain or loss on settlement, the net defined benefit liability (asset) shall be remeasured using the current fair value of plan assets and current actuarial assumptions reflecting the benefits offered under the plan and plan assets both before and after the event. The effect of the asset ceiling shall not be considered in this exercise. The effect of the asset ceiling shall be determined after the event.

The amendment also specifies that when determining current service costs and net interest on the defined benefit liability (asset) in a period in which an amendment, curtailment or settlement occurs, to apply inputs at the beginning of the reporting period for the current service cost and interest up to the date of the event, and to apply inputs as at the date of the event to determine current service costs and interest for the remainder of the period.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The reporting entity has adopted the amendment for the first time in the 2020 consolidated annual financial statements.

The impact of the interpretation is not material.

Long-term Interests in Joint Ventures and Associates - Amendments to IAS 28

The amendment now requires that an entity also applies IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The reporting entity has adopted the amendment for the first time in the 2020 consolidated annual financial statements.

The impact of the interpretation is not material.

Prepayment Features with Negative Compensation - Amendment to IFRS 9

The amendment to Appendix B of IFRS 9 specifies that for the purpose of applying paragraphs B4.1.11(b) and B4.1.12(b), irrespective of the event or circumstance that causes the early termination of the contract, a party may pay or receive reasonable compensation for that early termination.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The reporting entity has adopted the amendment for the first time in the 2020 consolidated annual financial statements.

The impact of the interpretation is not material.

3. New Standards and Interpretations (continued)

Amendments to IFRS 3 Business Combinations: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment clarifies that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The reporting entity has adopted the amendment for the first time in the 2020 consolidated annual financial statements.

The impact of the interpretation is not material.

Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment specifies that the income tax consequences on dividends are recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the events or transactions which generated the distributable reserves.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The reporting entity has adopted the amendment for the first time in the 2020 consolidated annual financial statements.

The impact of the interpretation is not material.

Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 - 2017 cycle

The amendment specifies that when determining the weighted average borrowing rate for purposes of capitalising borrowing costs, the calculation excludes borrowings which have been made specifically for the purposes of obtaining a qualifying asset, but only until substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The impact of the interpretation is not material.

IFRIC 23 Uncertainty over Income Tax Treatment

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The effective date of the interpretation is for years beginning on or after 01 January 2019.

The reporting entity has adopted the interpretation for the first time in the 2020 consolidated annual financial statements.

The impact of the interpretation is not material.

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes arising from the issue of IFRS 16 which are likely to impact the reporting entity are as follows:

Reporting Entity as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.

3. New Standards and Interpretations (continued)

- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is re-measured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee re-measures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee re-measures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 leases.

Reporting Entity as lessor:

- Accounting for leases by lessors remains similar to the provisions of IAS 17 in that leases are classified as either finance leases or operating leases. Lease classification is reassessed only if there has been a modification.
- A modification is required to be accounted for as a separate lease if it both increases the scope of the lease by adding the right to use one or more underlying assets; and the increase in consideration is commensurate to the stand alone price of the increase in scope.
- If a finance lease is modified, and the modification would not qualify as a separate lease, but the lease would have been an operating lease if the modification was in effect from inception, then the modification is accounted for as a separate lease. In addition, the carrying amount of the underlying asset shall be measured as the net investment in the lease immediately before the effective date of the modification. IFRS 9 is applied to all other modifications not required to be treated as a separate lease.
- Modifications to operating leases are required to be accounted for as new leases from the effective date of the modification. Changes have also been made to the disclosure requirements of leases in the lessor's financial statements.

Sale and leaseback transactions:

- In the event of a sale and leaseback transaction, the requirements of IFRS 15 are applied to consider whether a performance obligation is satisfied to determine whether the transfer of the asset is accounted for as the sale of an asset.
- If the transfer meets the requirements to be recognised as a sale, the seller-lessee must measure the new right-of-use asset at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained. The buyer-lessor accounts for the purchase by applying applicable standards and for the lease by applying IFRS 16
- If the fair value of consideration for the sale is not equal to the fair value of the asset, then IFRS 16 requires adjustments to be made to the sale proceeds. When the transfer of the asset is not a sale, then the seller-lessee continues to recognise the transferred asset and recognises a financial liability equal to the transfer proceeds. The buyer-lessor recognises a financial asset equal to the transfer proceeds.

The effective date of the standard is for years beginning on or after 01 January 2019.

The reporting entity has adopted the standard for the first time in the 2020 consolidated annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

3. New Standards and Interpretations (continued)

3.2 Standards and interpretations not yet effective

The reporting entity has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the reporting entity's accounting periods beginning on or after 01 July 2020 or later periods:

Classification of Liabilities as Current or Non-Current - Amendment to IAS 1

The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the entity, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.

The effective date of the amendment is for years beginning on or after 01 January 2023.

The reporting entity expects to adopt the amendment for the first time in the 2024 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the reporting entity's combined annual financial statements.

Property, Plant and Equipment: Proceeds before Intended Use: Amendments to IAS 16

The amendment relates to examples of items which are included in the cost of an item of property, plant and equipment. Prior to the amendment, the costs of testing whether the asset is functioning properly were included in the cost of the asset after deducting the net proceeds of selling any items which were produced during the test phase. The amendment now requires that any such proceeds and the cost of those items must be included in profit or loss in accordance with the related standards. Disclosure of such amounts in now specifically required.

The effective date of the amendment is for years beginning on or after 01 January 2022.

The reporting entity expects to adopt the amendment for the first time in the 2023 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

Onerous Contracts - Cost of Fulfilling a Contract: Amendments to IAS 37

The amendment defined the costs that are included in the cost of fulfilling a contract when determining the amount recognised as an onerous contract. It specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. These are both the incremental costs of fulfilling the contract as well as an allocation of other costs that relate directly to fulfilling contracts (for example depreciation allocation).

The effective date of the amendment is for years beginning on or after 01 January 2022.

The reporting entity expects to adopt the amendment for the first time in the 2023 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9

When there is a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform then the entity is required to apply paragraph B5.4.5 as a practical expedient. This expedient is only available for such changes in basis of determining contractual cash flows.

Additional temporary exemptions from applying specific hedge accounting requirements as well as additional rules for accounting for qualifying hedging relationships and the designation of risk components have been added to hedge relationships specifically impacted by interest rate benchmark reform.

The effective date of the amendment is for years beginning on or after 01 January 2021.

3. New Standards and Interpretations (continued)

The reporting entity expects to adopt the amendment for the first time in the 2022 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 16

If there is a lease modification as a result of the interest rate benchmark reform, then as a practical expedient the lessee is required to apply paragraph 42 of IFRS 16 to account for the changes by remeasuring the lease liability to reflect the revised lease payment. The amendment only applies to modifications as a result of the interest rate benchmark reform.

The effective date of the amendment is for years beginning on or after 01 January 2021.

The reporting entity expects to adopt the amendment for the first time in the 2022 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

COVID-19 - Related Rent Concessions - Amendment to IFRS 16

The COVID-19 pandemic has resulted in an amendment to IFRS 16 Leases. Lessees may elect not to assess whether a rent concession that meets the conditions in paragraph 46B is a lease modification. If this election is applied, then any change in lease payments must be accounted for in the same way as a change would be accounted for if it were not a lease modification. This practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payment affects only payments originally due on or before 30 June 2021 and
- there is no substantive change to other terms and conditions of the lease.

The effective date of the amendment is for years beginning on or after 01 June 2020.

The reporting entity expects to adopt the amendment for the first time in the 2021 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

Amendment to IAS 1 - ‘Presentation of financial statements’ and IAS 8 - ‘Accounting policies, changes in accounting estimates and errors’

The amendment clarifies and aligns the definition of ‘material’ and provides guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The effective date of the amendment is for years beginning on or after 01 January 2020.

The reporting entity expects to adopt the amendment for the first time in the 2021 combined annual financial statements.

It is unlikely that the amendment will have a material impact on the combined annual financial statements.

Notes to the Combined Annual Financial Statements

4. Property, plant and equipment

	2020			2019			2018		
	Cost	Accumulated depreciation / impairment	Carrying value	Cost	Accumulated depreciation / impairment	Carrying value	Cost	Accumulated depreciation	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Buildings	556 366	(9 678)	546 688	481 228	(120 780)	360 448	461 164	(113 650)	347 514
Computers	72 791	(57 762)	15 029	46 732	(42 509)	4 223	43 579	(40 318)	3 261
Leasehold improvements	510	(501)	9	429	(334)	95	436	(251)	185
Motor vehicles	18 322	(8 877)	9 445	10 000	(6 674)	3 326	8 336	(5 460)	2 876
Office equipment	105 071	(97 082)	7 989	82 678	(78 507)	4 171	81 540	(77 662)	3 878
Plant and machinery	724 274	(485 484)	238 790	554 554	(362 280)	192 274	545 719	(330 086)	215 633
Leased assets	-	-	-	38 880	(15 310)	23 570	34 848	(8 243)	26 605
Total	**1 477 334**	**(659 384)**	**817 950**	**1 214 501**	**(626 394)**	**588 107**	**1 175 622**	**(575 670)**	**599 952**

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers to right-of-use assets	Revaluations	Foreign exchange movements	Depreciation	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Buildings	360 448	90 465	-	-	13 768	90 602	(8 595)	546 688
Computers	4 223	13 993	-	-	-	2 267	(5 454)	15 029
Leasehold improvements	95	-	-	-	-	7	(93)	9
Motor vehicles	3 326	9 271	(1 651)	-	-	1 248	(2 749)	9 445
Office equipment	4 171	4 155	-	-	-	979	(1 316)	7 989
Plant and machinery	192 274	45 079	(169)	-	-	40 276	(38 670)	238 790
Leased assets	23 570	-	-	(23 896)	-	326	-	-
	588 107	**162 963**	**(1 820)**	**(23 896)**	**13 768**	**135 705**	**(56 877)**	**817 950**

Notes to the Combined Annual Financial Statements

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Foreign exchange movements	Depreciation	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
Buildings	347 514	21 300	-	(904)	(7 462)	360 448
Computers	3 261	3 345	(29)	(24)	(2 330)	4 223
Leasehold improvements	185	-	-	(1)	(89)	95
Motor vehicles	2 876	2 339	(472)	11	(1 428)	3 326
Office equipment	3 878	1 371	(11)	(19)	(1 048)	4 171
Plant and machinery	215 633	10 124	-	(94)	(33 389)	192 274
Leased assets	26 605	6 768	(772)	(388)	(8 643)	23 570
	599 952	**45 247**	**(1 284)**	**(1 419)**	**(54 389)**	**588 107**

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Foreign exchange movements	Depreciation	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
Buildings	327 128	5 728	-	23 076	(8 418)	347 514
Computers	4 389	1 620	-	39	(2 787)	3 261
Motor vehicles	2 568	1 634	(782)	704	(1 248)	2 876
Office equipment	4 081	663	-	226	(1 092)	3 878
Plant and machinery	173 383	71 418	-	(1 566)	(27 602)	215 633
Leasehold improvements	264	-	-	3	(82)	185
Leased assets	22 032	10 346	(722)	1 087	(6 138)	26 605
	533 845	**91 409**	**(1 504)**	**23 569**	**(47 367)**	**599 952**

	2020 R '000	2019 R '000	2018 R '000

4. Property, plant and equipment (continued)

Fair value of land and buildings

An independent valuation of the reporting entity's land and buildings was performed at 30 June 2020 to determine the fair value of land and buildings. Valuations are performed with sufficient regularity at least every 3 years to ensure that the fair value of revalued assets does not differ materially from its carrying amount of the assets, and net amount is restated to the revalued amounts of the assets.

The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown as 'revaluation reserves' in shareholders equity. These land and buildings are all classified as level 3 as per the fair value hierarchy.

The following table analyses the land and buildings that are carried at fair value:

	2020 R '000	2019 R '000	2018 R '000
Opening balance	360 448	347 513	326 830
Additions	90 465	21 300	5 728
Revaluation gain	13 768	-	-
Depreciation	(8 595)	(7 462)	(8 419)
Foreign exchange differences	90 602	(903)	23 375
Closing balance	**546 688**	**360 448**	**347 514**

Land and buildings from Remedica are encumbered with the Cyprus loan facility disclosed in note 13 Borrowings.

A valuation of these properties was performed, in terms of IAS 16 being an increase in carrying value of R13.7 million (€0.9 million). The present valuation was prepared by an independent valuator company called Markaris L.L.C. which is registered in the ETEK (Cyprus Scientific and Technical Chamber) company registry, with registration number C00053 and has the required expertise.

Property	**Rent per square metre R '000**	**Growth rate**	**Capitalisation rate**
Remedica	R 287 - R 6 016	4 %	7 %

The following movements in the capitalisation rate, growth rate and rental per square metre will yield the following movements in the fair value of land and buildings in the current year:

Remedica	**Increase R '000**	**Decrease R '000**
Market capitalisation rate - 100 basis points	(4 562)	4 562
Gross market rental (rate per square metre) - 5%	(22 808)	22 808
Growth rate - 20 basis points	(912)	912

	2020 R '000	2019 R '000	2018 R '000

5. Right-of-use assets

Details pertaining to leasing arrangements, where the reporting entity is a lessee are presented below:

The reporting entity adopted IFRS 16 for the first time in the 2020 financial period. Comparative figures have been accounted for in accordance with IAS 17 and accordingly, any assets recognised under finance leases in accordance with IAS 17 for the comparative have been recognised as part of property, plant and equipment.

Net carrying amounts of right-of-use assets

The statement of financiall position shows the following amounts recognised as right-of-use assets with regards to leases:

	June 2020 R '000	1 July 2019* R '000
Land	9 188	4 091
Buildings	4 891	-
Motor vehicles	44 312	24 330
	58 391	**28 421**

* In the previous financial years, the reporting entity recognised lease assets and lease liabilities in relation to the leases that were classified as 'finance leases' under IAS 17. The assets were presented in property, plant and equipment.

Additions to the right-of-use assets during the 2020 financial year were R41 million.

The depreciation relating to the right-of-use assets recorded in the income statement is as follows:

	2020	2019	2018
Buildings	1 263	-	-
Land	170	-	-
Motor vehicles	10 019	-	-
	11 452	**-**	**-**

The following amounts were recorded in the income statement, in terms of the leases:

	2020	2019	2018
Interest expense included in finance costs	2 363	-	-
Expense relating to short-term and low value leases included in other operating expenses	4 758	-	-

Amounts recognised in the statement of cash flows:

	2020	2019	2018
Interest paid	2 363	-	-
Repayments of lease liabilities	14 365	-	-
	16 728	**-**	**-**

Lease liabilities

Lease liabilities have been included on the statement of financial position.

The maturity analysis of lease liabilities is as follows:

	2020	2019	2018
Within one year	22 274	-	-
Two to five years	43 150	-	-
	65 424	-	-
Less finance charges component	-	-	-
	65 424	**-**	**-**

Notes to the Combined Annual Financial Statements

	2020 R '000	2019 R '000	2018 R '000
5. Right-of-use assets (continued)			
Non-current liabilities	38 031	-	-
Current liabilities	19 684	-	-
	57 715	**-**	**-**
Reconciliation of lease liability			
Opening balance	28 749	-	-
New leases entered into in the current year	35 883	-	-
Foreign exchange movements	7 448	-	-
Repayments for the year	(14 365)	-	-
	57 715	**-**	**-**

Comparative information for lease liabilities under IAS 17

The information presented for lease liabilities for the comparative period has been prepared on the basis of IAS 17, and therefore only represents the liability as at that date for finance leases and not for operating leases. In addition to the information presented in the table above, IAS 17 required an entity to present a reconciliation of the present value of lease payments for finance leases. This information is presented in the table which follows:

	2020 R '000	2019 R '000	2018 R '000
Commitments in relation to the finance leases are payable as follows:			
Within 1 year	-	11 372	9 289
In second to fifth year inclusive	-	15 215	19 683
Minimum lease payments	**-**	**26 587**	**28 972**
Less: Future Finance charges	-	(2 363)	(1 049)
	-	**24 224**	**27 923**

Exposure to liquidity risk

Refer to note 28 Financial instruments and risk management for the details of liquidity risk exposure and management for lease liabilities.

Exposure to interest rate risk

Refer to note 28 Financial instruments and risk management for the details of interest rate risk exposure and management for lease liabilities.

Notes to the Combined Annual Financial Statements

6. Intangible assets and goodwill

	2020			2019			2018		
	Cost	Accumulated amortisation / impairment	Carrying value	Cost	Accumulated amortisation / impairment	Carrying value	Cost	Accumulated amortisation / impairment	Carrying value
	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000	R '000
Drug master files	1 251 778	(167 498)	1 084 280	970 478	(108 180)	862 298	914 672	(77 359)	837 313
Brand names and trademarks	945 990	(146 199)	799 791	778 615	(83 659)	694 956	780 080	(42 260)	737 820
Customer relationships	625 088	(85 287)	539 801	513 477	(54 514)	458 963	514 560	(36 002)	478 558
Goodwill	2 036 850	-	2 036 850	1 671 221	-	1 671 221	1 676 291	-	1 676 291
Total	**4 859 706**	**(398 984)**	**4 460 722**	**3 933 791**	**(246 353)**	**3 687 438**	**3 885 603**	**(155 621)**	**3 729 982**

Reconciliation of intangible assets and goodwill - 2020

	Opening balance	Additions	Foreign exchange movements	Amortisation	Impairment	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
Drug master files	862 298	63 618	191 940	(33 576)	-	1 084 280
Brand names and trademarks	694 956	-	147 011	(42 176)	-	799 791
Customer relationships	458 963	-	99 140	(18 302)	-	539 801
Goodwill	1 671 221	-	365 629	-	-	2 036 850
	3 687 438	**63 618**	**803 720**	**(94 054)**	**-**	**4 460 722**

Notes to the Combined Annual Financial Statements

6. Intangible assets and goodwill (continued)

Reconciliation of intangible assets and goodwill - 2019

	Opening balance	Additions	Disposals	Foreign exchange movements	Amortisation	Closing balance
	R '000	R '000	R '000	R '000	R '000	R '000
Drug master files	837 313	62 043	(3 705)	(2 221)	(31 132)	862 298
Brand names and trademarks	737 820	283	-	(1 324)	(41 823)	694 956
Customer relationships	478 558	-	(12)	(992)	(18 591)	458 963
Goodwill	1 676 291	-	-	(5 070)	-	1 671 221
	3 729 982	**62 326**	**(3 717)**	**(9 607)**	**(91 546)**	**3 687 438**

Reconciliation of intangible assets and goodwill - 2018

	Opening balance	Additions	Foreign exchange movements	Amortisation	Closing balance
	R '000	R '000	R '000	R '000	R '000
Drug master files	788 000	66 654	8 608	(25 949)	837 313
Brand names and trademarks	646 841	38	128 477	(37 536)	737 820
Customer relationships	487 380	2 273	4 753	(15 848)	478 558
Goodwill	1 561 095	-	115 196	-	1 676 291
	3 483 316	**68 965**	**257 034**	**(79 333)**	**3 729 982**

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the reporting entity.

	2020 R '000	2019 R '000	2018 R '000

6. Intangible assets and goodwill (continued)

Impairment tests for CGUs

Impairment tests are conducted annually and are based on the projected sustainable cash flow methodology. The reporting entity has Sun Wave Pharma and Remedica as two separate CGUs and reportable segments at Ascendis group level. Using a time horizon of five years, board approved CGU budgets for the 2021 financial year form the base of this calculation. The 2021 cash flows are extrapolated to the following four years. A long-term growth rate is applied to the final forecast year’s cash flows to determine cash flows into perpetuity. The present value of these cash flows is calculated by applying an appropriate discount factor, determined after consideration of both systematic and unsystematic risks for each CGU. The same practice was followed in the preceding years.

These tests were performed on intangible assets and goodwill, property, plant and equipment and right-of-use assets as at 30 June 2020, 30 June 2019, and 30 June 2018 and no impairment was recognised for all the financial years. The significant reduction of the Ascendis group’s share price is an indicator of impairment, with contributions thereto being the continuing adverse economic conditions in South Africa, exacerbated by the Covid-19 pandemic and the government-imposed lockdowns as well as continued liquidity constraints.

Significant estimate: key assumptions used for value-in-use calculations (2019 and 2020)

The reporting entity tests goodwill for impairment at least on an annual basis and when there is an indicator of impairment. The recoverable amount of each CGU was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management with a further four years of cash flows projected using a combination of forecast GDP growth and expected inflation rates in the respective geographies, tailored for management's specific expectations. A long-term growth rate is applied to the cash flows arising in the fifth year in order to estimate a terminal value for the CGU.

Assumptions have been applied for the analysis of each CGU within the operating segment. All assets and liabilities for each CGU have been considered when determining impairment. Ascendis has a robust budgeting process and the revenue growth rates have been assessed on a prudent basis with a key focus on cash generation. The impact of Covid-19 and economic restrictions were considered in determining the budgeted cash flows for the 2021 financial year. Cash flows in the budget and forecast years have been adjusted for the reversal of lease payments in terms of IFRS16 Leases in the underlying budgets and notional capital expenditures estimated using the depreciation associated with the right-of-use assets have been included in the cash flows to accommodate either the renewal of the leases or the acquisition of the underlying assets.

Management applies judgement in determining a discount rate for each geography using published risk-free rates, a peer company systemic risk factor (beta) and a range of equity market risk premiums. Small stock premiums are applied to individual CGUs on an iterative basis. The reporting entity’s cost of debt is an important element in determining the discount rate used. The peer companies’ five-year average capital structure is applied to the individual elements of the discount rate. For CGUs impacted by IFRS16 Leases, an adjustment is made to the discount rate to accommodate the incremental borrowing rate. Refer to Note 1 for further details regarding the key assumptions that are used for impairment assessments.

Impairment test

Management reviews the business performance based on type of business and products. While the valuation is based on projected sustainable cash flows methodology, the latest budgets and forecasts are utilized. A five-year time horizon is used to project the cash flows. Cash flows are discounted using a discounting factor, which was determined taking into account both systematic and unsystematic risks.

Management exercises judgement in respect of the allocation of impairments amongst classes of intangible assets other than goodwill.

	2020 R '000	2019 R '000	2018 R '000
The carrying amount of goodwill allocated to each CGU is as follows:			
Remedica	1 963 897	1 611 931	1 615 612
Sunwave Pharma	72 953	59 290	60 679
	2 036 850	**1 671 221**	**1 676 291**

	2020 R '000	2019 R '000	2018 R '000

6. Intangible assets and goodwill (continued)

The following table details the main assumptions underlying forecasts from 2021 to 2025:

2020	**Sales volume & growth %**	**Other operating costs growth %**	**Annual capex & research and development (% of sales)**	**Long-term growth rate %**	**Pre-tax Discount rate %**	**Post-tax discount rate %**
Sun Wave	4.1 %	12.2 %	0.4 %	5.0 %	11.9 %	10.8 %
Remedica	3.7 %	1.4 %	10.3 %	3.0 %	7.8 %	6.9 %
2019						
Sun Wave	7.6 %	5.4 %	1.1 %	5.0 %	15.6 %	13.8 %
Remedica	5.6 %	(4.0)%	7.8 %	5.0 %	11.0 %	10.1 %

2018	**Sales growth rate %**	**Discount rate %**
Sun Wave	2.5 %	8.8 %
Remedica	2.5 %	10.3 %

Sensitivities

The following table illustrates the change in the key assumptions for the carrying amount of the CGU to be equal to the recoverable amount. The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated:

Sensitivity analysis 2020	**Sales volume & growth %**	**Other operating costs growth %**	**Annual capex & research and development (% of sales)**	**Long-term growth rate %**	**Pre-tax Discount rate %**
Sun Wave	(3.2)%	10.8 %	13.2 %	(59.6)%	19.8 %
Remedica	(2.1)%	17.6 %	11.5 %	(4.7)%	4.1 %

7. Deferred tax

Deferred tax assets

	2020	2019	2018
Loss allowance (ECL)	11 785	2 421	-
Provisions	-	207	-
Other	1 081	244	-
Total deferred tax asset	**12 866**	**2 872**	**-**

Deferred tax liability

	2020	2019	2018
Property, plant and equipment	(10 296)	(20 394)	(25 716)
Intangible assets	(177 558)	(131 509)	(129 952)
Provisions	(538)	-	(112)
Total deferred tax liability	**(188 392)**	**(151 903)**	**(155 780)**

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

	2020	2019	2018
Deferred tax asset	12 866	2 872	-
Deferred tax liability	(188 392)	(151 903)	(155 780)
Total net deferred tax liability	**(175 526)**	**(149 031)**	**(155 780)**

Notes to the Combined Annual Financial Statements

	2020 R '000	2019 R '000	2018 R '000

7. Deferred tax (continued)

Reconciliation of net deferred tax liability

	2020 R '000	2019 R '000	2018 R '000
Carrying value at the beginning of the year	(149 031)	(155 780)	(163 205)
Amounts restated through opening retained earnings on adoption of IFRS 9	-	1 803	-
Foreign exchange differences	(32 036)	959	(3 240)
Property, plant and equipment	1 350	(6 128)	(3 327)
Intangible assets	11 638	7 195	14 952
Expected credit loss on financial assets	(6 367)	2 421	-
Provisions	-	745	(960)
Other	(1 080)	(246)	-
At end of year	**(175 526)**	**(149 031)**	**(155 780)**

8. Inventories

	2020 R '000	2019 R '000	2018 R '000
Raw materials	320 574	289 718	229 133
Finished goods	174 896	77 586	76 017
Work in progress	134 515	118 440	102 377
Goods in transit	60 216	17 167	20 846
Total inventories net of provision for impairment	**690 201**	**502 911**	**428 373**

There are no inventory write downs during the period/years under review.

No inventories are carried at fair value less costs to sell at period/year end.

No reversals of previous inventory write down's occurred during the period/year.

9. Loans to related parties

	2020 R '000	2019 R '000	2018 R '000
Ascendis Financial Services	210 815	-	-
Ascendis Spain Holdings	93 894	61 343	100 842
Scitec*	788 634	469 021	821 221
Shareholders	46	38	38
Directors	703	576	579
	1 094 092	**530 978**	**922 680**

*This loan is unsecured, bears interest at 3% and has no fixed terms of repayment.
All other loans are unsecured, interest free and have no fixed terms of repayment, i.e. the loans are deemed to be repayable on demand.

Exposure to credit risk

Loans to group companies inherently expose the reporting entity to credit risk, being the risk that the reporting entity will incur financial loss if counterparties fail to make payments as they fall due.

Loans to group companies are subject to the impairment provisions of IFRS 9 Financial Instruments, which requires a loss allowance to be recognised for all exposures to credit risk. The loss allowance for loans to related parties is calculated based on twelve month expected losses if the credit risk has not increased significantly since initial recognition. In cases where the credit risk has increased significantly since initial recognition, the loss allowance is calculated based on lifetime expected credit losses. The loss allowance is updated to either twelve month or lifetime expected credit losses at each reporting date based on changes in the credit risk since initial recognition. If a loan is considered to have a low credit risk at the reporting date, then it is assumed that the credit risk has not increased significantly since initial recognition.

In determining the amount of expected credit losses, the reporting entity has taken into account any historic default experience, the financial positions of the counterparties as well as the future prospects in the industries in which the counterparties operate.

2020 R '000
2019 R '000
2018 R '000

9. Loans to related parties (continued)

There has been no change in the estimation techniques or significant assumptions made during the 2020, 2019 and 2018 reporting periods.

The maximum exposure to credit risk is the gross carrying amount of the loans as presented below. The reporting entity does not hold collateral or other credit enhancements against loans to related parties.

Credit rating framework

For purposes of determining the credit loss allowances, management determine the credit rating grades of each loan at the end of the reporting period. These ratings are determined either externally through ratings agencies or internally where external ratings are not available.

The table below sets out the internal credit rating framework which is applied by management for loans for which external ratings are not available. The abbreviation "ECL" is used to depict "expected credit losses."

Internal credit grade	Description	Basis for recognising expected credit losses
Performing	Low risk of default and no amounts are past due	12m ECL
Doubtful	Either 30 days past due or there has been a significant increase in credit risk since initial recognition, i.e. the amount is past the due date as per the agreed terms and conditions and if the reporting entity is to call on the loan, the counterparty is not able to pay.	Lifetime ECL (not credit impaired)
In default	Either 90 days past due or there is evidence that the asset is credit impaired, i.e. the probability of repayment is assessed as low	Lifetime ECL (credit impaired)
Write-off	There is evidence indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery.	Amount is written off

Credit loss allowances

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for loans to related parties by credit rating grade:

2020

Counterparty	Basis of loss allowance	Gross Carrying amount	Expected credit loss allowance	Net carrying amount
Ascendis Financial Services	Stage 2 - Lifetime ECL	279 633	(68 818)	210 815
Ascendis Spain Holdings	Stage 2 - Lifetime ECL	125 661	(31 767)	93 894
Scitec	Stage 1 - 12 month ECL	1 169 212	(380 578)	788 634
Shareholders		46	-	46
Directors		703	-	703
		1 575 255	**(481 163)**	**1 094 092**

2020 R '000
2019 R '000
2018 R '000

9. Loans to related parties (continued)

2019

Counterparty	Basis of loss allowance	Gross carrying amount	Expected credit loss allowance	Net carrying amount
Ascendis Spain Holdings	Stage 2 - Lifetime ECL	101 101	(39 758)	61 343
Scitec	Stage 1 - 12 month ECL	875 378	(406 357)	469 021
Shareholders		38	-	38
Directors		576	-	576
		977 093	**(446 115)**	**530 978**

1 July 2018

Counterparty	Basis of loss allowance	Gross Carrying amount	Expected credit loss allowance	Net carrying amount
Ascendis Spain Holdings	Stage 2 - Lifetime ECL	101 237	(395)	100 842
Scitec	Stage 1 - 12 months ECL	839 952	(18 731)	821 221
Shareholders		38	-	38
Directors		579	-	579
		941 806	**(19 126)**	**922 680**

30 June 2018

Counterparty	Gross carrying amount
Ascendis Spain Holdings	101 237
Scitec	839 952
Shareholders	38
Directors	579
	941 806

Reconciliation of loss allowances

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

	Performing	Under performing	Total
Opening loss allowance as at 1 July 2018	(18 731)	(395)	(19 126)
New loans	(790)	-	(790)
Changes in risk parameters*	(386 836)	(39 363)	(426 199)
Loss allowance as at 30 June 2019	**(406 357)**	**(39 758)**	**(446 115)**
New loans	(95 643)	(75 027)	(170 670)
Changes in risk parameters*	121 422	14 200	135 622
Loss allowance as at 30 June 2020	**(380 578)**	**(100 585)**	**(481 163)**

*The increase in the risk parameters was contributed by the change in the probability of default used in the calculation.

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10. Trade and other receivables

	2020 R '000	2019 R '000	2018 R '000
Financial instruments:			
Trade receivables	1 368 920	858 498	606 113
Trade receivables - related parties	13 192	237	144
Loss allowance	(54 298)	(29 969)	(3 780)
Trade receivables at amortised cost	1 327 814	828 766	602 477
Deposits	820	744	769
Accrued income	2 901	1 822	1 057
Dividends receivable	118 565	97 316	6 896
Other receivables	4 564	7 625	5 260
Non-financial instruments:			
Value added taxation	43 337	15 743	54 523
Prepayments	43 711	37 150	9 765
Total trade and other receivables	**1 541 712**	**989 166**	**680 747**

Categorisation of trade and other receivables

Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:

	2020 R '000	2019 R '000	2018 R '000
At amortised cost	1 454 664	936 273	616 459
Non-financial instruments	87 048	52 893	64 288
	1 541 712	**989 166**	**680 747**

Exposure to credit risk

Trade and other receivables inherently expose the company to credit risk, being the risk that the company will incur financial loss if customers fail to make payments as they fall due.

The customer credit risk is mitigated by the fact that there is no specific concentration risk in terms of a specific individual customer. Overall, the credit risk portfolio at 30 June 2020 has not changed significantly from the 2019 financial period. The reporting entity's credit risk portfolio is spread across counterparties from all over the world.

Deposits, accrued income, dividends receivable and other receivables, are managed and assessed on a similar basis to trade receivables. These financial assets do not have external credit ratings and they are assessed internally as performing. For the purpose of impairment assessment, are considered to have low credit risk as the probability of default is very low and ECL is considered immaterial. The loss allowance is measured at an amount equal to 12- month expected credit losses.

The average credit period on trade receivables is 30 days (2019: 30 days; 2018: 30 days). No interest is charged on outstanding trade receivables.

A loss allowance is recognised for all trade receivables, in accordance with IFRS 9 Financial Instruments, for 2020 and 2019 reporting periods, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Trade receivables which have been written off are not subject to enforcement activities. For 2018, refer to Note 1.5 Financial Instruments for further details.

The company measures the loss allowance for trade receivables by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables. These lifetime expected credit losses are estimated using a provision matrix, which is presented below. The provision matrix has been developed by making use of past default experience of debtors but also incorporates forward looking information and general economic conditions of the industry as at the reporting date.

There has been no change in the estimation techniques or significant assumptions made during the 2020, 2019 and 2018 reporting periods.

	2020 R '000	2019 R '000	2018 R '000

10. Trade and other receivables (continued)

Counterparties without external credit rating

	2020 R '000	2019 R '000	2018 R '000
Group A	1 137 006	684 486	4 671
Group B	230 158	172 724	601 442
Group C	-	-	-
Group D	1 756	1 288	-
	1 368 920	**858 498**	**606 113**

Group A - new customer (less 6 months) or related parties.
Group B - existing customer (more than 6 months) with no defaults in the past.
Group C - existing customer (more than 6 months) with some defaults in the past. All defaults were fully recovered.
Group D - existing customers (more than six months) with some defaults in the past. All defaults were not fully recovered.

The reporting entity's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles. The loss allowance provision is determined as follows:

2020	**Gross carrying amount R '000**	**Loss allowance R '000**	**Average ECL/impairment ratio**
Current	722 111	(16 603)	2.30 %
Up to 30 days aged	229 727	(9 969)	4.34 %
Up to 60 days aged	119 980	(9 877)	8.23 %
Up to 90 days aged	310 294	(17 848)	5.75 %
	1 382 112	**(54 297)**	**3.93 %**

2019	**Gross carrying amount R '000**	**Loss allowance R '000**	**Average ECL/impairment ratio**
Current	572 396	(6 215)	1.09 %
Up to 30 days aged	104 887	(2 347)	2.24 %
Up to 60 days aged	74 563	(2 585)	3.47 %
Up to 90 days aged	106 652	(18 822)	17.65 %
	858 498	**(29 969)**	**3.49 %**

1 July 2018	**Gross carrying amount R '000**	**Loss allowance R '000**	**Average ECL/impairment ratio**
Current	469 634	(7 266)	1.39 %
Up to 30 days aged	61 642	(1 789)	2.90 %
Up to 60 days aged	12 456	(951)	7.64 %
Up to 90 days aged	62 382	(8 196)	14.30 %
	606 114	**(18 202)**	**3.00 %**

Notes to the Combined Annual Financial Statements

	2020 R '000	2019 R '000	2018 R '000

10. Trade and other receivables (continued)

30 June 2018

The age analysis of trade receivables is as follows:

Current	469 634
Up to 30 days aged	61 642
Up to 60 days aged	12 456
Up to 90 days aged	62 382
	606 114

As at 30 June 2018, trade receivables of R3,8 million were provided for. The ageing of these trade receivables is as follows:

Up to 90 days aged	(3 780)

Reconciliation of loss allowances

The following table shows the movement in the loss allowance (lifetime expected credit losses) for trade and other receivables:

	2020	2019	2018
Opening balance - calculated under IAS 39	-	(3 780)	(2 043)
Amounts restated to opening retained earnings*	-	(14 422)	-
Opening loss allowance	**(29 969)**	**(18 202)**	**(2 043)**
Charged to the statement of profit or loss	(20 183)	(13 293)	(309)
Foreign exchange differences	(5 931)	449	(403)
Amounts written off as uncollectable	4 301	1 077	(1 025)
Closing balance	**(51 782)**	**(29 969)**	**(3 780)**

* The adjustment relates to the transition impact of implementing IFRS 9 in the 2019 financial year. The opening loss allowance as at 1 July 2018 was adjusted.

11. Cash and cash equivalents

Cash and cash equivalents consist of:

	2020	2019	2018
Cash on hand	448	678	111
Bank balances	46 272	171 123	205 306
Deposits account	46 694	40 284	105 486
Bank overdraft	(49 214)	(66 994)	(71 654)
Net cash and cash equivalents	**44 200**	**145 091**	**239 249**
Current assets	93 414	212 085	310 903
Current liabilities	(49 214)	(66 994)	(71 654)
	44 200	**145 091**	**239 249**

Exposure to credit risk

Refer to note 28 Financial instruments and risk management for details of credit risk exposure and management for cash and cash equivalents.

Exposure to interest rate risk

Refer to note 28 Financial instruments and risk management for details of interest rate risk exposure and management for cash and cash equivalents.

Notes to the Combined Annual Financial Statements

11. Cash and cash equivalents (continued)

Exposure to liquidity risk

Refer to note 28 Financial instruments and risk management for details of liquidity risk exposure and management for bank overdrafts.

12. Loans from related parties

Ascendis Health Limited	3 867 210	3 185 992	3 176 695
Scitec*	546 299	467 121	480 632
Ascendis Financial Services Limited	196 107	153 104	198 225
Ascendis Sports Nutrition	-	-	1 848
Directors	182	149	-
	4 609 798	**3 806 366**	**3 857 400**

*This loan is unsecured and has no fixed terms of repayment. The loans have an average interest rate of 3.5%.
All other loans are unsecured, bear no interest and have no fixed terms of repayment. The loans are deemed to be repayable on demand.

Split between non-current and current portions

Current liabilities	4 609 798	3 806 366	3 857 400

Exposure to liquidity risk

Refer to note 28 Financial instruments and risk management for details of liquidity risk exposure and management for loans from related parties.

Exposure to interest rate risk

Refer to note 28 Financial instruments and risk management for details of interest rate risk management for loans from related parties.

13. Borrowings

Term loan - European debt	124 404	-	-
Revolving credit facilities	22 367	30 135	30 198
Cyprus loan facility	160 267	164 375	206 111
Other European borrowings	182	-	-
	307 220	**194 510**	**236 309**

Split between non-current and current portions

Non-current liabilities	237 674	101 795	148 927
Current liabilities	69 546	92 715	87 382
	307 220	**194 510**	**236 309**

Reconciliation of borrowings			
Opening balance	194 510	236 309	17 384
New loans raised	145 200	38 576	250 124
Loans repaid	(75 877)	(89 711)	(51 946)
Foreign exchange difference	29 728	(228)	17 187
Capitalised fees amortised	7 591	1 750	3 560
Interest capitalised	6 068	7 814	-
Closing balance	**307 220**	**194 510**	**236 309**

	2020 R '000	2019 R '000	2018 R '000

13. Borrowings (continued)

Exposure to liquidity risk

Refer to note 28 Financial instruments and risk management for details of liquidity risk exposure and management for borrowings.

Exposure to interest rate risk

Refer to note 28 Financial instruments and risk management for details of interest rate risk management for investments in borrowings.

14. Deferred vendor liabilities

The reporting entity structures its acquisitions to include contingent and deferred consideration which is included in the cost of the business combination at the fair value on the date of the acquisitions.

Contingent consideration is initially measured at fair value and the amount is included in the determination of goodwill or bargain purchase. Subsequently, to the extent that the additional consideration relates to an asset or liability, the contingent consideration is measured at fair value and gains and losses are recognised in profit or loss.

Deferred consideration is initially measured at fair value and subsequently measured at amortised cost.

All deferred vendor liabilities raised relate to business combinations.

The reporting entity acquired the Sun Wave Pharma group in June 2017. The total contingent consideration is based on the performance of the acquired business.

- €5 million in July 2018 since the EBITDA exceeded €6.5 million, the amount was paid in July 2018.
- €8 million in August 2019 if EBITDA equals or exceeds €7 million for the period, the amount was paid in March 2020. As a result of late payment, Ascendis incurred penalty interest of €1.4 million.
- €6 million in August 2020 if EBITDA equals or exceeds €7.5 million for the period. The targeted EBITDA was met and €2 million of this amount due was paid subsequent to year end.
- An additional payment of €4 million is payable if the average annual EBITDA over the above mentioned three periods exceed €8 million per annum. The targeted EBITDA was met and this amount was due to be paid in August 2020, however this is still to be paid.
- The outstanding contingent consideration is subordinated to the reporting entity's senior debt, stipulated as part of the sales and purchase agreement of the Sun Wave Pharma Group. The debt has a maturity of 31 December 2021 and therefore due to the subordination, the associated liability has been classified as non-current. The subordination place is subject to the sale of the associated Sun Wave Pharma Group or its assets and therefore, its sale in accordance with the disposal milestones of the refinance agreement would result in the subordination falling away. The recipients of the contingent consideration, in accordance with the sales and purchase agreement, have been presented with the option to subscribe to shares in the Sun Wave business, however these were not take up instead opting for settlement of the consideration in cash.

The reporting entity acquired the Remedica Group in August 2016. The initial deferred consideration of €90 million which was payable in August 2019 was amended in 2017 following negotiations with the previous owners. The renegotiated terms stipulated the total deferred consideration to be €86 million, of which €46 million became payable in August 2017 and the remaining €40 million to be settled in August 2019, however the final amount has not been paid. Late penalty interest of €1.4 million has been incurred for the year ended 30 June 2020.

The outstanding deferred consideration in respect of the Remedica Group is subordinated to the reporting entity's senior debt, stipulated as a separate agreement. The debt has a maturity of 31 December 2021 and therefore due to the subordination, the associated liability has been classified as non-current. The subordination place is subject to the sale of the associated Remedica Group or its assets and therefore, its sale in accordance with the disposal milestones of the refinance agreement would result in the subordination falling away.

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	2020 R '000	2019 R '000	2018 R '000

14. Deferred vendor liabilities (continued)

Deferred vendors			
Remedica Group	801 125	634 966	614 463
Sun Wave Pharma Group	194 522	282 507	353 194
	995 647	**917 473**	**967 657**
Deferred consideration	801 125	634 966	614 463
Contingent consideration	194 522	282 507	353 194
	995 647	**917 473**	**967 657**
Split between non-current and current portions			
Current liability	995 647	762 998	315 634
Non-current liability	-	154 476	652 023
	995 647	**917 474**	**967 657**

Fair value

This relates to contingent consideration on business combination transactions. The fair values have been estimated using the discounted cash flow model. The discounted method was used to capture the present value of the expected future economic benefits that will flow out of the reporting entity arising from the contingent consideration. The significant unobservable inputs in relation to the contingent consideration incudes EBIT margin and EBITDA margin. A slight increase in these inputs in isolation would result in a significant increase in the fair value, however in respect of these liabilities, all contingent consideration has already been determined per the underlying agreements. Therefore, no sensitivity analysis was performed on the fair value of deferred vendor liabilities as all contingent consideration has been determined.

15. Trade and other payables

Financial instruments:			
Trade payables	522 666	416 293	227 993
Trade payables - related parties	-	235	696
Accrued liabilities*	41 899	23 450	73 801
Other provisions	1 459	-	-
Other payables	20 593	6 507	1 316
Non-financial instruments:			
Leave pay accrual	18 158	12 799	10 171
Deferred revenue	10 885	10 885	10 885
Accrued payroll liabilities	36 006	35 014	33 857
Value added taxation	3 413	3 087	4 207
	655 079	**508 270**	**362 926**

* Accrued liabilities constitutes mainly accruals relating to different items within selling, distribution, administrative and operating expenses.

Categorisation of trade and other payables

Trade and other payables are categorised as follows in accordance with IFRS 9: Financial Instruments:

At amortised cost	586 617	446 485	303 806
Non-financial instruments	68 462	61 785	59 120
	655 079	**508 270**	**362 926**

	2020 R '000	2019 R '000	2018 R '000

15. Trade and other payables (continued)

Exposure to currency risk

Refer to note 28 Financial instruments and risk management for details of currency risk exposure and management for trade and other payables.

Exposure to liquidity risk

Refer to note 28 Financial instruments and risk management for details of liquidity risk exposure and management for trade and other payables.

16. Financial guarantee liability

The reporting entity 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. The financial guarantee had a negligible fair value on initial recognition when the reporting entity entered into the guarantee arrangement under the requirements of IAS 39. On transition to IFRS 9, the expected credit losses on the financial guarantee were also assessed as negligible. As a result of the financial performance of the Ascendis Group deteriorating as well as the increase in the levels of debt in the Ascendis Group during the 2019 financial year an expected credit loss allowance was recognised.

Refer to Note 1.5 for details regarding subsequent measurement of financial guarantee liability in terms of IAS 39. In terms of IFRS 9, financial guarantee contracts issued by the reporting entity 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 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. The ECL% is calculated at 10.8% (2019: 10.7%).

	2020 R '000	2019 R '000	2018 R '000
Face Value			
Term loan - European debt	3 402 133	2 583 017	2 809 065
Term loan - South African debt	1 534 832	1 311 937	1 431 627
Revolving credit facility	1 373 676	759 299	783 253
Short-term loans with financial institutions	-	360 397	-
	6 310 641	**5 014 650**	**5 023 945**

The reporting entity's financial liability relating to financial guarantee contracts amounts to:

	2020 R '000	2019 R '000	2018 R '000
Financial guarantee liability	517 024	154 771	-
Financial guarantee movement:			
Opening balance	154 771	-	-
ECL raised	362 253	154 771	-
Closing balance	**517 024**	**154 771**	**-**

Notes to the Combined Annual Financial Statements

17. Revenue

	2020 R '000	2019 R '000	2018 R '000
Revenue from contracts with customers*			
Sale of goods - wholesale (in-country)	1 192 347	848 791	722 085
Sale of goods - wholesale (export)	1 836 502	1 381 809	1 143 749
Sale of drug master files - local sales	28 640	37 238	27 343
	3 057 489	**2 267 838**	**1 893 177**

*Revenue recorded in 2018 is recognised in terms of the requirements of IAS 18.

Disaggregation of revenue from customers

	2020 R '000	2019 R '000	2018 R '000
Primary geographical markets			
Romania	899 721	738 931	561 989
Cyprus	238 367	83 902	77 558
Rest of Asia	146 003	124 846	110 515
Rest of Africa	131 639	86 231	141 293
Rest of Europe	105 557	101 431	97 315
France	116 542	170 011	128 248
Denmark	83 450	41 045	44 576
Switzerland	68 145	73 610	55 812
Yemen	21 486	16 767	19 113
Ethiopia	40 284	33 257	26 218
Vietnam	32 799	83 519	87 186
Thailand	40 473	60 212	26 128
Slovenia	68 877	16 614	4 307
Germany	115 339	84 755	73 240
Oman	39 919	22 481	16 305
Netherlands	35 463	45 301	35 055
America	27 178	30 053	15 887
Iraq	24 253	44 916	20 184
Democratic Republic of Congo	25 268	17 795	14 211
Libya	20 644	26 215	4 776
Botswana	48 527	29 571	31 960
Other	36 031	12 060	50 227
New Zealand	15 040	15 824	8 457
United Kingdom	26 691	17 214	20 265
Australia	15 536	20 759	37 016
Mexico	237 267	63 150	21 051
Israel	141 201	18 720	7 046
Tanzania	37 642	39 664	32 784
Uganda	22 619	11 610	7 231
Jordan	46 560	39 048	18 979
Saudi Arabia	31 659	33 206	21 966
Malta	22 145	19 080	26 313
Italy	48 767	13 574	24 635
Spain	21 085	10 881	6 339
Belgium	25 312	21 585	18 992
	3 057 489	**2 267 838**	**1 893 177**

Timing of revenue recognition

	2020 R '000	2019 R '000	2018 R '000
At a point in time			
Sale of goods	3 028 849	2 230 600	-
Sale of drug master files	28 640	37 238	-
	3 057 489	**2 267 838**	**-**

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

Notes to the Combined Annual Financial Statements

	2020 R '000	2019 R '000	2018 R '000

18. Expenses by nature

	2020 R '000	2019 R '000	2018 R '000
Administration costs	85 341	86 154	68 410
Advertising and promotions	196 432	149 013	119 357
Cost of goods sold	1 380 828	1 140 732	923 389
Depreciation and amortisation	115 512	85 030	90 025
Distribution costs	8 243	7 776	10 568
Employee benefit expenses	266 252	223 549	192 482
Expected credit loss on financial guarantee liability	362 253	154 771	-
General expenses	29 969	47 158	54 473
Net impairment loss on financial assets	53 710	440 307	2 138
Occupancy costs	7 824	5 623	5 242
Once off costs*	38 411	-	3 461
Research and development	18 184	13 689	9 612
Selling costs	119 154	43 242	41 177
Travelling costs	10 019	12 359	6 690
	2 692 132	**2 409 403**	**1 527 024**

*Included in the balance is an amount of tax refund of R23.6 million that was paid to previous shareholders of Remedica.

19. Other income

	2020 R '000	2019 R '000	2018 R '000
Management fees	16 330	3 160	1 059
Dividend income	368	261 654	230 681
Forgiveness on loan payable^	-	37 202	-
Non-trading income*	9 486	15 491	8 070
Other income	775	8 061	2 736
	26 959	**325 568**	**242 546**

^This relates to forgiveness of loan payable to Ascendis Australia from AHIH.
*This relates to income received by Remedica for other trading and non-trading income such as tooling and destructions costs and subsidies received by the Cyprus government for training purposes.

20. Finance income

	2020 R '000	2019 R '000	2018 R '000
Interest income on current income tax assets	5 473	-	-
Related parties	39 525	26 664	11 191
Bank	746	644	-
	45 744	**27 308**	**11 191**

21. Finance costs

	2020 R '000	2019 R '000	2018 R '000
Other	1 208	413	-
Borrowings	3 412	83	4 962
Lease liabilities	2 363	1 049	961
Deferred vendor liabilities	52 462	31 724	15 822
Bond registration costs	-	2	-
Bank	7 476	10 408	7 571
Related party loan	17 971	18 381	16 016
	84 892	**62 060**	**45 332**

Notes to the Combined Annual Financial Statements

22. Taxation

Major components of the tax expense

	2020 R '000	2019 R '000	2018 R '000
Current			
Local income tax - current period	41 142	31 598	25 587
Local income tax - recognised in current tax for prior periods	(20 156)	6 896	-
	20 986	**38 494**	**25 587**
Deferred			
Originating and reversing temporary differences	(5 540)	(3 989)	(10 665)
	15 446	**34 505**	**14 922**

Reconciliation of the tax income

Reconciliation between applicable tax rate and average effective tax rate.

	2020	2019	2018
Applicable tax rate	28.00 %	28.00 %	28.00 %
Exempt income - Dividends received	(0.28)%	(175.81)%	(66.79)%
Other exempt income	(0.44)%	2.90 %	(0.06)%
Other non-deductible expenses	9.04 %	(69.69)%	(23.46)%
Amortisation and impairment	3.74 %	0.54 %	- %
Expected credit loss allowance on financial guarantee liability	28.72 %	29.04 %	- %
Intercompany ECL	(4.50)%	80.11 %	- %
Foreign tax fiscal credits	(0.23)%	- %	- %
Under / (over) provision - previous years	(3.23)%	(5.61)%	- %
Difference in foreign tax rates	(2.89)%	(29.75)%	(7.43)%
Increase in current year assessable loss	(2.93)%	224.19 %	67.61 %
Foreign adjustments to tax base	(51.89)%	(85.77)%	- %
Foreign exchange adjustments	0.50 %	(0.94)%	(0.60)%
Non-deductible donations	1.34 %	4.25 %	0.83 %
Fines and penalties - non-deductible	(0.59)%	- %	- %
Non-deductible (Group vs Fiscal Variance)	- %	1.24 %	0.02 %
Fair Value Adjustment Gains/Losses	- %	20.42 %	4.37 %
	4.36 %	**23.12 %**	**2.49 %**

23. Cash utilised in operations

	2020 R '000	2019 R '000	2018 R '000
Profit before taxation	353 168	149 251	574 558
Adjustments for:			
Depreciation and amortisation	162 404	145 933	126 728
Loss / (profit) on sale of property, plant and equipment	(333)	195	(903)
Expected credit losses on loans receivables	35 048	426 989	-
Finance costs	84 892	62 059	45 332
Finance income	(45 743)	(27 307)	(11 191)
Expected credit loss allowance on financial guarantee liability	362 253	154 771	-
Provisions raised	9 920	3 360	91 421
Unwinding of capitalised borrowing costs	7 591	1 750	3 560
Changes in working capital:			
Inventories	(68 393)	(76 338)	(4 733)
Trade and other receivables	(318 127)	(330 408)	(75 521)
Trade and other payables	24 204	144 999	(2 841 949)
	606 884	**655 254**	**(2 092 698)**

Notes to the Combined Annual Financial Statements

	2020 R '000	2019 R '000	2018 R '000

24. Tax

	2020	2019	2018
Balance at beginning of the year	1 172	22 830	28 776
Current tax for the year recognised in profit or loss	(20 986)	(38 494)	(25 587)
Exchange differences	(1 358)	541	1 166
Balance at end of the year	8 236	(1 172)	(22 830)
Tax paid	**(12 936)**	**(16 295)**	**(18 475)**

25. Contingent liabilities

The reporting entity applies judgement in assessing the potential outcome of uncertain legal and regulatory matters. The reporting entity does not recognise contingent liabilities in the statement of financial position until future events indicate that it is probable that an outflow of resources will take place and a reliable estimate can be made, at which time a provision is recognised. The reporting entity discloses contingent liabilities where economic outflows are considered possible but not probable.

The reporting entity is currently involved in various other disputes, including one with a former employee and is in consultation with its legal counsel, assessing the potential outcome of these disputes on an ongoing basis. As these disputes progress, management makes provision in respect of legal proceedings where appropriate.

26. Net debt

	2020	2019	2018
Cash and cash equivalents	93 414	212 085	310 903
Debt repayable within one year including bank overdrafts	(5 743 889)	(4 739 434)	(4 341 023)
Debt repayable after one year	(275 705)	(270 134)	(819 920)
	(5 926 180)	**(4 797 483)**	**(4 850 040)**

	2020	2019	2018
Cash and cash equivalents	93 414	212 085	310 903
Gross debt - fixed interest rate	(5 970 380)	(4 942 574)	(5 089 289)
Gross debt - variable interest rate	(49 214)	(66 994)	(71 654)
	(5 926 180)	**(4 797 483)**	**(4 850 040)**

Repayable within 1 year **R '000**	**Net cash and cash equivalents**	**Lease liabilities**	**Borrowings**	**Deferred vendor liabilities**	**Loans from related parties**	**Total**
Net debt as at 30 June 2017	88 928	-	-	(193 639)	(8 229 575)	(8 334 286)
Cashflows - principal / capital portion	147 246	(296)	-	396 274	1 489 927	2 033 151
Foreign exchange adjustments	3 075	-	-	(22 601)	2 898 264	2 878 738
Reclassification	-	-	(87 382)	(485 268)	-	(572 650)
Interest	-	(8 657)	-	(10 400)	(16 016)	(35 073)
Net debt as at 30 June 2019	**239 249**	**(8 953)**	**(87 382)**	**(315 634)**	**(3 857 400)**	**(4 030 120)**
Cashflows - principal / capital portion	(94 945)	-	89 711	78 219	68 183	141 168
Foreign exchange adjustments	787	86	47	3 481	1 232	5 633
Reclassification	-	-	(93 341)	(514 215)	-	(607 556)
Interest	-	(1 494)	(1 750)	(14 849)	(18 381)	(36 474)
Net debt as at 30 June 2019	**145 091**	**(10 361)**	**(92 715)**	**(762 998)**	**(3 806 366)**	**(4 527 349)**
Cashflows - principal / capital portion	(115 699)	14 365	75 877	172 232	765 263	912 038
Foreign exchange adjustments	14 808	(1 969)	(10 341)	(197 944)	(1 550 724)	(1 746 170)
Reclassification	-	-	(34 776)	(154 475)	-	(189 251)
Interest and non-cash additions (new leases)	-	(21 719)	(7 591)	(52 462)	(17 971)	(99 743)
Net debt as at 30 June 2020	**44 200**	**(19 684)**	**(69 546)**	**(995 647)**	**(4 609 798)**	**(5 650 475)**

	2020 R '000	2019 R '000	2018 R '000

26. Net debt (continued)

Repayable after 1 year R '000	Lease liabilities	Borrowings	Deferred vendor liabilities	Total
Net debt as at 30 June 2017	(24 790)	(17 384)	(1 069 120)	(1 111 294)
Cashflows - principal / capital portion	9 252	(198 178)	-	(188 926)
Foreign exchange adjustments	(1 125)	(17 187)	(46 686)	(64 998)
Reclassification	-	87 382	485 267	572 649
Interest	(2 306)	(3 560)	(21 485)	(27 351)
Net debt as at 30 June 2019	**(18 969)**	**(148 927)**	**(652 024)**	**(819 920)**
Cashflows - principal / capital portion	9 698	(38 576)	-	(28 878)
Foreign exchange adjustments	389	180	705	1 274
Reclassification	-	93 341	514 215	607 556
Interest	(4 980)	(7 814)	(17 371)	(30 165)
Net debt as at 30 June 2019	**(13 862)**	**(101 796)**	**(154 475)**	**(270 133)**
Cashflows - principal / capital portion	5 542	(145 200)	-	(139 658)
Foreign exchange adjustments	(5 478)	(19 386)	-	(24 864)
Reclassification	-	34 776	154 475	189 251
Interest and non-cash additions	(24 232)	(6 068)	-	(30 300)
Net debt as at 30 June 2020	**(38 030)**	**(237 674)**	**-**	**(275 704)**

27. Related parties

Relationships

Ultimate holding company	Ascendis Health Limited
Holding company	Ascendis Health International Holdings (Malta)
Fellow subsidiaries	Ascendis Financial Services Limited Ascendis Spain Holdings Limited Ascendis SA Holdings

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.

Related party balances

Loan accounts - owing by / (to) related parties	2020	2019	2018
Ascendis Financial Services Limited	279 633	-	-
Ascendis Spain Holdings Limited	125 661	101 101	101 237
Scitec	1 169 212	875 378	839 952
Ascendis Health Limited	(3 867 210)	(3 185 992)	(3 176 695)
Scitec	(546 299)	(467 121)	(480 632)
Ascendis Financial Services Limited	(196 107)	(153 104)	(198 224)
Ascendis Sports Nutrition	-	-	(1 848)
	(3 035 110)	**(2 829 738)**	**(2 916 210)**

	2020 R '000	2019 R '000	2018 R '000

27. Related parties (continued)

	2020 R '000	2019 R '000	2018 R '000
Amounts included in trade receivables / (trade payables) regarding related parties			
Ascendis Spain Holdings Limited	115	-	-
Ascendis Financial Services Limited	13 077	-	-
Scitec	-	237	144
Scitec	-	-	(9 654)
Ascendis Health UK	(1 837)	(304)	-
Ascendis Management Services Proprietary Limited	(6 169)	(4 110)	(13 192)
Dealcor Forty	-	(236)	-
	5 186	**(4 413)**	**(22 702)**

Related party transactions

	2020 R '000	2019 R '000	2018 R '000
Purchases from / (sales to) related parties			
Scitec kft (HUN)	-	-	(15 268)
Management fees paid to related parties			
Ascendis Financial Services Limited	3 391	-	-
Scitec	12 939	3 169	1 059
Farmalider	-	(9)	-
Ascendis Management Services Proprietary Limited	-	-	(11 600)
Ascendis Health UK	-	-	(142)
	16 330	**3 160**	**(10 683)**
Interest received from related parties			
Ascendis Financial Services Limited	7 431	-	-
Scitec	32 094	26 664	11 191
	39 525	**26 664**	**11 191**
Interest on loans to related parties			
Ascendis Financial Services Limited	-	-	1 849
Scitec	17 971	18 381	14 167
	17 971	**18 381**	**16 016**
Dividends paid to related parties			
Ascendis Health Limited	-	158 702	174 873
Scitec	1 043	261 999	390 245
	1 043	**420 701**	**565 118**
Dividends receivable from related parties			
Ascendis Spain Holdings Limited	-	10 766	6 672
Scitec	368	250 888	224 009
	368	**261 654**	**230 681**
Foreign exchange contracts (income) / loss			
Ascendis Financial Services Proprietary Limited	(230 698)	322 767	-

Notes to the Combined Annual Financial Statements

28. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2020

	Notes	Fair value through profit or loss R '000	Amortised cost R '000	Total R '000
Loans to related parties	9	-	1 094 092	1 094 092
Foreign exchange contract		436	-	436
Trade and other receivables	10	-	1 454 664	1 454 664
Cash and cash equivalents	11	-	93 414	93 414
Other financial assets		-	21 018	21 018
		436	**2 663 188**	**2 663 624**

2019

	Notes	Fair value through profit or loss R '000	Amortised cost R '000	Total R '000
Loans to related parties	9	-	556 757	556 757
Foreign exchange contract		406	-	406
Trade and other receivables	10	-	936 273	936 273
Cash and cash equivalents	11	-	212 085	212 085
Other financial assets		-	2 714	2 714
		406	**1 707 829**	**1 708 235**

1 July 2018

	Notes	Amortised cost R '000	Total R '000
Loans to related parties	9	941 844	941 844
Trade and other receivables	10	616 459	616 459
Cash and cash equivalents	11	310 903	310 903
		1 869 206	**1 869 206**

30 June 2018	Notes	Loans and receivables R '000	Total R '000
Loans to related parties	9	941 844	941 853
Trade and other receivables	10	680 747	680 757
Cash and cash equivalents	11	93 414	93 425
		1 716 005	**1 716 035**

28. Financial instruments and risk management (continued)

Categories of financial liabilities

2020

	Notes	Fair value through profit or loss R '000	Amortised cost R '000	Financial guarantee contracts R '000	Total R '000
Trade and other payables	15	-	586 617	-	586 617
Loans from related parties	12	-	4 609 798	-	4 609 798
Borrowings	13	-	307 220	-	307 220
Foreign exchange contracts		655	-	-	655
Lease liabilities	5	-	57 715	-	57 715
Bank overdraft	11	-	49 214	-	49 214
Financial guarantee liability	16	-	-	517 024	517 024
Deferred vendor liabilities	14	194 522	801 125	-	995 647
		195 177	**6 411 689**	**517 024**	**7 123 890**

2019

	Notes	Fair value through profit or loss R '000	Amortised cost R '000	Financial guarantee contracts R '000	Total R '000
Trade and other payables	15	-	446 485	-	446 485
Loans from related parties	12	-	3 806 366	-	3 806 366
Borrowings	13	-	194 510	-	194 510
Lease liabilities	5	-	24 224	-	24 224
Bank overdraft	11	-	66 994	-	66 994
Financial guarantee liability	16	-	-	154 771	154 771
Deferred vendor liabilities	14	282 506	634 968	-	917 474
		282 506	**5 173 547**	**154 771**	**5 610 824**

2018

	Notes	Fair value through profit or loss R '000	Amortised cost R '000	Total R '000
Trade and other payables	15	-	303 806	303 806
Loans from related parties	12	-	3 857 400	3 857 400
Borrowings	13	-	236 309	236 309
Lease liabilities	5	-	27 923	27 923
Bank overdraft	11	-	71 654	71 654
Deferred vendor liabilities	14	353 194	614 463	967 657
		353 194	**5 111 555**	**5 464 749**

Notes to the Combined Annual Financial Statements

28. Financial instruments and risk management (continued)

Pre tax gains and losses on financial instruments

Gains and losses on financial assets

2020

	Note	Amortised cost R '000	Total R '000
Recognised in profit or loss:			
Finance income	20	45 744	45 744

2019

	Note	Amortised cost R '000	Total R '000
Recognised in profit or loss:			
Finance income	20	27 308	27 308

2018

	Notes	Amortised cost R '000	Total R '000
Recognised in profit or loss:			
Finance income	20	11 191	11 191

Notes to the Combined Annual Financial Statements

28. Financial instruments and risk management (continued)

Gains and losses on financial liabilities

2020

	Note	Amortised cost R '000	Leases R '000	Total R '000
Recognised in profit or loss:				
Finance costs	21	(82 529)	(2 363)	(84 892)

2019

	Note	Amortised cost R '000	Total R '000
Recognised in profit or loss:			
Finance costs	21	(62 060)	(62 060)

2018

	Notes	Amortised cost R '000	Total R '000
Recognised in profit or loss:			
Finance costs	21	(45 332)	(45 332)

Capital risk management

The reporting entity's objective when managing capital (which includes share capital, borrowings, working capital and cash and cash equivalents) is to maintain a flexible capital structure that reduces the cost of capital to an acceptable level of risk and to safeguard the reporting entity's ability to continue as a going concern while taking advantage of strategic opportunities in order to maximise stakeholder returns sustainably.

The capital structure of the reporting entity consists of debt, which includes loans from group companies disclosed in note 12, lease liabilities disclosed in note 5, deferred vendor liabilities disclosed in note 14, cash and cash equivalents disclosed in note 11 and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the reporting entity may adjust the amount of dividends paid to shareholder, return capital to shareholder, issue new shares or sell assets to reduce debt.

The reporting entity benefits from a central treasury function of the Ascendis Health Limited Group it forms part of. Therefore, since the capital structure is managed centrally, the respective managing and finance heads of the reporting entity components (companies) convene weekly in what is referred to as a collective as the “Cash Steerco.” The reporting entity is then required to present at minimum a 13-week forward cash forecast which is dissected by the Cash Steerco, lead by the Group CFO and the decision on funding advanced is determined considering the holistic working capital management of the reporting entity and cash resources available to for the specific group’s capital requirements. This spending application is closely monitored and reported back to the lender consortium to the reporting entity’s debt capital component thus monitoring that spending has been applied as intended and proposed.

Consistent with others in the industry, the reporting entity monitors capital using a gearing ratio. The reporting entity sets an internal gearing ratio of 50%.

		2020 R '000	2019 R '000	2018 R '000

28. Financial instruments and risk management (continued)

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The capital structure and gearing ratio of the reporting entity at the reporting date was as follows:

		2020 R '000	2019 R '000	2018 R '000
Loans from related parties	12	4 609 798	3 806 366	3 857 400
Borrowings	13	307 220	194 510	236 309
Lease liabilities	5	57 715	-	-
Total borrowings		**4 974 733**	**4 000 876**	**4 093 709**
Cash and cash equivalents	11	(43 752)	(144 413)	(239 138)
Net borrowings		**4 930 981**	**3 856 463**	**3 854 571**
Equity		1 402 041	692 931	1 034 982
Total capital		**6 333 022**	**4 549 394**	**4 889 553**
Gearing ratio		78 %	85 %	79 %

Financial risk management

Overview

The reporting entity is exposed to the following risks from its use of financial instruments:
- Credit risk;
- Liquidity risk; and
- Market risk (currency risk and interest rate risk.

The reporting entity's risk management policies are established to identify and analyse the risks faced by the reporting entity, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the reporting entity's activities.

28. Financial instruments and risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the reporting entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The reporting entity is exposed to credit risk on the loans to group companies, trade and other receivables, cash and cash equivalents and financial guarantee liability.

The reporting entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Credit risk for exposures other than those arising on cash and cash equivalents, are managed by making use of credit approvals, limits and monitoring. The reporting entity only deals with reputable counterparties with consistent payment histories. Sufficient collateral or guarantees are also obtained when necessary. Each counterparty is analysed individually for creditworthiness before terms and conditions are offered. The analysis involves making use of information submitted by the counterparties as well as external bureau data (where available). Counterparty credit limits are in place and are reviewed and approved by credit management committees. The exposure to credit risk and the creditworthiness of counterparties is continuously monitored.

Loans to related parties

Refer to note 9 Loans to related parties for the disclosures relating to credit risk.

Trade and other receivables

The reporting entity has policies in place to ensure that sales of products are made to customers with a solid credit history. Trade receivables consist primarily of a large, widespread customer base. The granting of credit is controlled by application and account limits. Trade and other receivables are carefully monitored for impairment. None of the debtors balances in June 2020 or June 2019 constitutes a significant concentration of credit risk. There are no other single customers representing more than 10% of total gross trade receivables for the years presented.

In 2018, the reporting entity made a provision for specific debtors where there was clear objective evidence that the repayment has been impaired as a result of the customers being in financial difficulty.

Impairment losses are recoded in the allowace account (ECL (2019 and 2020) and provision for bad debts (2018) until the reporting entity is satisified that no recovery of the amount owing is possible, at which point the amount is considered irrcoverable and is written off against the financial asset. Refer to note 10 Trade and other receivables for the disclosures relating to credit risk.

Cash and cash equivalents

The reporting entity determines appropriate internal credit limits for each counterparty. In determining these limits, the reporting entity considers the counterparty's credit rating established by accredited ratings agency. The reporting entity manages its exposure to a single counterparty by spreading transactions among approved financial institutions.

Cash credit risk is the risk of the institutions with which cash resources are held are unable to meet their obligations and unable to return the cash assets held with them.

The risk rating grade of cash and cash equivalents are set out in the table below. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Credit rating of financial institutions			
Aa2	352	2 177	1 521
B1	42 181	199 441	282 215
Baa1	47 609	10 058	26 513
Ba2	3 272	409	654
	93 414	**212 085**	**310 903**

Notes to the Combined Annual Financial Statements

28. Financial instruments and risk management (continued)

Liquidity risk

The reporting entity is exposed to liquidity risk, which is the risk that the reporting entity will encounter difficulties in meeting its obligations as they become due.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Cash flow forecasting is performed in the operating entities of the reporting entity in and aggregated by group finance. Group finance monitors rolling forecasts of the reporting entity's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the reporting entity does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the reporting entity's debt financing plans, covenant compliance, compliance with internal statement of financial position ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

There has been no change in the estimation techniques or significant assumptions made during the 2020, 2019 and 2018 reporting periods.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

2020

		0 to 1 year R '000	2 to 5 years R '000	Total R '000
Non-current liabilities				
Borrowings	13	-	257 337	257 337
Lease liabilities	5	-	43 150	43 150
Current liabilities				
Trade and other payables	15	586 617	-	586 617
Loans from related parties	12	4 609 798	-	4 609 798
Borrowings	13	69 546	-	69 546
Lease liabilities	5	22 274	-	22 274
Bank overdraft	11	49 214	-	49 214
Financial guarantee liability	16	6 761 440	-	6 761 440
Deferred vendor liabilities	14	995 647	-	995 647
		13 094 536	**300 487**	**13 395 023**

28. Financial instruments and risk management (continued)

2019

		0 to 1 year R '000	2 to 5 years R '000	Total R '000
Non-current liabilities				
Borrowings	13	-	101 795	101 795
Finance lease liabilities	5	-	13 863	13 863
Deferred vendor liabilities	14	-	154 476	154 476
Current liabilities				
Trade and other payables	15	446 485	-	446 485
Loans from related parties	12	3 806 366	-	3 806 366
Borrowings	13	92 715	-	92 715
Finance lease liabilities	5	10 361	-	10 361
Bank overdraft	11	66 994	-	66 994
Financial guarantee liability	16	5 753 008	-	5 753 008
Deferred vendor liabilities	14	762 998	-	762 998
		10 938 927	**270 134**	**11 209 061**

2018

		0 to 1 year R '000	2 to 5 years R '000	Total R '000
Non-current liabilities				
Borrowings	13	-	148 927	148 927
Finance lease liabilities		-	18 970	18 970
Deferred vendor liabilities	14	-	652 023	652 023
Current liabilities				
Trade and other payables	15	303 806	-	303 806
Loans from related parties	12	3 857 400	-	3 857 400
Borrowings	13	87 382	-	87 382
Finance lease liabilities		8 953	-	8 953
Bank overdraft	11	71 654	-	71 654
Financial guarantee liability	16	5 023 945	-	5 023 945
Deferred vendor liabilities	14	315 634	-	315 634
		9 668 774	**819 920**	**10 488 694**

Foreign currency risk

The reporting entity is exposed to foreign currency risk as a result of certain transactions and borrowings which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters utilising foreign forward exchange contracts where necessary. The foreign currencies in which the reporting entity deals primarily are US Dollars, Pounds, Euros and Romanian Leu.

There has been no change in the estimation techniques or significant assumptions made during the 2020, 2019 and 2018 reporting periods.

Notes to the Combined Annual Financial Statements

		2020 R '000	2019 R '000	2018 R '000

28. Financial instruments and risk management (continued)

Management has set up a policy to manage their foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the reporting entity monitors the need to do so by analysing the exchange rate activity on foreign currency anticipated transactions are denominated in and the use thereof is identified as more necessary following the weakening of the Rand in months subsequent to year end. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

Exposure in Rand

The net carrying amounts, in Rand, of the various exposures, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amounts at the closing rate at the reporting date:

		2020 R '000	2019 R '000	2018 R '000
US Dollar exposure:				
Current assets:				
Cash and cash equivalents, USD 435 thousand (2019: USD 3 710 thousand; 2018: USD 5 865 thousand)	11	7 530	52 129	72 463
Euro exposure:				
Current assets:				
Cash and cash equivalents, Euro 3 448 thousand (2019: Euro 10 413 thousand; 2018: Euro 12 672 thousand)	11	67 058	166 301	187 545
GBP exposure:				
Current assets:				
Cash and cash equivalents, GBP 28 thousand (2019: GBP 2 thousand; 2018: GBP 2 thousand)	11	596	30	31
RON exposure:				
Current assets:				
Cash and cash equivalents RON 1 136 thousand (2019: RON 82 thousand; 2018: RON 56 thousand)	11	4 555	278	178
Net exposure to foreign currency in Rand		**79 739**	**218 738**	**260 217**

Exchange rates

The following closing exchange rates were applied at reporting date:

	2020	2019	2018
Rand per unit of foreign currency:			
US Dollar	17.320	14.050	12.355
Euro	19.450	15.970	14.800
GBP	21.350	17.830	16.668
RON	4.010	3.380	3.161

Notes to the Combined Annual Financial Statements

28. Financial instruments and risk management (continued)

Foreign currency sensitivity analysis

The following information presents the sensitivity of the reporting entity to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts and adjusts their translation at the reporting date. There has been no change in the estimation techniques or significant assumptions made during the 2020, 2019 and 2018 reporting periods.

	2020	2020	2019	2019	2018	2018
Increase or decrease in rate	**Increase**	**Decrease**	**Increase**	**Decrease**	**Increase**	**Decrease**
	R '000	**R '000**	**R '000**	**R '000**	**R '000**	**R '000**
Impact on profit or loss:						
US Dollar 10% (2019: 10%; 2018: 10%)	753	(753)	5 213	(5 213)	7 246	(7 246)
Euro 10% (2019: 10%; 2018: 10%)	6 706	(6 706)	16 630	(16 630)	18 755	(18 755)
GBP 10% (2019: 10%; 2018: 10%)	60	(60)	3	(3)	3	(3)
RON 10% (2019: 10%; 2018: 10%)	456	(456)	28	(28)	18	(18)
	7 975	**(7 975)**	**21 874**	**(21 874)**	**26 022**	**(26 022)**

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Borrowings issued at variable rates expose the reporting entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the reporting entity to fair value interest rate risk. During 2020, 2019 and 2018, the reporting entity’s borrowings at variable rates were denominated in Rand.

There has been no change in the estimation techniques or significant assumptions made during the 2020, 2019 and 2018 reporting periods.

The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings.

28. Financial instruments and risk management (continued)

Interest rate profile

The interest rate profile of interest bearing financial instruments at the end of the reporting period was as follows:

	Notes	Carrying amount		
		2020 R '000	**2019 R '000**	**2018 R '000**
Variable rate instruments:				
Assets				
Cash and cash equivalents	11	43 752	144 413	239 138
Fixed rate instruments:				
Assets				
Loans to related parties	9	788 634	469 021	821 221
Liabilities				
Lease liabilities	5	(57 715)	-	-
Net fixed rate financial instruments		**730 919**	**469 021**	**821 221**

Interest rate sensitivity analysis

The following sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised at the reporting date. There has been no change in the estimation techniques or significant assumptions made during the 2020, 2019 and 2018 reporting periods.

	2020	2020	2019	2019	2018	2018
Increase or decrease in rate	**Increase R '000**	**Decrease R '000**	**Increase R '000**	**Decrease R '000**	**Increase R '000**	**Decrease R '000**
Impact on profit or loss:						
Cash and cash equivalents 1% (2019: 1%; 2018: 1%)	438	(438)	1 444	(1 444)	2 391	(2 391)

29. 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 reporting entity 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.

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. There were no transfers between level 1, 2 or 3 for the reporting entity for all the periods reported.

Recurring fair value measurements at 30 June:

2020 **Measured at fair value on a recurring basis**	**Level 1** **R '000**	**Level 2** **R '000**	**Level 3** **R '000**	**Total** **R '000**
Financial liabilities at fair value through profit and loss				
Deferred vendor liabilities	-	-	194 522	194 522
Foreign exchange contracts	-	655	-	655
Total liabilities	**-**	**655**	**194 522**	**195 177**

Measured at fair value on a recurring basis **Financial assets at fair value through profit and loss**	**Level 1** **R '000**	**Level 2** **R '000**	**Level 3** **R '000**	**Total** **R '000**
Foreign exchange contract	-	436	-	436
Non-financial asset				
Land and buildings	-	-	546 689	546 689
Total assets	**-**	**436**	**546 689**	**547 125**

2019 **Measured at fair value on a recurring basis**	**Level 1** **R '000**	**Level 2** **R '000**	**Level 3** **R '000**	**Total** **R '000**
Financial liabilities at fair value through profit and loss				
Deferred vendor liabilities	-	-	282 506	282 506

Measured at fair value on a recurring basis **Financial assets at fair value through profit and loss**	**Level 1** **R '000**	**Level 2** **R '000**	**Level 3** **R '000**	**Total** **R '000**
Foreign exchange contract	-	403	-	403
Non-financial asset				
Land and buildings	-	-	360 448	360 448
Total assets	**-**	**403**	**360 448**	**360 851**

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29. Fair value estimation (continued)

2018 **Measured at fair value on a recurring basis** **Financial liabilities at fair value through profit and loss**	**Level 1** **R '000**	**Level 2** **R '000**	**Level 3** **R '000**	**Total** **R '000**
Deferred vendor liabilities	-	-	353 194	353 194

Measured at fair value on a recurring basis **Financial assets at fair value through profit and loss**	**Level 1** **R '000**	**Level 2** **R '000**	**Level 3** **R '000**	**Total** **R '000**
Foreign exchange contract	-	403	-	403
Non-financial asset				
Land and buildings	-	-	347 513	347 513
Total assets	**-**	**403**	**347 513**	**347 916**

Reconciliation of recurring level 3 fair value measured instruments:			
Opening balance	282 506	353 194	263 897
Repayments	(172 232)	(78 219)	57 802
Interest capitalised	27 930	10 056	9 638
Exchange rate differences	56 318	(2 525)	21 857
Closing balance	**194 522**	**282 506**	**353 194**

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

Deferred vendor liabilities

This relates to contingent consideration on business combination transactions. The fair values have been estimated using the discounted cash flow model. The discounted method was used to capture the present value of the expected future economic benefits that will flow out of the reporting entity arising from the contingent consideration. The significant unobservable inputs in relation to the contingent consideration includes EBIT margin and EBITDA margin. A slight increase in these inputs in isolation would result in a significant increase in the fair value, however in respect of these liabilities, all contingent consideration has already been determined per the underlying agreements. Therefore, no sensitivity analysis was performed on the fair value of deferred vendor liabilities as all contingent consideration has been determined.

Borrowings

The reporting entity has borrowing facilities with various financial institutions. The key valuation inputs in the fair value assessment are the interest rate (unobservable) and non-performance risk (unobservable).

Land and buildings

Refer to the property, plant and equipment note 4 for further details on the fair value of land and buildings.

30. Going concern

For all periods presented, the total liabilities exceed total assets. This is mainly driven by the loans from related parties which is linked to the sweeping arrangements by Ascendis group. In 2019 and 2020, the reporting entity recognised financial guarantee liability. because the companies within the reporting entity are guarantors of the group debt facilities.

30. Going concern (continued)

In considering whether the technical insolvency results in a going concern problem, management considered whether the financial guarantee liability and loans from related parties is expected to result in a cash outflow. The significant value of the financial guarantee liability and loans from related parties 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 reporting entity. As such, the reporting entity's going concern assessment and the management's plans in relation to the repayment of the reporting entity's debt is relevant to Ascendis Europe's assessment of going concern.

Material Uncertainty of the Ascendis Health Group:

In determining the appropriate basis of preparation of the reporting entity annual financial statements, the directors are required to consider whether the reporting entity can continue in operational existence for the foreseeable future, being at least the 12 months following 30 June 2020.

The restructuring of Ascendis' debt facilities and the advance of new facilities by the lenders in June 2020 created additional liquidity, while introducing obligations on the directors to achieve specified divestment milestones and financial covenants. In arriving at their conclusion regarding the appropriateness of the going concern basis for the preparation of the group annual financial statements, the directors considered the reporting entity's forecast liquidity position and associated cash management plan for the forecast period.

The reporting entity's results for the 2020 financial year reflect a significant improvement over the prior year despite the Covid-19 pandemic and the reduced economic activity resulting from government-imposed lockdowns. Improved performances were reported from across the reporting entity.

Liquidity and performance in the 2020 financial year

Liquidity remained constrained for most of the year primarily because of the reporting entity's inability to conclude the planned disposals, however still remaining cash positive. With the ongoing support and commitment of the reporting entity's lender consortium, the reporting entity continued to operate, although cash management has required constant attention and capital expenditure has sometimes been postponed or cancelled.

For most of year the reporting entity's lenders and Ascendis had an interim stability agreement in place to allow for any debt capital payments needing to be made and this agreement also provided a waiver of all covenant breaches while proceeding with concluding the abovementioned disposals.

Furthermore, the lenders consented to R360 million of the R473 million proceeds from the concluded disposal of the Biosciences business unit. A bridge loan of R 360 million was made on 2 May 2019 and repaid on 31 July 2019 when the sale of the aforementioned business was made.

1. Extension of the repayment date of the capital portion of the revolving credit facilities ("RCF") and term facilities to 31 December 2021.

On 5 June 2020, the reporting entity concluded an amend and extend agreement with its lender consortium to restructure its existing debt facilities and provide the advance of new debt facilities. In this Debt Refinance agreement, Ascendis and its lenders agreed to extend the repayment obligations on its debt facility to December 2021, with no payments required in advance of that date, other than any excess cash, beyond the reporting entity's cash requirement, being swept to the lenders. This extension provided, and will continue to provide, the reporting entity with the flexibility to continue its operations while maximising the value of the businesses it seeks to monetise according to its divestment programme. Successful completion of this programme will see the reporting entity return to much more manageable levels of gearing while continuing to create value for its broad company of stakeholders.

The Debt Refinance agreement includes the advance of additional facilities including a super-senior facility of €6.9 million and R217 million. This super-senior facility will finance the reporting entity's general liquidity needs and finance the payment of certain outstanding deferred vendor liabilities.

Divestment programme

The reporting entity remains committed to its short-term priority to complete the balance sheet restructure. The restructure is through specified divestment milestones formalised with the reporting entity's lender consortium. The sale of non-core assets is being accelerated and the reporting entity is committed to maximising value from the sale of businesses.

The reporting entity's executive committee is responsible for the realisation of the divestment milestones and monitor these on a weekly basis. Verbal feedback to the lender consortium is provided fortnightly.

30. Going concern (continued)

Liquidity and capital management

To address the risk of short-term cash pressure, management prepares annual budgets for each business unit. It regularly updates its robust liquidity model which includes cash flow forecasts covering a period of 18 months from 30 June 2020. This model is used as the basis of monthly reporting to the lender consortium. The reporting entity continues to maintain an acceptable liquidity position through cash flow generated by the business, cash on the balance sheet and access to long term committed facilities. This group liquidity model is a bi-weekly consolidation of the reporting entity's individual divisions' cash flow forecasts, which are based on estimated free cash from operations. Cash flow forecasts are prepared weekly and reviewed by management. Actual cash flows are evaluated against forecast expectations and variances monitored. Progress made on liquidity improvement projects and cash forecasts and any variances are presented to the board on a monthly basis.

Solvency and Liquidity position at 30 June 2020

Besides the cash sweeps by the reporting entity treasury, the reporting entity achieved a liquidity ratio of 3.4x which is considered favourable. The reporting entity is currently in a net liability position due to the reasons mentioned in the first paragraph.

Group performance to date since reporting date

Subsequent to year end the Ascendis group has experienced relatively pleasing performance with growth experienced in operating activity up to the date of this report. The wave eventually made its way to South Africa in December 2020. As result thereof, the reporting entity has experienced increases in operating results relative to budget for the FY2021 year to date 31 December 2020 and in the same respect has improved operating results when compared to same six months year to date period of the 2020 financial year.

One of the contributors to this improved performance is the second wave of the Covid-19 pandemic that began to resurface globally from October 2020, becoming evident in South Africa in December 2020. This second wave resulted in increased demand opportunities for the reporting entity to supply essential equipment and consumables in the medical care field. This demand could create opportunities for the reporting entity to further improve operating results for the remainder of the financial year. Responding to these opportunities has resulted in reporting entity seeking short-term funding to accommodate the initial funding outlay.

Management have assessed the remaining period of the 2021 financial year relative to macro-economic and political developments and are confident that the reporting entity performance budget will be achieved.

Management have maintained their rigour in monitoring cashflow using the reporting entity's robust liquidity model. To date, the reporting entity cashflow management and levels have been in line with forecast and instances of improved levels relative to forecast were experienced during December 2020, which was attributable to strong collection of debtors, providing for a higher than anticipated headroom margin.

The reporting entity's senior debt matures for settlement on 31 December 2021 and supported by the divestment programme stipulated in the underlying refinancing agreement and with which, the reporting entity has been in compliance with to date and management committed to the conditions thereof. The relationship with the lenders has received management's utmost attention with the appointment of particular personnel to manage these interactions and expectations as well as communicate well in-advance any and all pre-approvals required in respect of contractual obligations.

Management have in addition been actively working on various alternative debt management strategies with a focus on outcomes that are in the best interest for the lender consortium and the reporting entity going forward. As of May 2021, agreement was reached with the lender consortium and formalised in a Restructuring Support Agreement ("RSA") to effectively recapitalise the business, reducing the leveraged position and meeting the reporting entity's senior debt obligations.

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30. Going concern (continued)

The going concern of the Ascendis group is subject to the recapitalisation. The planned recapitalisation of Ascendis Health announced in January 2021 and confirmed in May 2021 is aimed at reducing the reporting entity's high levels of gearing and short-term maturity obligations as well as addressing the need for near-term funding. Importantly, the recapitalisation will enable Ascendis to create a sustainable capital structure. The Ascendis board and management entered into consensual negotiations with Blantyre and L 1 Health on recapitalising the reporting entity. The transaction proposed is effectively a debt for equity swap for some of the reporting entity's assets as a means of settlement of the outstanding debt obligation in conjunction with proceeds on disposals of certain businesses continuing. The nature of the transaction requires shareholder approval anticipated to be voted upon in August 2021, failing which a business rescue process would be entered into, for which the reporting entity has made appropriate preparations.

The transaction demonstrates the likely alternative, offering the greatest preservation of value compared to the business rescue alternative, thus management have remained committed to the agreement and conveying its particulars to the voting shareholders.

Covid-19

On 11 March 2020, Covid-19 was declared a pandemic by the World Health Organisation. The pandemic caused high levels of anxiety and uncertainty for all our stakeholders as the world faced a significant humanitarian crisis, with the virus continuing to spread across the globe and in South Africa. Government-imposed lockdowns were introduced in all countries in which Ascendis operates, resulting in recessionary economic environments in these countries. South Africa has been subject to government-imposed lockdown restrictions for more than 200 days, with Covid-19 related deaths surpassing 19 000.

At the time of considering the appropriateness of the going concern basis, it appears that most of the world has successfully responded to the initial surge of the virus and is now managing to control and restrict further outbreaks of the virus. Hard lockdowns have been lifted in most countries in which they were implemented with regional lockdowns imposed where infection rates show an increase above certain levels as well as re-entry to hard lockdowns as preventative measures in some regions of the globe. The lockdowns allowed the medical sector to reserve and/or build additional capacity to deal with Covid-19 cases and the treatment of infected persons now has increased survival rates. These responses have had considerable negative impacts on the global and local economy. Central banks have responded to the economic risks by lowing interest rates and increased money supply.

Conclusion

The directors have considered the continued support of its lenders, investors and customers and the progress on plans for the disposal of several of the reporting entity's operating units, with executive management committed to achieving these disposals within the time frames set by the lenders.

Management believe that the reporting entity will be able to meet its obligations in terms of the Debt Refinance agreement and replacing Restructuring Support Agreement to settle all senior debt in the time frames as required. They also considered the financial plans and forecasts, the actions taken by the reporting entity, and based on the information available to them, are therefore of the opinion that the going concern assumption is appropriate in the preparation of the reporting entity annual financial statements. The possibility of the financial guarantee being called upon by the lender consortium is also not probable.

Although the events, conditions and judgements described above give rise to a degree of uncertainty, the directors are of the opinion that the reporting entity has the ability to continue as a going concern. The annual financial statements have therefore been prepared based on 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 and the reporting entity can continue in operational existence for the foreseeable future, which is 12 months following 30 June 2020.

31. Events after the reporting period

Sun Wave Pharma deferred vendor liability payment

In respect of the liability for contingent consideration owing to the previous owners of Sun Wave Pharma, a payment of €2 million was made subsequent to the reporting date pertaining to the achievement of the EBITDA target for the year to August 2020.

This constituted a non-adjusting post-balance sheet event.