Ascendis HEALTH LIMITED

PHARMA COMBINED CARVE-OUT HISTORICAL FINANCIAL INFORMATION

For the years ended
30 June 2021, 30 June
2020, and 30 June
2019

Contents

Statement of profit or loss and other comprehensive income

for the year ended 30 June 2021, 30 June 2020, and 30 June 2019

	Notes	2021 R'000	2020 R'000	2019 R'000
Revenue	1	312 001	307 890	411 533
Cost of sales		(151 042)	(160 590)	(253 202)
Gross profit		**160 959**	**147 300**	**158 331**
Other income	2	73 399	409	301
Selling and distribution costs	2	(36 062)	(32 673)	(37 424)
Administrative expenses	2	(95 977)	(71 881)	(108 677)
Net impairment loss on financial assets		(17 791)	(25 005)	(28 728)
Net impairment loss on non-financial assets		(3 323)	-	(205 671)
Expected credit loss on financial guarantee liability	14	1 395 110	(832 383)	(570 047)
Other operating expenses	2	(25 413)	(59 117)	(19 841)
Operating profit/(loss)		**1 450 902**	**(873 350)**	**(811 756)**
Finance income	3	104	104	591
Finance costs	3	(5 546)	(4 833)	(4 641)
Profit/(loss) before taxation		**1 445 460**	**(878 079)**	**(815 806)**
Tax credit/(expense)	4	15 297	(1 134)	16 527
Profit/(loss) for the year		**1 460 757**	**(879 213)**	**(799 279)**
Other comprehensive income		-	-	-
Total comprehensive income/(loss) for the year		**1 460 757**	**(879 213)**	**(799 279)**

Statement of financial position
at 30 June 2021, 30 June 2020, and 30 June 2019

	Notes	2021 R'000	2020 R'000	2019 R'000
ASSETS				
Property, plant and equipment		432	245	303
Intangible assets and goodwill	5	55 154	93 006	100 345
Deferred tax assets	7	24 451	15 978	13 364
Non-current assets		**80 037**	**109 229**	**114 012**
Inventories	8	41 424	43 932	46 845
Trade and other receivables	9	72 149	51 892	94 674
Loans to related parties	6	111 212	141 995	208 594
Current tax receivable	17	3 102	2 508	3 549
Cash and cash equivalents	10	30 220	142	12 099
Current assets		**258 107**	**240 469**	**365 761**
Total assets		**338 144**	**349 698**	**479 773**
EQUITY				
Reserves		301 490	301 490	302 326
Accumulated loss		(248 426)	(1 709 183)	(830 806)
Total equity		**53 064**	**(1 407 693)**	**(528 480)**
LIABILITIES				
Deferred tax liabilities	7	-	4 490	7 425
Non-current liabilities		**-**	**4 490**	**7 425**
Trade and other payables	11	68 688	74 142	89 678
Provisions	12	21 485	20 579	2 188
Current tax payable	17	4 065	6 222	3 690
Bank overdraft	10	69	14	-
Financial guarantee liability	14	7 320	1 402 430	570 047
Loans from related parties	13	183 453	249 514	335 225
Current liabilities		**285 080**	**1 752 901**	**1 000 828**
Total liabilities		**285 080**	**1 757 391**	**1 008 253**
Total equity and liabilities		**338 144**	**349 698**	**479 773**

Statement of changes in equity

for the year ended 30 June 2021, 30 June 2020, and 30 June 2019

R'000	Common control reserve	Share-based payment reserve	(Accumulated loss)/Retained earnings	Total
Balance as at 1 July 2018[1]	**301 490**	**836**	**(31 527)**	**270 799**
Loss for the year	-	-	(799 279)	(799 279)
Total comprehensive loss for the year	**-**	**-**	**(799 279)**	**(799 279)**
Balance as at 30 June 2019	**301 490**	**836**	**(830 806)**	**(528 480)**
Loss for the year	-	-	(879 213)	(879 213)
Total comprehensive loss for the year	**-**	**-**	**(879 213)**	**(879 213)**
Reclassification of reserves into retained earnings	-	(836)	836	-
Balance as at 30 June 2020	**301 490**	**-**	**(1 709 183)**	**(1 407 693)**
Profit for the year	-	-	1 460 757	1 460 757
Total comprehensive income for the year	**-**	**-**	**1 460 757**	**1 460 757**
Balance as at 30 June 2021	**301 490**	**-**	**(248 426)**	**53 064**

[1] The common control reserve includes the push down of purchase price allocation journals including goodwill relating to the entities within this reporting entity that was recognised at Ascendis group level on acquisition of the respective entities making up the Pharma reporting entity.

Statement of cash flows
for the year ended 30 June 2021, 30 June 2020, and 30 June 2019

	Notes	2021 R'000	2020 R'000	2019 R'000
Cash flows from operating activities				
Cash generated from/(utilised in) operations	15	(18 588)	16 806	(9 299)
Interest income received	3	104	104	591
Interest paid		(594)	(383)	(569)
Income taxes (paid)/refunded	17	(418)	(3 111)	3 910
Net cash inflow/(outflow) from operating activities		**(19 496)**	**13 416**	**(5 367)**
Cash flows from investing activities				
Purchases of property, plant and equipment		(670)	(1 189)	-
Proceeds on the sale of property, plant and equipment		22	281	-
Purchases of intangibles assets		(398)	(1 041)	-
Sale of Isando		-	28 370	-
Loans advanced to related parties		(33 031)	(841)	(106 420)
Repayment of loans advanced to related parties		81 212	39 194	42 450
Dividends received		73 397	-	-
Net cash inflow/(outflow) from investing activities		**120 532**	**64 774**	**(63 970)**
Loans from related parties repaid		(80 365)	(90 161)	(60 127)
Proceeds of loans from related parties		9 352	-	127 414
Net cash outflow from financing activities		**(71 013)**	**(90 161)**	**67 287**
Net increase/(decrease) in cash and cash equivalents		**30 023**	**(11 971)**	**(2 050)**
Cash and cash equivalents at beginning of period		128	12 099	14 149
Cash and cash equivalents at end of period	10	**30 151**	**128**	**12 099**

Basis of preparation

Description of business

In November 2021, Ascendis Health Limited ("Ascendis") announced its intention to dispose of its operations related to the manufacture and distribution of pharmaceutical products. In terms of the proposed transaction, Ascendis group will dispose of its entire shareholding in the following entities:

- Ascendis Pharma,
- Alliance Pharma,
- Pharmachem and
- Medicine Developers International.

(Collectively, referred to as "Pharma").

The reporting entity's operations related to pharmaceutical products were historically conducted through the separate legal entities set out above; the combination of these operations is referred to as Pharma.

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

International Financial Reporting Standards ("IFRS") compliance

The combined carve-out historical financial information of Pharma 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 Pharma was derived from the consolidated financial statements of Ascendis for the three years ended 30 June 2021, 30 June 2020 and 30 June 2019, 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 Pharma 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 Pharma (i.e. predecessor accounting). The assets of Ascendis Pharma 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 Pharma.

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

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

- Prepared on the going concern basis. As at 30 June 2020 and 30 June 2019, the current liabilities exceeded the current assets due to the recognition of a financial guarantee liability in respect of the Ascendis group's senior debt and the loans from related parties. Pharma will be released from its financial guarantee obligation related to Ascendis group's senior debt and the loans from related parties on disposal from Ascendis which will restore Pharma to a solvent position with current assets exceeding current liabilities. As at 30 June 2021, current assets exceeded current liabilities because a huge balance of the financial guarantee liability was released to the income statement. Management therefore has a reasonable expectation that Pharma's operations have adequate resources to continue in operational existence for the foreseeable future.

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

Equity:

- Share capital and earnings per share - As Ascendis Pharma did not historically constitute a combined legal group there is no issued share capital. The information on earnings per share for Ascendis Pharma pursuant to IAS 33 has not been presented, as no capital structure has been presented in the combined carve-out historical financial information.
- Common control reserve - As a result of applying predecessor accounting, the allocation of goodwill was done on all the entities within the Ascendis Pharma group in terms of the group structure when the Pharma group was acquired. This goodwill has been included as part of the reporting entity at the earliest comparative period presented. The movement is also related to purchase price allocation adjustments relating to the reporting entity that have been sold by Ascendis group.
- Other reserves: the reporting entity had share based payment reserve which was subsequently released to retained earnings.

Goodwill and intangible assets:

Goodwill and intangible assets that arose on the acquisition of the entities comprising Pharma by the Ascendis group, such as goodwill and drug master files, have been recognised in the combined historical financial information. During the reporting periods presented, goodwill was tested for impairment at a Cash-generating unit ("CGU") level, being the CGUs used at that time by Ascendis to monitor goodwill. This was determined to also be the appropriate level for testing of goodwill impairment for Pharma. Goodwill was fully impaired in the 2019 financial year.

Allocation of central costs:

Management and similar functions for the South African operations of Ascendis group were primarily performed at an Ascendis Management Services (Pty) Ltd ("Ascendis Management Services") level (a subsidiary of Ascendis); these functions include payroll, accounting, centralised purchasing, marketing, executive management, rent, advertising, legal, insurance, IT, company secretarial and other administrative functions. Any central management fees and similar costs that were incurred by Ascendis Management Services on behalf of Pharma were historically recharged to the entities comprising Pharma. Depending on the nature of the cost these were historically recharged based on either specific identification or EBITDA of the entity relative to total South African EBITDA. The basis of allocation was changed in FY21 to reflect a more reasonable/fair allocation of Head Office costs between all subsidiaries. Management believes the basis on which historic intra-group recharges were made is a reasonable reflection of the utilisation of the services provided by Ascendis Management Services and the historical cost of doing business by Pharma. As such, no additional central costs were required to be allocated to Pharma.

Taxation:

The entities that comprise Ascendis Pharma have historically filed separate tax returns in South Africa. All entities will continue to file separate tax returns. The income taxes have been accounted for using the separate tax return method by aggregating the tax positions of the individual entities of Ascendis Pharma, where relevant.

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 Pharma are eliminated. Directors' remuneration has been excluded due to Ascendis Pharma 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 Pharma on specific external borrowings or related party financing provided by Ascendis group companies.

Accounting policies

The accounting policies applied in the preparation of the combined carve-out historical financial information as of 30 June 2021 are consistent with those applied for the years ended 30 June 2020 and 2019, except for the adoption of IFRS 16 'Leases' in the 2020 financial year. The implementation of the standard did not have any impact on the reporting entity because it did not have any qualifying lease contracts.

Limitations inherent to carve-out

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

Subsequent events

The combined carve-out financial information of Ascendis Pharma was authorized for issue of the board of directors of Ascendis on **06 September 2022**. Subsequent events have been considered from 30 June 2021 up to the date that the combined carve-out historical financial information was authorized for issuance. Refer to Note 22.

Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out in the related notes to the combined carve-out annual financial statements. The principal accounting policies are consistent with those applied in the prior year, unless otherwise stated.

Plant and equipment

Plant and equipment is measured at historical cost less accumulated depreciation and impairment.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the reporting entity and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Depreciation is calculated on a straight-line basis to write off the cost of the assets to their residual values over the estimated useful lives. Useful lives and residual values are reviewed annually and the effect of any changes in estimate is accounted for on a prospective basis.

Residual values, useful lives and depreciation method of each asset are reviewed at the end of each reporting year. Items of plant and equipment are assessed for impairment when an impairment indicator exists.

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

Asset Category	**2021** **Years**	**2020** **Years**	**2019** **Years**
Motor vehicles	3 - 6	3 – 6	3 – 6
Computer equipment	3 – 7	3 – 7	3 - 7

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised within other income in the statement of profit or loss.

Employee benefit expense

Salaries and wages, including non-monetary benefits and accumulated leave pay that are expected to be settled wholly within 12 months after the end of the year in which employees render the related service, are recognised as a liability and are measured at the amounts expected to be paid when the liabilities are settled.

The reporting entity has adopted a single policy for remuneration. The employee benefits form part of the cost to company and is therefore seen as a 100% company contribution. The company contributes to pension/provident funds, medical aid, medical insurance cover and the company's employee assistance partner.

Significant estimates and accounting judgements

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

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

Significant estimates and judgements were made on the following items:

Key estimates

- Estimation of inventory obsolescence allowance (Note 8).
- Estimation of the expected credit loss allowance (Note 18.4 and14).
- Estimation of legal provisions and assessment of likely outcome of the legal provisions (Note 12).
- Impairment testing and allocation of cash-generating units (Note 5).
- Recoverability of deferred tax assets (Note 7).

Accounting judgements

- Revenue recognition (Note 1).

New standards/amendments that have been published but not yet effective

The standards and amendments listed below will be effective in future reporting periods. It is anticipated that the reporting entity will adopt the standard or amendment on their respective effective dates i.e., the reporting entity does not plan on early adoption unless otherwise stated.

30 June 2021

- ***Interest Rate Benchmark Reform – Phase 2***
  Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments Recognition and Disclosures*, IFRS 7 *Financial Instruments: Disclosures* and IFRS 4 *Insurance Contracts.* This is effective for accounting periods commencing on or after 1 January 2021

- ***Covid-19-Related Rent Concessions beyond 30 June 2021***
  Amendments to IFRS 16: *Leases.* This is effective for accounting periods commencing on or after 1 April 2021

- ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***
  Amendments to IFRS 10: *Consolidated Financial Statements* and IAS 28: *Investments in Associates and Joint Ventures* Implementation date is pending

- ***Business Combinations***
  Reference to the Conceptual Framework - Amendments to IFRS 3 *Business Combinations.* This is effective for accounting periods commencing on or after 1 January 2022

- ***Property, Plant and Equipment: Proceeds before Intended Use***
  Amendments to IAS 16: *Property, plant and equipment.* This is effective for accounting periods commencing on or after 1 January 2022.

- **Definition of Accounting Estimates**
  Amendments to IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors*. This is effective for accounting periods commencing on or after 1 January 2023.

- ***Fees in the '10 per cent' test for derecognition of financial liabilities***
  Annual improvements to IFRS Standards 2018 - IFRS 9. This is effective for accounting periods commencing on or after 1 January 2022.

- ***Onerous Contracts – Costs of Fulfilling a Contract***:
  Amendments to IAS 37: *Provisions, Contingent Liabilities and Contingent Assets.* This is effective for accounting periods commencing on or after 1 January 2022.

- ***Classification of Liabilities as Current or Non-current***
  Amendments to IAS 1: *Presentation of Financial Statements.* This is effective for accounting periods commencing on or after 1 January 2023.

- **Disclosure of Accounting Policies**
  Amendments to IAS 1 and IFRS Practice Statement 2. This is for accounting periods commencing on or after 1 January 2023.

30 June 2020

- **Interest Rate Benchmark Reform**
  The amendments to IFRS 9, IAS 39 and IFRS 7 amend requirements for hedge accounting to support the provision for useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting. This is for accounting periods commencing on or after 1 January 2020.

- **Definition of Material**
  The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. This is for accounting periods commencing on or after 1 January 2020.

- **Definition of Business**
  The amendment is aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. This is for accounting periods commencing on or after 1 January 2020.

30 June 2019

- **Leases**
  IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. The new standard requires that an asset (the right to use the leased item) and a financial liability to pay rentals be recognised. This is for accounting periods commencing on or after 1 January 2019.

- **Uncertain Tax Positions**
  The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This is for accounting periods commencing on or after 1 January 2019.

The above amendments are unlikely to have a material impact on the reporting entity.

1. Revenue

Revenue for the reporting entity consists of revenue from contracts with customers.

1. Revenue from contracts with customers

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

The reporting entity receives consideration for the sale of products on an exclusive or semi-exclusive basis through selected distributors directly to individual customers.

The reporting entity receives consideration for the sale of products by means of a contract with customers to deliver products on a continuous basis. These contracts are usually awarded by means of a tender process.

1.1 Sale of goods – wholesale

The reporting entity 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, this is point where the performance obligation is satisfied. 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 specified location, risk of obsolescence and loss have been transferred to the wholesaler. Revenue is recognised 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. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. The discounts 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 is recognised for the expected discounts and rebates payable to the customers in relation to sales made until the end of the reporting period.

As per the company'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 company 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 company 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.

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.

1. Revenue (continued)

Significant judgement and estimates in revenue recognition

Management has to apply estimation in the determination of discounts and return assets and liabilities. The items are estimated based on the historical experience and expected value method. Management applies significant judgement and estimation in the determination of the transaction price. The amount of revenue recognised is based on the transaction price, which is the amount of consideration the reporting entity expects to be entitled to for supplying the product or service. Variable consideration is estimated based on the most likely amount to be received (or paid) and to the extent that it does not result in a significant reversal of revenue.

Financing component

The reporting entity does not consider contracting on settlement terms exceeding 12 months as aligned to its risk policy and the absence of commercial sense to do so. Arrangements of this nature would be assessed and accepted on a case by case basis in the event of presenting themselves to the reporting entity.

The reporting entity did not have any adjustments in relation to a financing component during all the periods presented.

The breakdown of revenue is as follows:

Revenue	2021 R'000	2020 R'000	2019 R'000
Revenue from contracts with customers			
Sale of goods - wholesale (in-country)	315 998	313 060	457 872
Sale of goods - wholesale (export)	23 906	21 633	18 515
	339 904	**334 693**	**476 387**
Discounts and rebates	(27 903)	(26 803)	(64 854)
Total revenue	**312 001**	**307 890**	**411 533**
Timing of revenue: revenue from contracts with customers			
Products transferred at a point in time	312 001	307 890	411 533
	312 001	**307 890**	**411 533**

The reporting entity did not have any unsatisified or partially unsatisified performance obligations at the end of all periods presented.

2. Other income and expenses by nature

Operating profit or loss includes other income and expenses as detailed in this note.

Other income is recognised when the risks and rewards of ownership of the assets and services rendered is transferred to the counterparty. This includes any income relating to profit on disposal of property, plant and equipment, intangible assets and businesses as well as any foreign exchange gains, bad debt recoveries, tax refunds, dividends received and services rendered.

Other income	**2021 R'000**	**2020 R'000**	**2019 R'000**
Other income	3	409	301
Dividend income[1]	73 397	-	-
	73 399	**409**	**301**

[1] The reporting entity received a dividend from its fellow subsidiary during the 2021 financial year.

Expenses by nature	**R'000**	**R'000**	**R'000**
Administration costs	24 600	17 262	23 886
Advertising and promotions	31 842	33 804	21 943
Professional fees	13 613	9 878	11 413
Depreciation and amortisation	11 924	8 585	3 684
Distribution costs	14 695	11 823	16 674
Employee benefit expenses	60 778	49 934	66 336
Net impairment loss on financial assets	17 791	25 005	28 728
Net impairment on non financial assets	3 323	-	205 671
Other expenses	-	32 388	22 007
	178 566	**188 679**	**400 342**
Purchases	134 524	148 767	239 605
Inventory write downs	2 638	2 345	5 673
Obsolete stock provision	4 331	914	-
Freight	3 998	2 533	32
Other	5 551	6 031	7 892
Cost of sales	**151 042**	**160 590**	**253 202**
Selling and distribution costs	36 062	32 673	37 424
Administrative expenses	95 977	71 881	108 677
Net impairment loss on financial assets	17 791	25 005	28 728
Other operating expenses	28 736	59 120	225 513
Operating expenses	**178 566**	**188 679**	**400 342**

3. Finance income and costs

Finance costs

Finance costs comprise interest expense on interest bearing financial instruments. All borrowing costs are recognised in profit or loss using the effective interest method.

Finance income

Finance income comprises of interest income on interest bearing financial instruments. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

	Financial class	2021 R'000	2020 R'000	2019 R'000
Finance cost				
Other finance costs	Amortised cost	594	383	664
Interest on loans from related parties	Amortised cost	4 952	4 450	3 977
Finance costs		**5 546**	**4 833**	**4 641**
Finance income				
Interest on loans to related parties	Amortised cost	-	-	571
Other finance income	Amortised cost	104	104	20
Finance income		**104**	**104**	**591**
Net finance costs		**5 442**	**4 729**	**4 050**

4. Income tax expense

Income tax expense comprises of current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity.

Current tax is the expected tax payable on taxable income for the year using the tax rates enacted or substantively enacted at the end of the financial year. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and recognises a liability or provision were appropriate on the basis of amounts expected to be paid to tax authorities. The evaluation requires judgements and estimation as the ultimate tax position is uncertain during the ordinary course of business.

Major components of the tax expense	2021 R'000	2020 R'000	2019 R'000
Current Tax			
Current tax on profits for the period	-	6 218	2 609
Recognised in current tax for prior periods	(2 333)	465	-
	(2 333)	**6 683**	**2 609**
Deferred Tax			
Originating and reversing temporary differences	(12 964)	(5 549)	(19 136)
	(12 964)	**(5 549)**	**(19 136)**
Total income tax (credit)/expense	**(15 297)**	**1 134**	**(16 527)**

	2021	2020	2019
Tax at the corporate tax rate	**28.00%**	**-28.00%**	**-28.00%**
Non deductible expenditure - ECL on financial guarantees	(27.02%)	26.54%	30.21%
Prior year over/under provisions	(0.01%)	(0.65%)	0.46%
Amortisation and depreciation	0.00%	0.04%	0.17%
Utilisation of assessed losses	(1.50%)	1.94%	0.29%
Exempt dividends	1.42%	0.00%	0.00%
Learnerships	0.17%	0.00%	0.00%
Average effective tax rate	**1.06%**	**-0.13%**	**3.13%**

5. Intangible assets and goodwill

(a) 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 frequently 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 and is not subsequently reversed.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating unit 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 reporting entity and a suitable discount rate in order to calculate the present value of these cash flows.

(b) Intangible assets with definite useful life

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 with definite useful lives are measured at historical cost less accumulated amortisation and impairment losses. Intangible assets initially acquired through a business combination are initially shown at fair value and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment.

Intangible assets with definite useful lives are amortised using the straight line method. The useful lives are reviewed on an annual basis with the effects of any changes in estimate accounted for on a prospective basis. The residual values of intangible assets are assumed to be zero.

The useful lives for the various categories of intangible assets are as follows:

Classes	Description	Useful life considerations
Computer software and license agreements	Acquired computer software and licenses.	2 – 5 years
Drug master files	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.	25 – 30 years

5. Intangible assets and goodwill (continued)

Impairment

An impairment loss is recognised in profit or loss if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are allocated first to goodwill and then allocated to all other assets on a prorata basis.

Any impairment loss is subsequently reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised. A reversal of impairment loss on intangible assets is recognised immediately in profit or loss. Goodwill impairment is not subsequently reversed.

Intangible assets and goodwill - 2021

R'000	Goodwill	Brands and trademarks	Licences and computer software	Drug masterfiles	Total
Opening balance					
Cost	167 782	30 529	81	144 238	342 630
Accumulated amortisation and impairment	(167 782)	-	(45)	(81 797)	(249 624)
Carrying value as at 1 July 2020	**-**	**30 529**	**36**	**62 441**	**93 006**
Additions	-	-	12	386	398
Disposals	-	(30 529)	-	-	(30 529)
Amortisation	-	-	(38)	(4 360)	(4 398)
Impairment	-	-	-	(3 323)	(3 323)
Carrying value as at 30 June 2021	**-**	**-**	**10**	**55 144**	**55 154**
Made up as follows:					
Cost	167 782	-	93	143 555	311 430
Accumulated amortisation and impairment	(167 782)	-	(83)	(88 411)	(256 276)
Carrying value as at 30 June 2021	**-**	**-**	**10**	**55 144**	**55 154**

Intangible assets and goodwill - 2020

R'000	Goodwill	Brands and trademarks	Licence and computer software	Drug masterfiles	Total
Opening balance					
Cost	167 782	30 529	81	142 195	340 587
Accumulated amortisation and impairment	(167 782)	-	-	(72 460)	(240 242)
Carrying value as at 30 June 2019	**-**	**30 529**	**81**	**69 735**	**100 345**
Additions	-	-	-	1 042	1 042
Amortisation	-	-	(45)	(8 336)	(8 381)
Carrying value as at 30 June 2020	**-**	**30 529**	**36**	**62 441**	**93 006**
Made up as follows:					
Cost	167 782	30 529	81	144 238	342 630
Accumulated amortisation and impairment	(167 782)	-	(45)	(81 797)	(249 624)
Carrying value as at 30 June 2020	**-**	**30 529**	**36**	**62 441**	**93 006**

5. Intangible assets and goodwill (continued)

Intangible assets and goodwill - 30 June 2019

R'000	Goodwill	Brands and trademarks	Licence and computer software	Drug masterfiles	Total
Opening balance					
Cost	167 782	30 529	81	142 546	340 938
Accumulated amortisation and impairment	-	-	-	(31 492)	(31 492)
Carrying value as at 30 June 2018	**167 782**	**30 529**	**81**	**111 054**	**309 446**
Amortisation	-	-	-	(3 430)	(3 430)
Impairment	(167 782)	-	-	(37 889)	(205 671)
Carrying value as at 30 June 2019	**-**	**30 529**	**81**	**69 735**	**100 345**
Made up as follows:					
Cost	167 782	30 529	81	142 195	340 587
Accumulated amortisation and impairment	(167 782)	-	-	(72 460)	(240 242)
Carrying value as at 30 June 2019	**-**	**30 529**	**81**	**69 735**	**100 345**

Impairment tests for CGUs

Impairment tests are conducted annually and are based on the projected sustainable cash flow methodology in determining the value in use. Using a time horizon of five years, board approved CGU budgets for the following financial year form the base of the assessment.

The 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.

These tests were performed on intangible assets and goodwill and property, plant and equipment for the three periods presented. In 2021, intangible assets were impaired with R3 million (2020: nil; 2019: R168 million goodwill and R38 million intangible assets. In 2019, the impairment was mainly contributed by the impact of the continuing adverse economic conditions in South Africa. In 2021, the 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, the government-imposed restrictions related to the Covid-19 pandemic and continued liquidity constraints.

The table below illustrates the total impairment for goodwill and intangible assets for each CGU:

30 June 2021 CGU	Recoverable amount R'000	Impairment amount R'000
Pharmachem[1]	(536 111)	3 323

[1] Impairment represents the total value of the remaining client relationships in the Pharmachem CGU. This CGU is in the process of being wound down.

5. Intangible assets and goodwill (continued)

30 June 2019 CGU	Recoverable amount R'000	Impairment amount R'000
Pharmachem	(511 858)	55 703
Ascendis Pharma	322 004	149 968
Total impairments		**205 671**

Significant estimate: key assumptions used for value-in-use calculations

The reporting entity tests goodwill for impairment on an annual basis or more frequently if 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 reporting entity. 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 continuing impact of Covid-19 and economic restrictions were considered in determining the budgeted cash flows for 2021 and 2020 periods.

Management applies judgement in determining a discount rate for each CGU 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.

Assumptions

1. 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.
2. 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.
3. Annual capital 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.
4. 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.
5. Discount rates - these are CGU specific and reflect the specific risks relating to the relevant segments and the geographies in which they operate.

The following table details the main assumptions underlying forecasts. Budget and forecast CGU gross profit margins are closely correlated with those achieved in the financial years presented unless there is clear evidence from management to support changes.

5. Intangible assets and goodwill (continued)

2021	Sales volume & growth %	Other operating costs growth %	Annual capex & (% of Sales)	Long-term growth rate %	Pre-tax discount rate %
Ascendis Pharma	13.2%	8.3%	0.8%	4.8%	22.2%
2020					
Pharmachem	-6.5%	-3.7%	0.0%	5.0%	20.9%
Ascendis Pharma	4.6%	4.8%	1.6%	5.0%	24.0%
2019					
Pharmachem	4.9%	5.4%	0.1%	5.0%	16.1%
Ascendis Pharma	3.1%	0.2%	0.2%	4.0%	19.9%

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. The following inputs applied when calculating the value-in-use calculation would need to be increased/decreased by the following amounts before any impairments would be required:

Sensitivity analysis 2021	Sales volume & growth	Other operating costs growth	Annual capex (% of Sales)	Long-term growth rate %	Pre-tax discount rate %
Ascendis Pharma	(1.5%)	2.1%	2.7%	(19.7%)	13.0%
2020					
Pharmachem	4.6%	4.8%	1.6%	0.4%	12.3%
Ascendis Pharma	3.5%	5.4%	3.2%	1.9%	18.7%
2019					
Pharmachem	0.0%	(4.8%)	(0.0%)	0.0%	6.7%
Ascendis Pharma	1.5%	(41.7%)	(7.4%)	3.3%	6.1%

6. Loans to related parties

Loans to related parties are initially measured at fair value and subsequently at amortised cost. Loans to related parties are held within the business with the objective to collect contractual cash flows and the cash flows are solely payments of principal and interest on the principal outstanding. Loans to related parties are not reclassified unless the reporting entity changes its business model.

	2021 R'000	2020 R'000	2019 R'000
Ascendis Financial Services	94 262	83 807	125 341
Ascendis Management Services	546	454	746
Dezzo Trading 392	-	56 897	82 506
Ascenidis Animal Health	16 404	-	-
Akacia Healthcare Investments	-	837	-
Pharmadyne Healthcare	-	-	1
	111 212	**141 995**	**208 594**

All loans are unsecured, interest free and have no fixed terms of repayment.

The reporting entity assesses the recoverability of the individual debt and calculates expected credit loss allowance (ECL) percentage for each debtor in terms of IFRS 9, refer to the credit risk section for further details on the credit risk management policies (Note 18).

7. Deferred Tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their accounting carrying amounts in the combined historical financial statements. Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from an asset or liability in a transaction (other than a business combination) and that at the time of the transaction affects neither accounting profit nor taxable profit (tax loss) and does not give rise to equal taxable and deductible temporary differences.

Deferred tax is measured at tax rates that have been enacted or substantively enacted at the end of the financial year and are expected to be applicable to temporary differences when they reverse.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences (where applicable) to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be used. Management applies judgement in determining whether sufficient future taxable profit will be available after considering factors such as historical profits, forecasts cash flows and budgets.

Deferred tax assets are reviewed at each reporting period and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred 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 tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2021 R'000	2020 R'000	2019 R'000
Deferred tax reconciliation			
Opening balance at the beginning of the year	11 488	5 939	(13 197)
Income statement charge	12 622	5 549	19 136
Closing balance at end of year	**24 110**	**11 488**	**5 939**
Deferred tax assets[1]	24 110	15 978	13 364
Deferred tax liabilities	-	(4 490)	(7 425)
Net deferred tax asset	**24 110**	**11 488**	**5 939**
The deferred tax balance is attributable to the following			
Property, plant and equipment and intangible assets	(1 416)	(4 490)	(4 970)
Prepayments	-	-	(544)
Provisions	341	8 120	1 530
Tax losses	6 283	-	2 146
Expected credit loss allowance on intercompany loans	16 882	7 858	7 786
Other	2 020	-	(9)
	24 110	**11 488**	**5 939**

[1] The reporting entity expects to make future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences and as such have recognised the deferred tax assets. The deferred tax asset recoverability assessment considers the probability of forecasted future taxable income, which may include future tax planning strategies.

8. Inventories

Inventories are comprised of raw materials, finished goods, work in progress and goods in transit.

Inventories are measured at the lower of cost or net realisable value. Cost comprises 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 comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes 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 an entity.

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

Management is also required to exercise judgement in estimating the net realisable value. Such judgement would take into account the following:

- change in technology
- stock nearing expiry dates
- regulatory requirements and
- the impact of Covid-19 on stock levels i.e., sales decreased during the lockdowns.

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.

Management's estimate on stock obsolescence provision is based on the following elements:

Provision in respect of raw materials and packaging stock - all materials, that have passed their expiry date and where there is no intention to extend that date; or that are not included in the coming year's production plan; or which are in excess of the 12 - 18 month needs of the planned production process. Calculations are determined on actual product line level.

Provision in respect of finished goods - all inventories, which are part of a discontinued inventory keeping unit or product line; or for which no sale has been made for a period of time. This period is between 12 and 24 months and is determined by the nature of the product and the estimated time over which future sales can be reasonably predicted. Calculations are determined on actual product line level.

Provision in respect of defined life finished goods - all inventories, which are within a certain period of its expiry date. This period differs by product line, customer requirements and monthly demand but is between 1 and 12 months of its expiry date. Calculations are determined on actual product line level.

The reporting entity does not have inventory that has been pledged as security.

8. Inventories (continued)

	2021 R'000	2020 R'000	2019 R'000
Raw materials, components	13 320	2 929	4 573
Finished goods	26 476	35 252	36 170
Work in progress	-	-	148
Goods in transit	1 628	5 751	5 954
Total inventories net of provision for impairment	**41 424**	**43 932**	**46 845**

Reconciliation of provision for impairment	2021 R'000	2020 R'000	2019 R'000
Balance at the beginning of the year	(2 537)	(1 609)	(981)
Raised during the year	(4 331)	(928)	(628)
Utilised during the year	1 256	-	-
Balance at the end of the year	**(5 612)**	**(2 537)**	**(1 609)**

Amounts recognised in profit or loss

The cost of inventories recognised as an expense amounts to R151 million (2020: R161 million; 2021: R253 million)

Inventories written down for the year ended 30 June 2021 amounted to R2.6 million (2020: R2.3 million; 2019: R5.7 million). These were recorded in cost of sales.

No inventories are carried at fair value less costs to sell at 30 June 2021, 30 June 2020, and 30 June 2019.

No reversals of previous inventory write-down's occurred during the year ended 30 June 2021, 30 June 2020, and 30 June 2019.

9. Trade and other receivables

Trade and other receivables are amounts due from customers for goods or services sold or rendered in the ordinary course of business. Trade and other receivables are initially measured at transaction price and subsequently measured at amortised cost in terms of the IFRS 9: *Financial Instruments*.

	2021 R'000	2020 R'000	2019 R'000
Trade receivables	**80 989**	**52 058**	**67 811**
Less: provision for impairment of trade receivables	(12 025)	(2 332)	(5 926)
Less: provision for credit notes	(3 823)	(470)	(384)
Trade receivables - net	**65 141**	**49 256**	**61 501**
Prepayments	1 161	818	1 678
VAT	3 641	809	2 512
Isando factory sale - remaining balance outstanding (1)	-	-	28 370
Other receivables	3 405	870	613
	73 348	**51 753**	**94 674**

(1) This relates to the balance due to the reporting entity after the buiding was sold.

The reporting entity considers a receivable amount in default when the debtor has exceeded their standard credit terms (30 to 90 days). To measure the expected credit losses, trade receivables are grouped based on the shared credit risk characteristics, size and the days aged. Trade receivables balances are grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay, refer to the credit risk section for further details on the credit risk management policies (Note 18).

10. Cash and cash equivalents

Cash and cash equivalents are accounted for at amortised cost and bank overdrafts are accounted for as financial liabilities.

For the purposes of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand and bank overdrafts.

Bank overdrafts are included within current liabilities on the statement of financial position unless, the reporting entity has a current legally enforceable right to net off the amounts and intends to settle on a net basis, or realise the asset and settle the liability simultaneously, in which case it is netted off against cash and cash equivalents on the statement of financial position.

10. Cash and cash equivalents (continued)

Cash and cash equivalents consist of the following:

	2021 R'000	2020 R'000	2019 R'000
Rand denominated bank balances	30 193	115	12 072
Cash on hand	27	27	27
Cash and cash equivalents	**30 220**	**142**	**12 099**
Bank overdraft	(69)	(14)	-
Net cash and cash equivalents per statement of cash flows	**30 151**	**128**	**12 099**

11. Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. The amounts are unsecured and are usually paid within 30 days of recognition.

Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting date. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	2021 R'000	2020 R'000	2019 R'000
Trade payables	41 750	48 593	68 043
Other payables	6 157	6 455	1 828
Audit fee accrual	1 268	842	1 390
Accrued payroll expenses(1)	12 028	6 714	5 311
Marketing fees accrual	2 044	3 484	3 400
Sundry creditors - goods in transit	1 628	5 751	5 851
Trade and other payables	**68 647**	**74 092**	**89 610**

(1) The increase in accrued payroll expenses in 2021 is mainly related to the bonuses which will be paid in September 2021 as compared to other periods where it was paid in June.

12. Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event for which it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the management's best estimate of the expenditure required to settle the present obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligations. The increase of the provision due to the passage of time is recognised as a finance cost.

2021 R'000	**Opening balance**	**Additions**	**Unused provision reversed**	**Utilised**	**Closing balance**
Leave pay provision	3 130	1 383	(1 131)	(397)	**2 985**
Provision for legal action	17 449	1 051	-	-	**18 500**
	20 579	**2 434**	**(1 131)**	**(397)**	**21 485**

2020 R'000	**Opening balance**	**Additions**	**Unused provision reversed**	**Utilised**	**Closing balance**
Leave pay provision	2 188	1 506	-	(564)	**3 130**
Provision for legal action	-	17 449	-	-	**17 449**
	2 188	**18 955**	**-**	**(564)**	**20 579**

2019 R'000	**Opening balance**	**Additions**	**Unused provision reversed**	**Utilised**	**Closing balance**
Leave pay provision	1 445	1 432	657	(1 345.58)	**2 188**
	1 445	**1 432**	**657**	**(1 346)**	**2 188**

Legal provision

The reporting entity is currently busy with a legal matter and has recognised a provision on this matter. The provision is recognised based on the amount expected to settle the obligation. The provision is expected to be utilised within the next 12 months. The provision was subsequently settled, refer to note 22 for further details

Leave pay

Leave pay provision is recognised for all amounts related to leave not taken by employee during the financial period. The provision is measured based on the amount that would be payable to all employees who have outstanding leave as at reporting date. The provision is expected to be utilised over the next 12 months.

13. Loans from related parties

Loans from related parties are classified as financial liabilities, initially measured at fair value and subsequently measured at amortised cost.

	2021 R'000	2020 R'000	2019 R'000
Ascendis Financial Services *	87 034	72 730	141 300
Ascendis Health Ltd **	35 473	35 473	35 473
Ascendis Pharma Holdings **	21 762	102 127	102 126
Ascendis Pharma Healthcare Holdings **	39 184	39 184	39 021
Dezzo Trading 392 **	-	-	17 305
	183 453	**249 514**	**335 225**

*The loan is unsecured and bears interest at 11%. The loans have no fixed terms of repayment.

**The loans are unsecured and interest free. The loans have no fixed terms of repayment.

14. Financial guarantee liability

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

Financial guarantee contracts issued by the 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 initial and subsequent movements in the financial guarantee is recognised in profit or loss. The ECLs are a probability weighted estimate of credit losses (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 it incurs less any amounts that the reporting entity expects to receive from the holder, debtor or any other party.

The reporting entity along with other subsidiaries within the Ascendis group has jointly and severally guaranteed the Ascendis group borrowing facilities. Under the terms of the guarantee, the reporting entity will make payments to reimburse the lenders upon failure of the guaranteed entity to make payments when due. Refer to note 3 of the group financial statements for further details with regards to the borrowing facilities with face values disclosed below.

June 2021 – Measurement

Impact of Group Restructuring

On 12 May 2021, the Ascendis group entered into a restructuring support agreement (RSA) regarding the recapitalisation and restructuring of the group's debt. The related implementation deed for the restructure was signed on 29 July 2021. The RSA and the implementation deed collectively set out the terms and conditions of the group recapitalisation and the steps required to implement it.

14. Financial guarantee liability (continued)

At 30 June 2021 the group remained bound by the SFA and related finance documentation although shareholder approval was obtained for the recapitalisation at the general meeting that was scheduled on 4 of October 2021.

The salient terms of the group recapitalisation are as follows:

- The lenders will receive the net disposal proceeds related to the sale of Animal Health, RCA, Biosciences and Farmalider. A short-term loan facility of R1 010 million with a term of 6 months will be instated for this purpose. These entities have been disclosed as discontinuing as of 30 June 2021 in the Ascendis group annual financial statements. The disposals of Biosciences and Farmalider have subsequently been concluded and the net disposal proceeds have been applied to reduce the debt. Agreements have been concluded for the disposals of both Animal Health and RCA and these transactions have been approved by shareholders at the general meeting that was scheduled on 4 October 2021. The disposal of Animal Health will enable the related deferred vendor liability to be repaid.

- The lenders will take ownership of the 100% shareholding in Remedica and Sun Wave. These entities have been disclosed as discontinuing as of 30 June 2021.

- The outstanding SFA debt and the Remedica deferred vendor liability will be extinguished.

- Debt of €15 million will be reinstated by way of a two-year facility provided by the lenders

On the successful completion of the group recapitalisation, the lenders will provide a new two-year draw down term loan facility to the group in the Rand equivalent amount of €20 million. This facility can be accessed and utilised by the group as required to fund future operational and working capital requirements.

In assessing the expected credit loss for the financial guarantee contract, the cash shortfalls adjusted by the specific risk were assessed taking into account the following:

- Progress and advanced engagement with the lenders on the Ascendis group recapitalisation.

- The implications of the successful completion of the Ascendis group recapitalisation and consequences of failure.

The two factors above were the main drivers in the assessment of probability of default in the ECL calculation (refer below).

Management’s assumptions and judgements

- On 30 June 2021 the Ascendis group senior debt was R6 716 million. The EAD is determined as R6 716.8million.

- The PD has been determined using Moody’s RiskCalc PD model. The model uses a comprehensive multi-decade historical database of reporting entity financial information and default events rich in South African data, to calculate the PD.

- LGD was measured using Moody’s RiskCalc LGD module assuming a default with a post default recovery methodology.

14. Financial guarantee liability (continued)

- The repayment of the Ascendis group debt is dependent on the successful implementation of the group recapitalisations as detailed above. As a result, the ECL at 30 June 2021 was measured separately for consensual and non-consensual restructuring. The main factors driving a consensual restructure related to progress on the undertakings as well as conditions precedent as set out in the RSA as well as a favourable vote by shareholders at the general meeting scheduled for 4 October 2021. These scenarios were weighted based on progress made with regards to the group recapitalisation transaction and engagements with shareholders and were awarded a 75% and 25% probability for the consensual and non-consensual restructuring respectively. Where the successful implementation of the group restructuring was anticipated, the probability of default (PD) was measured for the remaining 6 months i.e., the 1-year PD was converted to 6 months. Where a non-consensual restructuring is anticipated, the PD and LGD has been assumed to be 100% which results in a loss.

- As at 30 June 2021, it was more evident where the lenders are likely going to institute a claim on the guarantors in the event of default. As a result, it was identified that the claim for the South African operations is likely to be made against Ascendis Health SA Holdings Proprietary Limited. In the event of default, lenders had the option to enforce their security over the European operations through Ascendis Health Europe Holdings (Luxembourg) or Ascendis Health International Holdings (Malta). Engagement with lenders implied their preference to enforce Luxembourg in that eventuality although certain considerations could pivot the decision to Malta. It was therefore determined that for the European operations there is a 75% chance of the claim being against Ascendis Health Europe Holdings and a 25% chance of it being against Ascendis Health International Holdings Limited. For South African operations, it was considered that it is highly unlikely that the lender will institute a claim on these entities. As a result. 5% floor was applied on the fair value of the sub-group in allocating the guarantee amount.

- The ECL based on the 75/25 consensual vs non-consensual split is R1 913 million. However, this is limited to the fair value of the sub-group, capped at 5% plus any excess cash holdings. The capped fair value was determined as the maximum value that the lenders will get in the event of default. The ECL on the financial guarantee liability recognised in the combined group is R7 million. This was determined, taking into account the fair value of the multiplied by EBITDA % of 0, plus the excess cash holdings, capped at 5%.

Fair value

The fair value of Pharma Africa group was determined to be R146.4 million which was determined as follows:

Valuation Method:

- Earnings – determined taking into account management's experience and knowledge of the market conditions specific to the industry.

The table below indicates the value of the group, the methodology followed, inputs and sensitivity.

Method	Fair value R'000	Unobservable inpute	Range of inputs	Sensitivity
Eanings-based multiple	146 400	Earnings multiple	8.0 - 10.0 (8.0)	Increase in the multiple by 1x would increase the fair value by R18 million and vice versa

14. Financial guarantee liability (continued)

June 2020 and June 2019 – Measurement

Management's assumptions and judgements

- 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%) . The full calculated financial guarantee liability of R1 402 million (2019: R570 million) was recognised riven by the high risk and uncertainties on the entities that the lenders could have institute their claim on.

On 30 June 2020 the Ascendis group senior debt was R6 310.6 million (2019: R5 081 million). The EAD is determined as at R6 310.6 million (2019: R5 081 million).

The tables below indicate the face value of the group's senior debt as the exposure at default (EAD) as well as the movement and value of the financial guarantee contracts.

R'000	2021	2020	2019
Term loan - European debt	3 474 268	3 402 134	2 583 017
Term loan - South African Debt	1 828 564	1 534 832	1 311 937
Revolving credit facility	1 414 003	1 373 676	759 299
Short term loans	-	-	360 397
	6 716 835	**6 310 642**	**5 014 650**
The company's financial liability relating to financial guarantee contracts amounts to:			
Financial guarantee liability	**7 320**	**1 402 430**	**570 047**
Movement reconciliation			
Opening balance	1 402 430	570 047	-
(Reversal of)/Increase in expected credit loss allowance	(1 395 110)	832 383	570 047
Closing Balance	**7 320**	**1 402 430**	**570 047**

15. Cash generated from operations

	2021 R'000	2020 R'000	2019 R'000
Profit/(Loss) before tax	**1 445 460**	**(878 080)**	**(815 806)**
Adjustments for:			
Depreciation and amortisation	4 462	8 585	3 684
Impairment of intangible assets	3 323	-	205 671
Net loss/(profit) on sale of assets	9 404	(280)	-
Net (profit)/loss on foreign exchange	(1 812)	892	(85)
Net impairment on loans to related parties	5 667	28 246	23 744
Net impairment in trade and other receivables	12 124	(3 241)	4 984
Net movement in obsolete stock allowance	4 331	914	-
Finance income	(104)	(104)	(591)
Finance expense	5 546	4 833	4 641
Expected credit loss allowance on financial guarantee liability	(1 395 110)	832 383	570 047
Dividend income	(73 397)	-	-
Changes in working capital:			
Inventories	(1 823)	1 998	15 605
Trade and other receivables	(32 411)	17 792	(676)
Trade and other payables	(5 454)	(15 523)	(21 260)
Provisions	1 206	18 391	743
Cash (utilised in)/generated from operations	**(18 588)**	**16 806**	**(9 299)**

16. Net debt

Net debt is calculated as the sum of loans from related parties less cash and cash equivalents.

	2021 R'000	2020 R'000	2019 R'000
Cash and cash equivalents	30 220	142	12 099
Loans from related parties	(183 453)	(249 514)	(335 225)
Bank overdraft	(69)	(14)	-
Net debt	**(153 302)**	**(249 386)**	**(323 126)**

Net debt reconciliation

	Repayable within 1 year		
R'000	Cash and cash equivalents	Loans from related parties	Total
Net debt as at 30 June 2018	**14 149**	**(263 961)**	**(249 812)**
Cashflows - principal / capital portion	(2 050)	(67 287)	(69 337)
Interest	-	(3 977)	(3 977)
Net debt as at 30 June 2019	**12 099**	**(335 225)**	**(323 126)**
Cashflows - principal / capital portion	(11 971)	90 161	78 190
Interest	-	(4 450)	(4 450)
Net debt as at 30 June 2020	**128**	**(249 514)**	**(249 386)**
Cashflows - principal / capital portion	30 023	71 013	101 036
Interest	-	(4 952)	(4 952)
Net debt as at 30 June 2021	**30 151**	**(183 453)**	**(153 302)**

17. Tax paid

	2021 R'000	2020 R'000	2019 R'000
Balance at the beginning of the period	(3 714)	(141)	6 378
Current tax for the period recognised in profit or loss	2 332	(6 683)	(2 609)
Balance at the end of the period	963	3 714	141
Current tax receivable	(3 102)	(2 508)	(3 549)
Current tax payable	4 065	6 222	3 690
Tax paid	**(419)**	**(3 110)**	**3 910**

18. Financial instruments

Accounting for financial instruments

Financial instruments comprise other financial assets, trade and other receivables (excluding non-financial trade and other receivables), cash and cash equivalents, loans to related parties, loans from related parties, bank overdrafts, and trade and other payables.

Initial recognition and classification

Financial assets and liabilities are recognised in the reporting entity's statement of financial position when the reporting entity becomes a party to the contractual provisions of the instruments.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the reporting entity's business model for managing them. With the exception of trade receivables that do not contain a significant financing component (or for which the reporting entity has not applied the practical expedient), the group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the reporting entity has applied the practical expedient are measured at the transaction price

The reporting entity's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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.

Subsequent measurement

Financial assets that initially recognised at amortised cost are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss.

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

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.

18. Financial instruments (continued)

Modification of financial liabilities

The exchange between the reporting entity and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in and changes in the type of interest rate are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment, unless if such costs or fees incurred are incremental and are directly related to the issue of the new debt instrument in which case any such costs or fees adjust the carrying amount of the liability and are amortised over the remaining term of the new financial liability. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Impairment

The reporting entity assessed on a forward-looking basis, the expected credit loss allowance (ECL) on all financial assets that are not held at fair value though profit or loss. 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 reporting entity 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.

ECL are measured on either a 12-month or lifetime basis depending on whether there has been a significant increase in credit risk since initial recognition or whether the asset is considered credit-impaired. ECL are the discounted product of the probability of default (PD) and exposure at default (EAD).

- The PD represents the likelihood of a counterparty defaulting on its financial obligation, either over 12 months (12 month PD) or over the remaining life (lifetime PD) of the obligation

- The EAD is based on the amounts the reporting entity expected to be owed at the time of default over the next 12 months (12 -month EAD) or over the remaining life (lifetime EAD).

- The reporting entity calculates loss given default (LGD) as discounted EAD.

The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The reporting entity recognises in profit or loss, as an impairment loss or reversal, the amount of ECL that is require to adjust the loss allowance at the end of the reporting period. When a receivable is uncollectible, it is written off against the allowance for impairment for that receivable. Subsequent recoveries of amounts previously written off are recognised in the statement of profit or loss.

Definition of default

The reporting entity defines a financial instrument in default when the counterparty fails to make contractual payments within 90 days of when they fall due.

18. Financial instruments (continued)

Write-off policy

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. This is the point when the reporting entity's collection activities are unable to recover outstanding balances.

Significant increase in credit risk in terms of general impairment model

The reporting entity considered financial assets subject to assessment for ECL in terms of the general impairment model to have experienced a significant increase in credit risk since the time of initial recognition when one or more of the following criteria have been met:

- **Quantitative**
  - Where the counterparty has not met its minimum contractual obligations.
- **Quantitative criteria**
  - The reporting entity considered available reasonable and supportive forward-looking information incorporating the following indicators, where applicable:

    (i) Expected delay in payment

    (ii) Changes in the amount of financial support available to the counterparty

    (iii) Changes in the general economic and/or market conditions

    (iv) Internal and external credit ratings

18.1 Financial risk management

The reporting entity's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. This note presents information about the reporting entity's exposure to each of the risks, the reporting entity's objectives, policies and processes for measuring and managing risk, and the reporting entity's management of capital.

The reporting entity's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. The reporting entity considers natural hedges that may exist and, in addition, where possible, uses derivative financial instruments such as forward exchange contracts to hedge exposures.

The audit and risk committee has oversight of Ascendis group risk management and the group treasury function manages various financial risks in accordance with the policies approved by the board of directors. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk. The Ascendis group treasury function identifies, evaluates and hedges financial risks in close cooperation with the group's operating units. The Ascendis group treasury risk management objective is to protect all foreign exposures using foreign exchange contracts. Please refer to the sensitivity on foreign currency exposure for the quantification of the instruments.

18. Financial instruments (continued)

18.2. Categories of financial instruments

2021 R'000	Amortised cost	Financial guarantee contracts	Total[1]
Financial assets			
Loans to related parties[2]	172 724	-	172 724
Trade and other receivables[2]	84 394	-	84 394
Cash and cash equivalents	30 220	-	30 220
	287 338	**-**	**287 338**
Financial liabilities			
Loans from related parties	(183 453)	-	(183 453)
Trade and other payables	(49 535)	-	(49 535)
Bank overdraft	(69)	-	(69)
Financial guarantee liability	-	(7 320)	(7 320)
	(233 057)	**(7 320)**	**(240 377)**

2020 R'000	Amortised cost	Financial guarantee contracts	Total[1]
Financial assets			
Loans to related parties[2]	197 835	-	197 835
Trade and other receivables[2]	52 928	-	52 928
Cash and cash equivalents	142	-	142
	250 905	**-**	**250 905**
Financial liabilities			
Loans from related parties	(249 514)	-	(249 514)
Trade and other payables	(60 795)	-	(60 795)
Bank overdraft	(14)	-	(14)
Financial guarantee liability	-	(1 402 430)	(1 402 430)
	(310 323)	**(1 402 430)**	**(1 712 753)**

2019 R'000	Amortised cost	Financial guarantee contracts	Total[1]
Financial assets			
Loans to related parties[2]	236 193	-	236 193
Trade and other receivables[2]	96 794	-	96 794
Cash and cash equivalents	12 099	-	12 099
	345 086	**-**	**345 086**
Financial liabilities			
Loans from related parties	(335 225)	-	(335 225)
Trade and other payables	(75 722)	-	(75 722)
Financial guarantee liability	-	(570 047)	(570 047)
	(410 947)	**(570 047)**	**(980 994)**

[1] The carrying value closes approximates the fair value because all the financial assets and liabilities are current in nature.

[2] These amounts have been disclosed gross of expected credit loss allowances.

18. Financial instruments (continued)

18.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

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 entities within the reporting entity are then required to present at minimum a 13-week forward cash forecast which is dissected by the Cash Steerco, led by the Group CFO and the decision on funding advanced is determined considering the holistic working capital management of the group and cash resources available to for the specific company’s capital requirements. This spending application is closely monitored and reported back to the lender consortium to the group’s debt capital component thus monitoring that spending has been applied as intended and proposed. Effectively the debt element of the capital structure of the reporting entity comprises of the intercompany loan composition held with and managed by central group treasury and consistent with the balance sheet structure of the entities within the reporting entity that is not holding any third party facilities directly.

The Ascendis group through its treasury entity Ascendis Financial Services (Pty) Ltd has a cash sweeping process with its South Africa subsidiaries (including Pharma entities). The purpose of the cash sweeping process is to increase the level of management on the overall cash position of the Ascendis group, as well as addressing the level of working capital management being applied at the subsidiary level. The cash sweeps happen on a daily basis and are based on the demand requirements of the reporting entity to finance their working capital needs and in particular, payments to creditors. A buffer amount of R50 000 is left in each entitiy’s main operational account to cater for smaller supplier payments.

The maturity profile of contractual cash flows on non-derivative financial liabilities are presented in the following table to demonstrate the risk. The cash flows are contractual amounts.

18. Financial instruments (continued)

18.3 Liquidity risk (continued)

2021 R'000	3 months	3 months and 1 year	Total
Loans from related parties	(183 453)	-	(183 453)
Bank overdrafts	(69)	-	(69)
Trade and other payables	(49 535)	-	(49 535)
Financial guarantee contracts	(6 716 835)	-	(6 716 835)
Total	**(6 949 892)**	**–**	**(6 949 892)**

2020 R'000	3 months	3 months and 1 year	Total
Loans from related parties	(249 514)	-	(249 514)
Bank overdrafts	(14)	-	(14)
Trade and other payables	(60 795)	-	(60 795)
Financial guarantee contracts	(6 310 642)	-	(6 310 642)
Total	**(6 620 965)**	**–**	**(6 620 965)**

2019 R'000	3 months	3 months and 1 year	Total
Loans from related parties	(335 225)	-	(335 225)
Trade and other payables	(75 722)	-	(75 722)
Financial guarantee contracts	(5 014 650)	-	(5 014 650)
	(5 425 597)	**-**	**(5 425 597)**

18.4 Credit risk

Credit risk or the risk of financial loss to the reporting entity is due to customers or counterparties not meeting their contractual obligations. It is managed through application of credit approvals, limits and monitoring procedures.

Credit risk arises from trade and other receivables, cash and cash equivalents, loans to related parties carried at amortised cost and deposits with banks and financial institutions as well as credit exposures to all customers including all outstanding receivables.

The impact of other receivables is considered insignificant hence no credit disclosures have been included.

Impairment of financial instruments

The reporting entity has the following types of financial instruments that are subject to the expected credit loss (ECL) model:

- Trade receivables
- Loans to related parties
- Cash and cash equivalents
- Financial guarantee liability (Refer to note14 for further disclosures)

18. Financial instruments (continued)

The detailed analysis of the items above is included below:

Trade receivables

Credit risk is managed on a group basis, except for credit risk relating to accounts receivable balances. Each subsidiary is responsible for managing and analysing the credit risk for each of their new customers before standard payment and delivery terms and conditions are offered. Credit risk exposure and management within the business will be addressed in the relevant businesses.

The reporting entity applies the simplified approach to measuring expected credit loss which uses a lifetime expected loss allowance for all trade receivables without a significant financing component. To measure the expected credit losses, trade receivables have been grouped based on the shared credit risk characteristics, size and the days aged. Trade receivables balances have been grouped so that the ECL calculation is performed on groups of receivables with similar risk characteristics and ability to pay.

The credit loss allowance is measured using a combination of the simplified parameter-based approach and the provision matrix. The provision matrix is applied to the general debtors' book where each customer contributes to less than 10% of the total debtors' book. The simplified parameter-based approach is applicable to government customers and listed customers with a balance of more than 10% of the total debtors' book as at year end.

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. The sales population selected to determine the ageing/payment profile of the sales is representative of the entire population and in line with the future payment expectations.

18. Financial instruments (continued)

18.4 Credit risk (continued)

The reporting entity used up to 60 months sales data to determine the payment profile of the sales. The data was divided into separate observation periods, generally of 12 months. This is considered appropriate in determining the payment profile of sales for the historic loss ratio. The reporting entity used actual write offs where it was available as a basis for the historical write-off in order to determine the historic loss ratio. Alternatively, management has used the proxy write-off based on management's best estimate.

The historic loss ratio is then adjusted for forward-looking information i.e. macro-economic variables to determine the ECL for the portfolio of trade receivables at the reporting date to the extent that there is a strong correlation between the forward-looking information and the ECL. Macro-economic variables applied relates to the GDP factor. Macroeconomic variables include G7 real GDP growth, total unemployment rate (both formal and informal), prime overdraft rate and inflation rate. In addition, the reporting entity also takes into account existing market conditions and history sales trends and write offs.

Management has applied the presumption that a customer is in default when 90 days past due.

Covid-19 credit risk considerations

An almost unanimous trend across economies, industries and markets the like have reflected significant increases in credit risk as a result of the Covid-19 pandemic. The severely impacted forward outlook offered by forecasted economic data, has resulted in consistent responses from regulators and ratings agencies whereby their scenarios have been adjusted to reflect this change in risk in the 2020 financial year. Based on the economic outlook for 2021, the economies where the reporting entity operates in seem to be recovering from the pandemic.

Particular to the reporting entity, Moody’s Analytics updated their forecasts in 2021 to reflect the recovery of the economies and the expected increase in GDP.

As a result, the various scenarios forecast as offered by Moody’s demonstrated scaler factor of between 1.0 to 3.0 (2020: 1.4 to 5.3) and this translating into notable impact on management’s assessment and response to credit risk and appropriately reflecting as such in the credit risk adjustments required to be made and disclosed under IFRS requirements. The adjustments encompassed applying loss given default (LGD) measures to reflect the expected improved GDP as a result of economies recovering from COVID-19 pandemic.

18. Financial instruments (continued)

18.4 Credit risk (continued)

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 relevant country's benchmark data. Material and concentrated exposures were assessed separately, i.e. customers making up at least 10% of the debtors book as explained under the simplified parameter based approach below. The measurement of risk is projected forward based on macroeconomic forecasts based on the forecast economic outlook for the next 12 months. For customers that were identified as individually significant, i.e. government and public listed customers, a specific provision 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.

The loss allowance as at 30 June 2021 for trade receivables to which the provision matrix had been applied is determined as follows:

2021 R'000	Gross carrying amount	Impairment	Average ECL/ impairment ratio
Current	50 119	(135)	0.27%
Up to 30 days aged	3 674	(9)	0.24%
Up to 60 days aged	1 429	(276)	19.31%
More than 60 days past due	-	-	0.00%
	55 222	**(420)**	**0.76%**
2020 R'000	**Gross Carrying Amount**	**Impairment**	**Average ECL/ Impairment ratio**
Current	36 998	(200)	0.54%
Up to 30 days aged	5 963	(37)	0.62%
Up to 60 days aged	252	(9)	3.57%
More than 60 days past due	1 868	(861)	46.09%
	45 081	**(1 107)**	**2.46%**
2019			
Current	47 264	(200)	0.42%
Up to 30 days aged	7 544	(1 728)	22.90%
Up to 60 days aged	985	(329)	33.40%
More than 60 days past due	-	-	0.00%
	55 793	**(2 257)**	**4.05%**

18. Financial instruments (continued)

18.4 Credit risk (continued)

Simplified parameter-based approach

ECL is calculated using a formula incorporating the following parameters: Exposure at Default (EAD), Probability of Default (PD) and Loss Given Default (LGD) i.e. (PD x LGD x EAD = ECL). The PD and LGD was measured using Moody's Analytics RiskCals's respective PD and LGD modules (RiskCalc South Africa Version 3.2 for PD and LossCalc version 4.0). Exposures are segmented by customer size relative to the amount of the total debtors' book. Management applied judgement and assumption segmenting the customers i.e.; for individual customers making up at least 10% of the debtors book were excluded. The probability of default as well as the realised loss with defaulted accounts have been determined using historical data for 12 months. The EIR represents a weighted average rate which is representative of the portfolio of customers and incorporates a risk-free rate plus a risk premium, where relevant, on initial recognition of the trade receivable.

The customers include all government and public listed customers to the extent that the relevant information is available.

The balance of trade receivables to which the simplified parameter-based approach has been applied as follows:

2021 R'000	Gross carrying amount	Expected credit loss allowance	Net carrying amount
Government customers	20 016	(395)	19 621
Trade receivable[1]	12 428	(11 445)	983
	32 444	**(11 840)**	**20 604**

2020 R'000	Gross carrying amount	Expected credit loss allowance	Net carrying amount
Government customers	-	-	-
Intercompany trade receivables [2]	4 698	(1 219)	3 479
Public listed customers	2 279	(7)	2 272
	6 977	**(1 226)**	**5 751**
2019			
Government customers	3 154	(155)	2 999
Intercompany trade receivables	3 304	(3 304)	-
Public listed customers	5 560	(210)	5 350
	12 018	**(3 669)**	**8 349**

[1] The specific provision was raised on debtor balances that were transferred from Dezzo, which is another subsidiary of Ascendis group which was disposed in the 2021 financial year. The reporting entity believes that it will be difficult to recover these balances because the entity to which the balances relate to is no longer part of the Ascendis group, however the reporting entity still can enforce its rights on these balances.

[2] The intercompany trade receivables relates to transactions with Dezzo which is not part of this reporting entity.

18. Financial instruments (continued)

18.4 Credit risk (continued)

The opening to closing movement in allowances for trade receivables as at 30 June are as follows:

	2021 R'000	2020 R'000	2019 R'000
Opening loss allowance	**(2 333)**	**(5 926)**	**(3 799)**
New financial assets originated or purchased during the year	(12 124)	(759)	(5 232)
Receivables written off during the year as uncollectible	2 432	352	2 857
Financial assets repaid	-	4 000	248
As at 30 June	**(12 025)**	**(2 333)**	**(5 926)**

Loans to related parties

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

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.

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

Internal Grade	Description	Basis for recognizing 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

18. Financial instruments (continued)

18.4 Credit risk (continued)

Loans to related parties were valued based on the risk of the counterparty. The Moody's RiskCalc solution was used tocalculate a PD and LGD for the counterparty. The resultant PD and LGD was then converted from Through The Cycle to Point in Time measures using Moody's Analytics ImpairmentCalc product, which conditioned these measures based on a database of validated historic South Africa macroeconomic data and then calculates a forward-looking ECL using their macroeconomic forecasts with a probability weighted average of Moody's Analytics' economic forecasts and scenarios – Baseline, Stronger Near- Term Rebound (S1), and Moderate Recession (S3), weighted 40%, 30% and 30% for all the periods presented.

Moody's Analytics produces a set of macroeconomic forecasts for South Africa that considers the historical accuracy of various forecasters to identify reliable sources. These are incorporated into their GCorr macroeconomic forecast set. Based on research conducted by Moody's Analytics they recommend the use of their Baseline, Stronger Near-Term Rebound (S1) ("Bullish"), and Moderate Recession (S3)("Bearish") forecast sets weighted 40%, 30%, 30% respectively for a forward looking adjustment for the purposes of IFRS 9

2021 R'000	Basis of loss allowance	Gross carrying amount	Expected credit loss allowance	Net carrying amount
Ascendis Financial Services[1]	Stage 2	144 201	(49 939)	94 262
Ascendis Management Services	Stage 1	836	(290)	546
Ascendis Animal Health[1]	Stage 2	22 399	(5 996)	16 403
Dezzo Trading 392[1]	Stage 2	5 287	(5 287)	-
		172 723	**(61 512)**	**111 211**
2020				
Ascendis Financial Services	Stage 1	111 165	(27 358)	83 807
Ascendis Management Services	Stage 1	836	(382)	454
Dezzo Trading 392	Stage 1	84 998	(28 100)	56 898
Akacia Healthcare Investments	Stage 1	836	-	836
		197 835	**(55 840)**	**141 995**
2019				
Ascendis Financial Services	Stage 1	140 787	(15 446)	125 341
Ascendis Management Services	Stage 1	836	(90)	746
Dezzo Trading 392	Stage 1	94 569	(12 063)	82 506
Pharmadyne Healthcare	Stage 1	1	-	1
		236 193	**(27 599)**	**208 594**

[1] These balances have moved to stage 2 in 2021 financial year because there has been an increase in the credit risk from 2020 financial year.

		2021 R'000		2020 R'000		2019 R'000	
	Change in ECL %	Upward change	Downward change	Upward change	Downward change	Upward change	Downward change
Ascendis Financial Services	10%	(4 994)	4 994	(2 736)	2 736	(1 545)	1 545
Ascendis Management Services	10%	(29)	29	(38)	38	(9)	9
Ascendis Animal Health	10%	(600)	600	-	-	-	-
Dezzo Trading 392	10%	(529)	529	(2 810)	2 810	(1 206)	1 206
				(5 584)	**5 584**	**(2 760)**	**2 760**

18. Financial instruments (continued)

18.4 Credit risk (continued)

The opening to closing movement in expected credit loss allowance for loans to related parties as at 30 June are as follows:

	2021		2020	2019
	12 month ECL R'000	Lifetime ECL[1] R'000	12 month ECL R'000	12 month ECL R'000
Opening loss allowance in terms of IFRS 9	**(55 840)**	**-**	**(27 599)**	**(3 855)**
New loans originated or purchased during the year	-	(8 130)	-	(745)
Loans repaid	-	26 352	4 471	923
Change in risk parameters[2]	92	(23 986)	(32 712)	(23 922)
Transfers between stages	55 458	(55 458)	-	-
As at 30 June	**(290)**	**(61 222)**	**(55 840)**	**(27 599)**

[1] Lifetime ECL relates to stage 2.
[2] The increase in the ECL amount processed to the income statement for the three years presented was as a result of the increase in the probability of default (PD) which was mainly driven by the counterparties not having sufficient cash to repay the loan to the reporting entity if payment is demanded.

Cash and cash equivalents

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. The credit risk is assessed as low on cash and cash equivalents and the ECL is not material.

Credit rating of financial institutions	2021 R'000	2020 R'000	2019 R'000
Baa3	-	128	12 099
Ba2	30 151	-	-
	30 151	**128**	**12 099**

18.5 Market risk

Market risk is the risk that changes in market prices such as interest rates and foreign currencies will affect the reporting entity's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

Interest rate risk

Interest rate risk is the risk that arises in an interest-bearing asset or liability, due to variability of interest rates. The impact of interest rate risk is not considered significant to the reporting entity because there are no material balances of variable interest bearing assets or liabilities.

18. Financial instruments (continued)

18.5 Market risk (continued)

Foreign exchange risk

Foreign currency risk is the exposure to exchange rate fluctuations that have an impact on cash flows and financing activities.

The reporting entity is exposed to foreign exchange risk arising from commercial transactions relating to the import of raw materials denominated in Euros, US dollars, and Swedish Krona.

The Ascendis group treasury function has set up a policy requiring group companies to manage their respective foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions, reporting entity uses forward contracts, transacted with group treasury.

The following exchange rates were applied in the preparation of the financial results at year end:

	2021		2020		2019	
Currency	Closing	Average	Closing rate	Average	Closing rate	Average
Euros	16.78	16.73	19.45	19.25	15.97	16.43
Swedish Krona	1.68	1.68	1.86	1.86	1.52	1.52
US dollar	14.30	13.89	17.32	17.11	14.05	14.56

18. Financial instruments (continued)

18.5 Market risk (continued)

The change in exchange rate applied in the below mentioned sensitivity analysis is based on the actual movement in exchange rates during the 2021, 2020, and 2019 financial years in order to estimate the impact to the profit or loss.

The analysis has been performed on the basis of the change occurring at the reporting date and assumes that all other variables, in particular interest rates, remain constant.

A change in the foreign exchange rates to which the reporting entity is exposed at the reporting date would have increased/ (decreased) profit before tax by the amounts shown below.

2021			**(Decrease)/Increase in profit before tax**	
Foreign denominated balances held by the reporting entity at year end:	**R'000**	**Change in exchange rate**	**Downward change R'000**	**Upward change R'000**
Current liabilities				
Euros	(13 671)	12.71%	1 738	(1 738)
US Dollars	(2 660)	17.49%	465	(465)
Swedish Krona	(4 951)	9.81%	486	(486)
Net impact from foreign denominated balances	**(21 282)**		**2 689**	**(2 689)**
2020				
Current liabilities				
Euros	(16 957)	-21.84%	3 703	(3 703)
US Dollars	(5 729)	-23.33%	1 337	(1 337)
Swedish Krona	(4 165)	-22.89%	953	(953)
Net impact from foreign denominated balances	**(26 851)**		**5 993**	**(5 993)**
2019				
Current liabilities				
Euros	(12 370)	0.21%	26	(26)
US Dollars	(2 457)	-2.53%	62	(62)
Swedish Krona	(53 217)	-22.37%	11 905	(11 905)
Net impact from foreign denominated balances	**(68 044)**		**11 993**	**(11 993)**

18.6 Capital risk management

The reporting entity's objective when managing capital (which includes 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 related parties disclosed in note 13, cash and cash equivalents disclosed in note 10 and equity as disclosed in the statement of financial position.

18. Financial instruments (continued)

18.6 Capital risk management (continued)

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 group 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, led by the reporting entity 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 reporting entity'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. Effectively the debt element of the capital structure of the reporting entity comprises of the intercompany loan composition held with and managed by central group treasury and consistent with the balance sheet structure of the reporting entity that is not holding any third party facilities directly.

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

The table below serves to illustrate the reporting entity's gearing ratio at 2021, 2020, and 2019.

	2021 R'000	2020 R'000	2019 R'000
Loans from related parties	183 453	249 514	335 225
Total borrowings	**183 453**	**249 514**	**335 225**
Net cash and cash equivalents	(30 151)	(128)	(12 099)
Net debt	**153 302**	**249 386**	**323 126**
Total equity	53 064	(1 438 222)	(559 008)
Total capital	**206 366**	**(1 188 836)**	**(235 882)**
Gearing ratio	**74%**	**-21%**	**-137%**

Refer to note 21 regarding the response taken by the directors to the reporting entity's gearing ratio being above the targeted ratio.

19. Related parties

Related party transactions constitute the transfer of resources, services or obligations between the reporting entity and a party related to the reporting entity, regardless of whether a price is charged.

Relationships	
Ultimate holding company	Ascendis Health Ltd
Holding company	Akacia Healthcare Holdings Proprietary Limited
Fellow subsidiaries	Ascendis Management Services Proprietary Limited
	Dezzo Trading 392 Proprietary Limited
	Ascendis Animal Health Proprietary Limited
	Akacia Healthcare Investments Proprietary Limited
	Pharmadyne Proprietary Limited
	Ascendis Pharma Holdings Proprietary Limited
	Ascendis Pharma Healthcare Holdings Proprietary Limited
	Ascendis Financial Services Proprietary Limited
	Ascendis Skin and Body Proprietary Limited
Directors	M Sardi
	CJ Kujenga

19. Related parties (continued)

Loans to related parties[#]	2021 R'000	2020 R'000	2019 R'000
Ascendis Financial Services	144 201	111 165	140 787
Ascendis Management Services	836	836	836
Ascendis Animal Health	22 399	-	-
Dezzo Trading 392	5 287	84 998	94 569
Akacia Healthcare Investments	-	836	-
Pharmadyne Healthcare	-	-	1
As at 30 June	**172 723**	**197 835**	**236 193**

[#]Refer to note18.4 for further details with regards to the expected credit loss allowance on the loans to related parties.

Loans from related parties	2021 R'000	2020 R'000	2019 R'000
Ascendis Financial Services	(87 034)	(72 730)	(141 300)
Ascendis Health Ltd	(35 473)	(35 473)	(35 473)
Ascendis Pharma Holdings	(21 762)	(102 127)	(102 126)
Ascendis Pharma Healthcare Holdings	(39 184)	(39 184)	(39 021)
Dezzo Trading 392	-	-	(17 305)
As at 30 June	**(183 453)**	**(249 514)**	**(335 225)**

Sales	2021 R'000	2020 R'000	2019 R'000
Dezzo Trading 392	2 385	28 790	42 096
Ascendis Skin and Body	-	68	-
As at 30 June	**2 385**	**28 858**	**42 096**

Cost of sales	2021 R'000	2020 R'000	2019 R'000
Dezzo Trading 392	(7 599)	(4 818)	(51 273)
As at 30 June	**(7 599)**	**(4 818)**	**(51 273)**

Management fees	2021 R'000	2020 R'000	2019 R'000
Ascendis Management Services	(12 590)	(5 161)	(12 952)
Dezzo Trading 392	-	(183)	(736)
Akacia Healthcare Investments	-	-	103
As at 30 June	**(12 590)**	**(5 344)**	**(13 585)**

Interest expense	2021 R'000	2020 R'000	2019 R'000
Ascendis Financial Services	(4 952)	(4 450)	(4 549)
As at 30 June	**(4 952)**	**(4 450)**	**(4 549)**

Dividend income	2021 R'000	2020 R'000	2019 R'000
Akacia Healthcare Investments	73 397	-	-
As at 30 June	**73 397**	**-**	**-**

21. Going concern

In determining the appropriate basis of preparation of the combined historical financial statements, the directors are required to consider whether the reporting entity can continue to operate for the foreseeable future, being at least the 12 months following 30 June 2021.

The reporting entity had accumulated loss of R248 million (2020: R1 709 million; 2019: R831 million). In 2021, total assets exceed total liabilities by R53 million. However, total liabilities exceeded total assets by R1 438 million and R559 million in 2020 and 2019, respectively.

For all the periods presented, current liabilities exceed current assets. Refer to the liquidity section of this section on how liquidity is being managed from Ascendis group level.

Ascendis Pharma entity has been a guarantor to the Ascendis group's senior debt and remains a guarantor for the post recapitalisation group debt structure. These conditions give rise to a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore may be unable to realise its assets and discharge its liabilities in the normal course of business.

A letter of support from Ascendis Health Limited and a subordination agreement from Ascendis Financial Services Proprietary Limited, will enable the company to have adequate resources in respect of payments to the company's creditors and will remain in place until such time that the assets of the company, fairly valued, exceed is liabilities.

The directors of the company are of the opinion that it will continue as a going concern but is dependent on the subordination agreement from Ascendis Financial Services Proprietary Limited and the letter of support as well as the going concern assessment and management plans of Ascendis Health Limited below.

Debt

Ascendis Pharma (Pty) Ltd and Pharmachem (Pty) Ltd are part of guarantors of the Ascendis Health ("the group") debt held under the Senior Facilities Agreement ("SFA"). At 30 June 2021, the group's SFA debt amounting to R 6 716 million was classified as current in line with the timing of the group recapitalisation. The group recapitalisation, which was initiated in February 2021 in conjunction with the majority lenders to address the group's unsustainable debt levels, was approved by the shareholders at a general meeting held on 4 October 2021. All conditions precedent were fulfilled on 21 October 2021. The group recapitalisation results in the transfer of the Remedica and Sun Wave segments to the majority lenders in exchange for certain existing debt obligations being extinguished, together with the disposal of Animal Health, Respiratory Care Africa (RCA), Biosciences and Farmalider.

The quantum of the debt, and its impact on the group results for the year ended 30 June 2021 gave rise to a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern and, therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

A comprehensive assessment is included in the group annual financial statements. Post the group recapitalisation the group has access to the following facilities:

- A short-term loan facility of R 1 010 million with a term of 6 months will be instated for the purpose of transferring the net disposal proceeds related to the sale of Animal Health and RCA. The RCA disposal was finalized in October 2021 and the Animal Health transaction was completed in November 2021.
- Debt of €15 million will be reinstated by way of a two-year facility provided by the lenders.
- The lenders will provide a new two-year draw down term loan facility to the group in the Rand equivalent amount of €20 million. This facility can be accessed and utilised by the group as required to fund future operational and working capital requirements.

Ascendis Pharma (Pty) Ltd remains a guarantor for the post recapitalisation group debt structure.

Liquidity

The company is dependent on the group for its liquidity requirements. Management prepares annual budgets for each business unit and head office. A revised forecast is performed for each business unit and head office quarterly.

These revised forecasts take into consideration expected operational performance and working capital requirements. Group treasury manages liquidity and works closely with each business unit on ensuring accurate forecasting of cash inflows and cash requirements. It regularly updates its robust liquidity model which includes cash flow forecasts covering a period of 18 months from the date of these group annual financial statements. Cash flow forecasts are prepared weekly by the business units and reviewed by group treasury and are provided to the lenders every fortnight.

The group has performed detailed analysis of its liquidity requirements to 30 June 2022. In performing this analysis, the following areas relating to the budgeted performance of the continuing operations were incorporated:

- Working capital requirements.
- Capital expenditure required to support the 2022 financial year budgets.
- Estimated costs related to the head office restructure that is currently in progress.

The liquidity analysis considered the phasing of utilisation of the new draw down facility of €20 million. The board acknowledges that post the group recapitalisation the group finds itself at a critical strategic juncture and needs to determine and implement the most optimal path for shareholder value creation. Therefore, various strategic scenarios have been modelled as part of the liquidity analysis. These scenarios reflect that subject to a successful vote at the general meeting, the group has sufficient liquidity for the period to 30 June 2022.

Further, various sensitivity analyses have been performed on the liquidity forecasts. These reflect that there may be a risk of breaching the new covenants should a combination of significant erosion of access to credit terms with suppliers occur simultaneously with any shortfall on the budgeted financial performance for the 2022 financial year. The board and management have put in place governance and monitoring mechanisms to guard against this worst-case scenario from materialising. These include regular, proactive review of liquidity forecasts against actual financial performance and the implementation of remediation plans for variances within set parameters.

Covenants

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

The lender consortium has set quarterly targets for this ratio. On 30 June 2021, the target ratio was less than or equal to 6. The group achieved a ratio of 4.6, demonstrating an acceptable margin below the target ratio.

Conclusion

The board is not aware of any new material changes including those described in note 22 that may adversely impact the company. Through the successful amendment and extension of the company's existing debt facilities, the company, through the group, has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The board is not aware of any material noncompliance with statutory or regulatory requirements. The board is not aware of any pending changes in legislation in the country in which it operates that may materially affect the company.

Reporting entity specific going concern

We draw attention to the fact that as at 30 June 2021, the reporting entity's total assets exceeded its liabilities. However in the previous years, i.e., 2020 and 2021 the total liabilities exceeded assets. This was due to the recognition of the financial guarantee liability where the combined group is a guarantor to the group debt.

In order to support the going concern basis in preparing these financial statements, the reporting entity had subordination letters from Ascendis Financial Services and Akacia Pharma Healthcare Holdings. The reporting entity also had a letter of support from Ascendis Health Ltd.

As a result, the historical financial information were prepared on a going concern basis.

22. Events after reporting period

Reckitt Benckiser South Africa (Pty) Ltd (Reckitt) claim

During 2016 the Ascendis group acquired 100% of Akacia Healthcare Holdings, registration no: 1994/009657/07, which owned 100% of Akacia Healthcare (Pty) Ltd (Akacia Healthcare). Akacia Healthcare then changed its name to Ascendis Pharma (Pty) Ltd (Ascendis Pharma) on 23 August 2016. Ascendis Pharma at that time had an existing co-packaging agreement with Reckitt, whereby Ascendis Pharma was contracted to perform agreed upon services on behalf of Reckitt. Subsequently in October 2016, Reckitt cancelled the contract with Ascendis Pharma and proceeded to issue a claim for alleged damages totalling R54 million against Ascendis Pharma in early 2019.

Ascendis Pharma has conceded on certain merits of the case, and Reckitt in turn, conceded on the levels of undelivered stock that would have a diminishing impact on the quantum of an element to its original claim. The matter has been concluded and an amount of R18 million was paid in July 2021 as the full and final settlement.

Group Recapitalisation

On 27 August 2021, the group and its forbearance creditors (being Blantyre and L1 Health) entered into a primary restructuring implementation deed (implementation deed) setting out the detailed steps that must be taken for the implementation of the group recapitalisation and the conditions to which the group recapitalisation is subject. The group recapitalisation, a category 1 transaction and subject to a shareholder vote, was approved at the general meeting held on the 4th of October 2021. All conditions precedent were fulfilled on 21 October 2021. The group recapitalisation results in the transfer of the Remedica and Sun Wave segments to the majority lenders in exchange for certain existing debt obligations being extinguished, together with the disposal of Animal Health, Respiratory Care Africa (RCA), Biosciences and Farmalider.

Changes to Board of Directors and impact on the lender consortium

The Annual General Meeting was held on 20 December 2021 and the shareholders resolved to changing the composition of the board in its entirety. However, the chairman of the board, Andrew Marshal was appointed as acting CEO of the group while searching for a permanent candidate.

In terms of the requirements of the senior financing arrangements (SFA) which was approved by the board on 4 October 2021, the lender consortium (lenders) needed to approve, in writing, any changes to the board. Changing the board without the lender approval was stated in the SFA as a trigger for the cancellation of debt facilities that were put in place as a result of the group recapitalisation and thereby resulting in the facilities becoming payable immediately.

The appointment of the new board on 20 December 2021, triggered the cancellation of the debt facilities which are being guaranteed by the reporting entity and the outstanding debt balance became payable immediately.

22. Events after reporting period (continued)

On 30 December 2021, the group announced that the lender consortium which constituted of Emma Healthcare Holdings Limited held by Blantyre Capital Limited and L1 Health GP SARL confirmed that they disposed the full debt amount and transferred its rights and obligations including the forbearance agreement (entered into on the 22nd of December) to a South African Consortium led by a special situations investor Apex Partners and incorporating a leading BEE health and beauty group (The Consortium). This resulted in the extension of the terms and milestones under the Forbearance agreement to 14 January 2022. This transaction was fully implemented on Wednesday, 12 January 2022.

To facilitate the above transaction in a timely manner, the Consortium has advanced a new facility in the amount of R550 million to the Group (the “New Loan”), the proceeds of which were utilised to settle the Debt owed to the prior lender, Emma Healthcare Holdings Limited (the “Prior Lender”) and provide additional working capital to the Group. The New Loan was advanced under the existing SFA and retains the terms, conditions, security and interest rate of the Debt owed to the Prior Lender as at 29 December 2021, save that the maturity date has been extended to 31 January 2022 (“Revised Maturity Date”) in order to finalise a recapitalisation plan being agreed between the Consortium and the Board (the “Recapitalisation Plan”). The Consortium has agreed to further extend the Revised Maturity Date to facilitate the implementation of the Recapitalisation Plan. It is intended that, following the implementation of the Recapitalisation Plan, the Group will be debt free and with surplus cash to focus on expanding its core businesses and future growth opportunities.

The Board’s aim remains the achievement of long-term financial sustainability for the group. The transaction above supports this objective in the following ways:

- It provides opportunities to exploit synergies with a strategic partner being the Consortium which operates in the same markets as Ascendis Health, including integration and optimisation opportunities.
- It achieves localisation of debt; and
- It provides Ascendis Health with time to provide an optimal solution for the company and for shareholders.

Andrew Marshall, acting CEO, stepped down from his role with effect from 13 January 2022. Cheryl-Jane Kujenga, the current CFO, assumed the joint role of CFO and interim CEO with effect from 13 January 2022.

On 1 February 2022, the Board announced that terms have been agreed with each of new lenders in respect of the Proposed Disposals, with the proceeds of such disposals to be applied in full discharge of the debt advanced by new lenders, as applicable, and to provide the Group with cash to reinvest in the rebuild of the Ascendis Group. In order to facilitate the implementation of the Proposed Disposals, the following key terms have been agreed in respect of the 2022 Debt:

- The term has been extended to the earlier to occur of (i) the date on which the last of the Proposed Disposals is implemented and (ii) 30 June 2022; and
- The applicable interest rate has been reduced by 4% (resulting in a rate of JIBAR plus 8.33%). In the event of a default, a ratchet of 4% will be applied retrospectively. In addition, a further 2% increase will apply prospectively if shareholders do not approve any requisite resolutions to implement the Proposed Disposals.

On 11 May 2022, the group held a special shareholders meeting where the following members were appointed to the board:

- Amaresh Chetty as independent non-executive director;
- Bhartie Harie as independent non-executive director; and
- Carl Neethling as non-executive director.

22. Events after reporting period (continued)

The change in the directors as per above triggered a cancellation of the debt facilities and the debt became due and payable immediately. The lenders delivered a notice to the group on 13 May declaring the immediate payment of the debt facilities.

As a result, the board managed to conclude a loan agreement with Austell Pharmaceuticals (Pty) Ltd, ("Austell") in terms of which Austell will advance a facility to the group which will be used to repay the full amount owing to the lenders pursuant to the notice and also provide up to R10 million for the purposes of funding the group's working capital requirements.

In terms of the Austell Loan Agreement, Austell has provided a 6-month facility to the group in the amount of R590 million at an interest rate of JIBAR plus 4%(cash margin) plus 3.5% (PIK margin). If an event of default occurs under the Austell Loan Agreement, the interest rate will ratchet by 2.5% from the date of such occurrence. The Austell Facility has a maturity date of 17 November 2022. The board highlighted that these terms are more favourable. In particular, no raising fees are payable in respect of the establishment of the Austell Facility.

The Austell Loan Agreement includes the following key events of default, which would entitle Austell to declare amounts under the Austell Loan Agreement due and payable:

- if (a) Shareholders do not approve of the sale of the Pharma business unit to an unincorporated joint venture between Pharma-Q Proprietary Limited and Imperial Logistics Limited (the Existing Pharma Sale); and (b) the relevant subsidiaries of the Company fail to execute a sale agreement for the disposal of the Pharma business unit to Austell (an Austell/Pharma Sale) within 2 Business Days thereafter. The group has signed a sales agreement with Austell in this regard; or

- If certain other milestone dates are not met in respect of the Austell Pharma Sale.

In terms of the agreement, the covenant is for the group to maintain a monthly liquidity headroom of R10 million. The group is able to meet this covenant requirement.

Consequence of failure to implement the Pharma disposal

The Pharma disposal is conditional upon, inter alia, the relevant resolutions being approved by shareholders at the general meeting. In concluding on the going concern assertion, the board has considered the implications of the relevant shareholder resolution not being passed to enable the implementation of the disposal.

Through ongoing communication and engagement with shareholders, the board, management and its transaction advisors are canvassing support to encourage shareholders to vote in favour of the Pharma disposal.

If the group is unable to implement the Pharma disposal, the group will need to find an alternative mechanism to ensure the debt can be repaid in full, or face the risk that the lenders will enforce their security should the debt not be repaid by 17 November 2022. The board determines the likelihood of this taking place as low based on the following factors:

- The board takes comfort in the fact that there are currently two bidders committed to the acquisition of the Pharma business, one of whom is the lender – Austell.
- The board has also considered the successful outcome of the rights offer, and the resultant reduction on the remaining outstanding debt of the group.
- The group can access or alternatively, bridge access to the R50 million escrow facilities

Therefore, a combination of the successful disposal of Pharma, together with the rights issue proceeds discussed below and the escrow funds is sufficient to provide a complete solution to repay the debt.

Ascendis group rights offer

On 3 August 2022, the board of directors resolved to raise an amount of R102 million by way of a fully underwritten non-renounceable rights offer through an offer of 143 million new Ascendis Health Limited's shares at an issue price of 71 cents per share, in the ratio of 29.70633 rights offer shares for every 100 Ascendis Shares held on the record date for participating in such rights offer. The amount will be used to settle part of the group debt.

Based on the above, the board does not believe that the historical threat of business rescue still exists.

Proposed change in tax rate

The 2022 budget speech, delivered on 23 February 2022, announced that the corporate income tax rate would be reduced from 28% to 27% effective from the years of assessment ending on or after 31 March 2023.

The event above is a non-adjusting event.

Russia-Ukraine War

The geopolitical situation in Eastern Europe intensified on 24 February 2022, with Russia's invasion of Ukraine. The war between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed. The reporting entity does not operate in these countries hence the war does not have any impact on the financial reporting.

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