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2018 Annual Financial Statements

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All company names have been abbreviated throughout the Annual Financial Statements and appear on pages 128 and 129.

## Certificate of the Company Secretary

In my capacity as the Company Secretary & Group Governance Officer, I hereby confirm, in terms of the Companies Act, that for the year ended 30 June 2018, the Company has lodged with the Companies and Intellectual Property Commission all such returns as are required of a public company in terms of this Act, and that all such returns are, to the best of my knowledge and belief true, correct and up to date.

**Riaan Verster**

*Company Secretary & Group Governance Officer*

Johannesburg  
26 October 2018

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# Audit & Risk Committee report

## Activities, mandate, composition and attendance of the Audit & Risk Committee ("A&R Co")

The table below reflects a summary of the activities undertaken by the A&R Co during the year in terms of its terms of reference and in support of the Board, with the resulting material outcomes from these activities:

Activities	Outcome
<p><b>Engagement with the Group's external auditors</b></p>	<ul style="list-style-type: none"> <li>• nominated and recommended to shareholders the appointment of the external auditor of the Company and the Group who is a registered auditor and who, in the opinion of the A&amp;R Co, is independent of the Company and the Group;</li> <li>• determined the fees to be paid to the auditor and the auditor's terms of engagement;</li> <li>• ensured that the appointment of the auditor complies with the Companies Act, the applicable JSE listings requirements, and any other legislation relating to the appointment of the auditor;</li> <li>• determined the nature and extent of any non-audit services that the auditor may provide to the Group; and</li> <li>• pre-approved any proposed agreement with the auditor for the provision of non-audit services to the Group which are of a material nature as provided for in the Group's non-audit services policy.</li> </ul>
<p><b>Compliance with Companies Act requirements</b></p>	<ul style="list-style-type: none"> <li>• prepared this report in compliance with section 94(7)(f) of the Companies Act, which report has been included in the Annual Financial Statements by reference;</li> <li>• stands ready to receive and deal with any concerns or complaints relating to the accounting practices and internal audit of the Company and the Group, the content or auditing of the Annual Financial Statements, including the Summarised Group Annual Financial Statements contained in the Integrated Report, the internal financial controls of the Company and the Group or any related matter; and</li> <li>• made submissions to the Board on matters concerning the Company and the Group's accounting policies, financial controls, records and reporting.</li> </ul>
<p><b>Internal financial controls, internal audit and combined assurance</b></p>	<ul style="list-style-type: none"> <li>• assessed internal financial controls and concluded that no material breakdowns in the functioning of the internal financial controls were noted during the year under review and that the results of the audit tests conducted indicate that the internal financial controls provided a sound basis for the preparation of financial statements;</li> <li>• considered and confirmed its satisfaction with the effectiveness of the Internal Audit function, as well as the expertise and experience of the Chief Audit Executive;</li> <li>• received an external and independent assessment of the Internal Audit function, in the 2017 financial year, in line with Aspen's requirement for an external review every five years. The assessment indicated positive results and the function's general conformance with the Institute of Internal Auditors Standards; and</li> <li>• ensured that a comprehensive combined assurance model was applied to the Group's key risks so as to provide a coordinated approach to all assurance activities and confirmed that there were no significant areas of overlap or assurance gaps and the levels of assurance were considered appropriate.</li> </ul>
<p><b>Oversight of risk management</b></p>	<ul style="list-style-type: none"> <li>• monitored the implementation of the Group risk policy and Group risk plan as approved by the Board;</li> <li>• reviewed and considered the activities and reports of the Group executive risk forum and Tax Committee;</li> <li>• reviewed and considered business unit risk reports presented to the Committee;</li> <li>• reviewed and considered the report by Internal Audit on the integrity and robustness of the Group's risk management processes;</li> <li>• reviewed and recommended for approval the Group's risk appetite framework;</li> <li>• reviewed and considered the status of financial, information, technology and cybersecurity measures and internal controls for the year under review, as reported by the Group's internal and external auditors; and</li> <li>• reviewed and approved the adequacy of the Group's insurance cover.</li> </ul>
<p><b>Integrated reporting and assurance in respect of financial expertise of the Financial Director and finance function</b></p>	<ul style="list-style-type: none"> <li>• confirmed the expertise and experience of the: <ul style="list-style-type: none"> <li>– Deputy Group Chief Executive who performs the duties of the Company's Financial Director; and</li> <li>– Group's Finance function and the senior members of management responsible for the Group's Finance function, including the Group Finance Officer;</li> </ul> </li> <li>• considered financial-related tip-off reports and management actions to address these; and</li> <li>• reviewed the Group's Integrated Report and the sustainability information as disclosed therein to evaluate the integrity of reported information and for consistency with the Annual Financial Statements.</li> </ul>

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## Audit & Risk Committee report continued

### Audit & Risk Committee Terms of Reference

The A&R Co has adopted formal Terms of Reference as incorporated in the Board Charter which have been approved by the Board of Directors. The Terms of Reference are reviewed as necessary. The Committee has conducted its affairs in compliance with these Terms of Reference and has discharged its responsibilities contained therein, as well as in the Companies Act.

### Committee members and attendance at meetings

The A&R Co is constituted as a statutory committee in terms of the provisions of section 94 of the Companies Act and has an independent role with accountability to both the Board and shareholders. The A&R Co currently consists of four independent non-executive directors elected by shareholders at the annual general meeting, on the recommendation of the Board. The Board elects the Chairman of the A&R Co.

The Deputy Group Chief Executive, Group Finance Officer, Chief Audit Executive, Group Tax Executive, Company Secretary & Group Governance Officer, Group Risk & Sustainability Manager and representatives of the internal and external auditors attend meetings by invitation. All directors have a standing invitation to attend the Committee's meetings. From time to time other executives and directors of the Group attend meetings of the A&R Co as requested. The Committee has unrestricted access to the external and internal auditors.

In accordance with the Terms of Reference, the Committee meets at least four times annually, but more often if necessary. During the year under review, the Committee met eight times. Each of the scheduled meetings is preceded by a pre-meeting during which the Chairman ascertains the key issues requiring consideration and to be addressed. The minutes of these meetings are made available to all directors by means of a database of documents they can access online. The

Chairman of the Committee provides the Board with a verbal report of the Committee's activities at each Board meeting. During the year, the Committee met with the external auditors and with the Chief Audit Executive without management being present. No matters that required attention arose from these meetings.

The Chairman of the Committee represents the A&R Co at the annual general meeting each year.

The Company Secretary & Group Governance Officer is the secretary of the Committee.

The Remuneration & Nomination Committee ("R&N Co"), through its nomination process, ensures that members are sufficiently qualified and experienced in matters such as financial and sustainability reporting, internal financial controls, external and internal audit processes, corporate law, risk management, financial sustainability issues, IT governance as it relates to integrated reporting and governance processes.

The following table of attendance at A&R Co meetings reflects the Committee's meetings held during the year and the attendance of these meetings by its members during the year:

A&R Co	30 August 2017	12 September 2017	18 October 2017	25 October 2017	1 December 2017	14 February 2018	6 March 2018	19 June 2018
Roy Andersen	✓	✓	✓	✓	✓	✓	✓	✓
John Buchanan (Chairman) <sup>#</sup>	✓	✓	✓	✓	✓	✓	✓	✓
Maureen Manyama <sup>*</sup>	✓	✓	✓	✓	Apology	n/a	n/a	n/a
Babalwa Ngonyama (Chairman) <sup>##</sup>	✓	✓	✓	✓	✓	✓	✓	✓
Sindi Zilwa	✓	✓	Apology	✓	✓	✓	✓	✓

<sup>\*</sup> Ms Manyama did not make herself available for re-election at the Company's AGM held on 7 December 2017.

<sup>#</sup> Mr Buchanan retired as Chairman of the A&R Co with effect from 1 January 2018, remaining a member of the A&R Co.

<sup>##</sup> Ms Ngonyama was appointed as Chairman of the A&R Co with effect from 1 January 2018.

The overall average attendance for the A&R Co meetings held during the year was 94.6%.

### Roles and responsibilities

The A&R Co has an independent role with accountability to both the Board and our shareholders. The Committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other senior members of management.

The Committee is, *inter alia*, responsible for assisting the Board in discharging its duties in respect of the safeguarding of assets, accounting systems and practices, internal control processes and the preparation of the Group and Company Annual Financial Statements in line with the relevant financial reporting standards as applicable from time to time. The Committee's responsibilities can be divided into two broad categories:

## Statutory duties

### External auditor

The Committee has satisfied itself that the external auditor, PricewaterhouseCoopers Inc., was independent of the Group, as required by the Companies Act, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the auditor that internal governance processes within the audit firm support and demonstrate its claim to independence.

The A&R Co has also satisfied itself with the quality of the external audit work being performed by PricewaterhouseCoopers Inc., in respect of all of the Group's subsidiaries, except for Aspen's South African subsidiaries which are audited by both PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Inc. on a shared basis, and that the firm and relevant designated auditor are accredited with the JSE list of auditors and the Independent Regulatory Body of Auditors and hold the requisite certifications and registrations. In recommending the appointment of a proposed external auditor, the Committee calls for and requests:

- the decision letter and findings report of the inspection report issued in respect of the firm by the Independent Regulatory Board for Auditors ("IRBA") of South Africa on both the proposed external audit firm and the designated individual director;
- a summary of the proposed external audit firm monitoring procedures; and
- the outcome and summary of any legal or disciplinary proceedings which may have been instituted by the IRBA against the proposed external audit firm and designated individual auditor.

PricewaterhouseCoopers Inc. has been the Group's external auditor since the Company's listing on the JSE in 1998. The A&R Co has agreed to recommend to shareholders the appointment of Craig West of PricewaterhouseCoopers Inc. as the designated auditor, responsible for

performing the functions of auditor, for the 2019 financial year – his second year in this role. SizweNtsalubaGobodo Inc. has again been appointed to share in the auditing of the Company's South African subsidiaries in the forthcoming year. The Committee has initiated a process in terms whereof PricewaterhouseCoopers Inc. will be replaced as the Group's external auditor by no later than the financial year commencing 1 July 2023 in line with the South African Independent Regulatory Board of Auditors' rule issued on mandatory audit firm rotation.

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the financial year ended 30 June 2018.

There is a formal procedure that governs the process whereby the external auditor is considered for non-audit services. The Committee approved the terms of the service agreement for the provision of non-audit services by the external auditor, and approved the nature and extent of non-audit services that the external auditor provided in terms of the agreed pre-approval policy. During the year an amount of R9 131 231 was paid to PricewaterhouseCoopers Inc. in respect of non-audit services, which is approximately 22% of the external audit fee paid for the year. The external auditor is invited to and attends all A&R Co meetings and is required to meet independently with the A&R Co at least annually. A schedule of findings by the external auditor arising from the annual statutory audit is tabled and presented at an A&R Co meeting following the audit. The Committee endorses action plans for management to mitigate noted concerns. The external auditor has expressed an unqualified opinion on the Annual Financial Statements for the year ended 30 June 2018.

### Internal financial controls

The key internal financial controls in operation for all significant operating businesses within the Group are documented in formalised financial internal control frameworks and these frameworks are maintained and updated

by financial management during the course of the year or as part of the year-end process.

Based on the results of the formal documented review of the design, implementation and effectiveness of the Group's systems of internal financial controls conducted by Group internal audit, supported by approved outsourced internal audit service providers during the 2018 financial year and, in addition, considering information and explanations given by management and discussions with the external auditor on the results of their audits, no material breakdowns in the functioning of the internal financial controls were noted during the year under review.

The results of the audit tests conducted indicate that the internal financial controls provide a sound basis for the preparation of financial statements.

### Expertise and experience of the Financial Director and the finance function

The A&R Co has considered and is satisfied with the expertise and experience of the Deputy Group Chief Executive who performs the duties of the Company's Financial Director, Gus Attridge (CA)SA.

Furthermore, the Committee has considered, and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the Group's finance function and experience of the senior members of management responsible for the Group's finance function, including the Group Finance Officer.

### Annual Financial Statements

The A&R Co assists the Board with all financial reporting and reviews the Annual Financial Statements as well as trading statements, preliminary results announcements and interim financial information.

The A&R Co has reviewed the Annual Financial Statements as well as trading statements, preliminary results announcements and interim financial information of the Company and the Group and is satisfied that they comply with International Financial Reporting Standards.

The following significant matters were considered by the A&R Co in relation to these Annual Financial Statements:

Matter	Outcome
<b>Measurement of goodwill and indefinite life intangibles</b>	The A&R Co reviewed and interrogated all elements supporting the valuation and measurement of goodwill and indefinite life intangible assets which included stress testing the process and key assumptions underpinning the valuations. The process of reviewing the classification of intangible assets and the criteria for determining whether these assets met the definition of indefinite life intangible assets was extensively reviewed and the A&R Co was satisfied that the classification and valuation of indefinite life intangible assets was materially correct and fairly presented.
<b>Uncertain tax positions</b>	<ul style="list-style-type: none"> <li>The Group operates in a complex tax environment which has been and will continue to be subject to significant change as a consequence of the Organisation for Economic Co-operation and Development's Base Erosion and Profit Shifting ("BEPS") project. BEPS gave rise to many recommended changes to international tax law and further recommended greater transparency through enhanced documentation (master file, country-by-country report and local files). The changes to international tax law and the more detailed documentation requirements has led to greater scrutiny of the Aspen Group by a number of tax jurisdictions.</li> <li>The Group has considered this increased scrutiny and the uncertainty arising from changes in the interpretation of international tax principles and has applied its judgement to determine if provisions are required for any uncertain tax positions.</li> <li>The A&amp;R Co has considered the level of tax provisioning to be acceptable in the context of the Group's financial statements, taken as a whole.</li> </ul>
<b>Accounting for the purchase of the residual rights to the AstraZeneca anaesthetics portfolio</b>	<ul style="list-style-type: none"> <li>The Group acquired the commercialisation rights to products from AstraZeneca in specified territories in the prior financial year. This transaction was accounted for as a business combination in terms of IFRS 3. During the current financial year, the Group acquired the remaining rights from AstraZeneca to these products, including trademarks, patents, domain names, manufacturing know-how and regulatory information. Judgement is required to determine whether the transaction is a business combination in terms of IFRS 3 or an asset acquisition in terms of IAS 38.</li> <li>The A&amp;R Co was satisfied that no additional outputs, nor employees, were acquired and that the treatment of this transaction as an asset acquisition rather than a business combination was appropriate.</li> </ul>

**Going concern**

The A&R Co reviewed a documented assessment by management of the going concern premise of the Group before recommending to the Board that the Group is a going concern and will remain so for the foreseeable future. The Committee reviews all proposed intercompany funding proposals and distributions to shareholders in terms of sections 44, 45 and 46 of the Companies Act, recommending such funding arrangements to the Board for consideration.

**Duties assigned by the Board**

The duties and responsibilities of the members of the Committee are set out in the A&R Co Terms of Reference included in the Board Charter, which is approved by the Board.

**Integrated and sustainability reporting**

The A&R Co fulfils an oversight role regarding the Group's Integrated Report and the reporting process, including the system of internal financial controls. It is responsible for ensuring that the internal audit function is independent and has the necessary resources, standing and authority within the Group to enable it to discharge its duties. Furthermore, the A&R Co oversees cooperation between the internal and external auditors.

During the 2018 financial year, the A&R Co considered the results of the sustainability audits conducted by Environmental Resources Management and limited assurance engagements performed on selected key performance indicators by Environmental Resources

Management, PricewaterhouseCoopers Inc., as the Group's external auditors, and Internal Audit. The Committee is satisfied that the sustainability information, as presented in the 2018 Integrated Report, is reliable, consistent and fairly presented.

**Tax and treasury oversight**

The Committee also receives regular feedback from both our Group Tax Committee and Group Treasury Committee. The Group Tax Committee is charged with ensuring all Group companies implement the Group's tax philosophy and policies and comprises the Deputy Group Chief Executive, Group Finance Officer, the Group Financial Executive and Group Tax Executive, who meet on a regular basis to discuss the status of the Group's tax affairs. The

Group Treasury Committee is charged with monitoring the Group's performance in managing the risks identified in the Group Treasury Policy and comprises the Deputy Group Chief Executive, Group Finance Officer, Group Financial Executive, Group Corporate Finance Executive and Group Treasury Manager. The executives responsible for the Group's tax and treasury functions attend the quarterly meetings of the Committee to report on notable matters arising within the areas of their responsibility during the quarter.

Significant tax and treasury matters are brought to the attention of the A&R Co should they be raised between regular meetings.

#### **Internal audit**

The A&R Co is responsible for overseeing the internal audit and has considered and approved the internal audit charter and internal audit's annual risk-based audit plan.

Internal audit reports centrally with responsibility for reviewing and providing assurance on the adequacy of the internal control environment across all of the Group's significant operations. Various financial internal control audits were outsourced to an auditing firm, ensuring that specialist resources are utilised for financial internal control assessments. The internal audit plan follows a three-year cycle and is revised regularly in accordance with the risk profiles as discussed and tabled at the A&R Co meetings with any changes to the internal audit plan being approved by the Committee.

Each internal audit conducted is followed up by a detailed report to operational and senior management, including recommendations on aspects requiring improvement. The Chief Audit Executive is responsible for reporting the findings of the internal audit work against the agreed internal audit plan to the A&R Co at each Committee meeting. Copies of the detailed reports are also provided to the A&R Co together with an overall summary of the audit result for each audit.

The Chief Audit Executive has direct access to the A&R Co, primarily through its chairman, and attends A&R Co meetings by invitation.

The A&R Co is responsible for the appointment and removal of the Chief Audit Executive. The Committee is also responsible for the assessment of the performance of the Chief Audit Executive and the Internal Audit function. The Committee has considered and is satisfied with the effectiveness of the Internal Audit function. The A&R Co has also considered and is satisfied with the expertise and experience of the Chief Audit Executive.

An external and independent assessment of the Internal Audit function was performed during the prior financial year in line with our requirement for an external review every five years. The assessment indicated positive results and the function's general conformance with the Institute of Internal Auditors Standards.

#### **Combined assurance**

We apply a combined assurance approach to the Group's key risks to validate the effectiveness of controls related to risk responses and mitigation activities and thereby corroborate management's self-assessment of the effectiveness of existing risk responses. This provides the Board with a corroborated evaluation of the risk responses and mitigation controls through a combination of the following five lines of assurance:

- the organisation's line functions that own and manage risks – first line of assurance;
- specialist functions that facilitate and oversee risk management and compliance – second line of assurance;
- internal assurance providers – third line of assurance;
- independent external assurance providers – fourth line of assurance; and
- governing body and committees – fifth line of assurance.

The required level of combined assurance is determined by the effectiveness of the risk response activities and the impact of such risk to the Group. No significant areas of overlap or assurance gaps have been identified during the year and the levels of assurance are considered appropriate.

#### **Whistle-blowing**

Our whistle-blowing arrangements are approved and monitored by the A&R Co and the Social & Ethics Committee ("S&E Co"). The Group Ethics Committee (a management committee consisting of four senior functional executives) receives and deals with any concerns or complaints, whether from within or outside Aspen, through an independent specialised tip-offs call centre, and tables this information and the results of follow-ups at each S&E Co meeting. Financial- and internal control-related tip-offs are then also tabled at the A&R Co meetings.

Both committees are satisfied that instances of whistle-blowing received during the year were appropriately dealt with.

#### **Risk governance**

Oversight of the Group's Risk Management function has been assigned to the A&R Co.

The Board considers risk management to be a key process in the responsible pursuit of strategic objectives and in the effective management of related material issues across the Group. Our management culture is underpinned by effective risk identification and mitigation activities which are applied, on a day-to-day basis, through a system of internal controls, monitoring mechanisms and relevant stakeholder engagement activities. In accordance with the Group's risk philosophy, business activities and business plans are aligned to the Group's governance, economic, environmental and social aspirations.

The Board of Directors is responsible for the governance of risk across the Group, for setting the risk appetite and for monitoring the effectiveness of our risk management processes. This responsibility is delegated to the A&R Co.

The Group's integrated risk management model considers strategic, operational, financial and compliance risks.

Reputational risks and uncertain risks, which are inherent to our business and to the pharmaceutical industry in general, are also identified, monitored, recorded and appropriately managed.

Risk indicators and risk appetite are reviewed and approved by the Board on an annual basis or more frequently where required. The boards of directors of our subsidiary companies are responsible for oversight of the risk management processes implemented at the relevant business units and for monitoring the effectiveness of the implemented risk management systems to ensure business continuity.

Evaluations of material risks and of the effectiveness of the risk management process were conducted during the year by the Group Executive Risk Forum and the findings of these evaluations were reported to the A&R Co. Following a comprehensive review of risks and mitigating controls at the A&R Co meeting, the Committee formulated an overall conclusion and submitted a formal risk review report to the Board. The Committee's report included an opinion on the overall status of material residual, reputational and uncertain risks with reference to the adequacy of related mitigating controls and to the approved risk appetite. The report also presented an opinion on the effectiveness of the risk management process implemented in the Group, supported by the internal audit report.

In arriving at its opinion, the A&R Co undertook the following activities:

- monitored the implementation of the Group Risk Policy and Group risk plan as approved by the Board;
- reviewed and considered the activities and reports of the Group Executive Risk Forum;
- reviewed and considered business unit risk reports presented to the Committee;
- reviewed and considered the report by Internal Audit on the integrity and robustness of the Group's risk management processes;
- reviewed and considered the status of financial, IT and internal controls, for the year under review, as reported by the Group's internal and external auditors; and
- reviewed and approved the adequacy of the Group's insurance cover, after having considered the claims for the prior year, a summary of the proposed insurance arrangements for the ensuing year and the insurable, but uninsured risks.

At year-end, the Board was satisfied with the status and effectiveness of risk governance in the Group and adequacy of mitigation plans for material risks. Internal Audit found the implemented risk management process to be effective and has made recommendations for improvement which will be implemented as part of the continuous improvement process.

#### **IT governance**

The Committee periodically reviews the Group's maturity in respect of IT governance by considering reports from the Group's Chief Information Officer and assurance as provided by the Internal Audit function in accordance with the approved internal audit plan.

The governance and management of technology and information is based on a federated operating model where Aspen businesses and functional departments are responsible for the implementation, management and operation of technology and information considered appropriate to enable those businesses and functional departments. Opportunities for standardisation and to achieve procurement synergies continue to be explored from a Group perspective.

Business system implementation by various Aspen businesses and functional departments across the Group are in progress and are being monitored by the IT Steering Committee. A programme to mitigate infrastructure technology security risks is being coordinated centrally and includes the introduction of a supporting policy. Mitigation plans have been introduced to address the risk of material operational and disruptive incidents. No incidents of this nature occurred during the year.

#### **Recommendation of the Integrated Report and related sustainability information for approval by the Board**

At its meeting held on 24 October 2018, the A&R Co reviewed and recommended the Integrated Report and related sustainability information, as well as the Annual Financial Statements for approval by the Board of Directors.

The A&R Co is satisfied that it has complied with its statutory responsibilities and the responsibilities assigned to it by the Board.

**Babalwa Ngonyama (CA)SA**  
*A&R Co Chairman*



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## Statement of responsibility by the Board of Directors

The directors are responsible for the preparation, integrity and fair presentation of the Annual Financial Statements for the year ended 30 June 2018 ("Annual Financial Statements") of Aspen Pharmacare Holdings Limited and its subsidiaries.

The directors consider that in preparing the Annual Financial Statements they have used the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International Financial Reporting Standards ("IFRS") that they consider to be applicable have been followed. The directors are satisfied that the information contained in the Annual Financial Statements fairly presents the results of operations for the year and the financial position of the Group at year-end. The directors further acknowledge that they are responsible for the content of the Integrated Report and its supplementary documents, as well as its consistency with the Annual Financial Statements.

The directors have responsibility for ensuring that accounting records are kept. The accounting records should disclose with reasonable accuracy the financial position of the Group to enable the directors to ensure that the Annual Financial Statements comply with the relevant legislation.

The preparation of the Annual Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Annual Financial Statements and the reported expenses during the reporting period. Actual results could differ from those estimates.

Aspen Pharmacare Holdings Limited and its subsidiaries operated in a well-established control environment, which is well documented and regularly reviewed. This incorporates risk management and internal control procedures, which are designed to provide reasonable, but not absolute, assurance that assets are safeguarded and the risks facing the business are being controlled.

The going concern basis has been adopted in preparing the Annual Financial Statements. The directors have no reason to believe that the Group or any company within the Group will not be going concerns in the foreseeable future, based on forecasts, available cash resources and facilities. These Annual Financial Statements support the viability of the Company and the Group.

The Code of Conduct has been adhered to in all material respects.

The Group's external auditor, PricewaterhouseCoopers Incorporated, audited the Annual Financial Statements, and its report is presented on page 12.

The Annual Financial Statements were prepared under the supervision of Deputy Group Chief Executive, Gus Attridge CA(SA), approved by the Board of Directors on 26 October 2018 and are signed on its behalf.

A signed copy of these Annual Financial Statements is available for inspection at the Company's registered office.

**Kuseni Dlamini**  
*Chairman*

**Gus Attridge**  
*Deputy Group Chief Executive*

Johannesburg  
26 October 2018

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## Directors' Report

The directors have pleasure in presenting their report for the Group and the Company for the year ended 30 June 2018.

### Nature of business

Aspen is a global supplier and manufacturer of specialty, branded and generic pharmaceuticals, with an extensive basket of products that provide treatment for a broad spectrum of acute and chronic conditions experienced through all stages of life. The Group continues to benefit the lives of patients using its products, reaching more than 150 countries.

### Financial results and review of operations

The financial results of the Group are set out on pages 18 to 98 and of the Company on pages 100 to 119 of the Annual Financial Statements. The segmental analysis is included on pages 25 to 29.

The consolidated earnings attributable to equity holders of the Company amounted to R6 010 million for the year, compared with R5 128 million for the previous year, an increase of 17%. Headline earnings per share ("HEPS") increased by 13% from 1 299,5 cents to 1 468,8 cents.

The financial results are more fully described in the Annual Financial Statements.

### Share capital

There was no change to the authorised ordinary share capital of Aspen during the year. No changes to the issued share capital were effected during the year:

	Number of shares (million)	Share capital (million)
<b>Ordinary shares</b>		
Opening balance	456,4	2 089
Shares issued – share schemes	0,1	–
	<b>456,5</b>	<b>2 089</b>

Further details of the authorised and issued share capital of the Company are given in note 11 of the Group Annual Financial Statements and note 10 of the Company Annual Financial Statements.

The unissued ordinary shares are under the control of the directors of the Company until the next annual general meeting.

### Directorate and Secretary

The names of the directors in office at the date of this report are set out on pages 100 to 103 of the Integrated Report. The Company Secretary & Group Governance Officer is Riaan Verster. His business and postal addresses appear on page 127 of this report.

Maureen Manyama resigned as a director of the Company, effective 7 December 2017. On 31 July 2018, John Buchanan retired from the Board and Linda de Beer was appointed to the Board.

In terms of the Company's Memorandum of Incorporation, Roy Andersen, Linda de Beer, Chris Mortimer, David Redfern and Sindi Zilwa retire by rotation, and being eligible, offer themselves for re-election.

The Group Chief Executive and the Deputy Group Chief Executive are employed on indefinite term service contracts subject to a six-month notice period by either party.

Details of directors' interests in the Company's issued shares are shown on page 117 of the Integrated Report and directors' remuneration details are set out in note 24 of the Group Annual Financial Statements.

The following changes have taken place in the interests of the directors in the shares of the Company between 30 June 2018 and the date of this report:

- 10 000 shares were acquired by Chris Mortimer on 14 September 2018;
- 9 576 shares were transferred to Stephen Saad in October 2018 in terms of the vesting arrangements of the South African Management Deferred Incentive Bonus Scheme; and
- 7 798 shares were transferred to Gus Attridge in October 2018 in terms of the vesting arrangements of the South African Management Deferred Incentive Bonus Scheme.

### **Group share trading policy**

It is Group policy that all directors and their associates should not deal in shares or otherwise transact in the securities of the Company for the periods from half year-end and year-end to 24 hours after publication of the half year-end and year-end results or when the Company is trading under a cautionary announcement.

### **Transactions**

The following notable transactions were effected during the 2018 financial year:

#### **Acquisition of residual rights relating to AZ Anaesthetics Portfolio**

On 1 September 2016, AGI acquired the exclusive rights to commercialise the Anaesthetics Portfolio of AstraZeneca globally (excluding the USA) ("the AZ Anaesthetics"). With effect from 1 November 2017, AGI acquired the remaining rights to the intellectual property and manufacturing know-how related to the AZ Anaesthetics ("the residual rights"). The fair value of the residual rights is R8 060 million and R5 202 million of the consideration has been paid in the current financial year. The balance of R2 858 million comprises the present value of future deferred fixed and performance-related milestone payments.

#### **Acquisition of subsidiaries and businesses**

With effect from 12 June 2018, Aspen Pharmacare acquired control of 100% of the share capital of Alphamed for a consideration of R164 million. The estimated post-acquisition operating profit from Alphamed is not material to the Group. Due to Alphamed being a standalone company, incorporating manufacturing and development operations, Aspen is accounting for its acquisition as a business combination. Due to the timing of the transaction Aspen has not yet completed the detailed exercise to identify and value the separately identifiable intangible assets acquired and thereafter the goodwill, if any, arising as a result of the transaction. This will be completed as part of the finalisation of the accounting for the acquisition.

Legal ownership of the shares finally transferred to Aspen Pharmacare on 18 September 2018, after the transaction was ratified by the outgoing shareholders following approval of the transaction by the Reserve Bank of India.

### **Memorandum of Incorporation**

No changes were made to the Company's Memorandum of Incorporation during the year ended 30 June 2018 and up until the date of this report.

### **Dividend to shareholders**

Taking into account the earnings and cash flow performance for the year ended 30 June 2018, existing debt service commitments, future proposed investments and funding options, notice was given that the Board declared a gross dividend of 315 cents per ordinary share to shareholders recorded in the share register of the Company at the close of business on 5 October 2018 (2017: gross dividend of 287 cents per share).

A dividend withholding tax of 20% is applicable to shareholders who are not exempt or who do not qualify for a reduced withholding tax rate under a double taxation agreement. The Company income tax number is 9325178714. The issued share capital of the Company is 456 451 541 ordinary shares. The dividend was paid from income reserves. Shareholders were advised to seek their own tax advice on the consequences associated with the dividend.

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## Directors' Report continued

The directors are of the opinion that the Company will satisfy the solvency and liquidity requirements of sections 4 and 46 of the Companies Act, 2008.

Future distributions will be decided on a year-to-year basis.

In compliance with IAS 10 – *Events After Balance Sheet Date*, the dividend will only be accounted for in the financial statements for the year ending 30 June 2019.

The salient dates in respect of the dividend were as follows:

Last day to trade <i>cum</i> dividend	Tuesday, 2 October 2018
Shares commence trading <i>ex</i> dividend	Wednesday, 3 October 2018
Record date	Friday, 5 October 2018
Payment date	Monday, 8 October 2018

### Going concern

These Annual Financial Statements have been prepared on the going concern basis. Based on the Group's reserves, positive cash flows and cash balances, the availability of unutilised funding facilities and the budgets for the period to June 2019, the Board believes that the Group and the Company have adequate resources to continue in operation for the next 12 months.

### Special resolutions

At the annual general meeting of Aspen shareholders convened on 7 December 2017, the following special resolutions were passed by the Company:

- approval of remuneration for non-executive directors for the year ended 30 June 2018 and for the period 1 July 2018 to the date of the 2018 annual general meeting;
- a general authority was granted for the Company and any of its subsidiaries to provide direct or indirect financial assistance to a related or inter-related company. This authority is valid until the Company's next annual general meeting, or until revoked at a special general meeting of shareholders; and
- a general authority was granted for the Company to acquire shares in the Company from time to time, up to 20% of the Company's issued share capital.

More information on these resolutions can be obtained from the Company Secretary & Group Governance Officer at [rverster@aspenpharma.com](mailto:rverster@aspenpharma.com).

The following special resolutions were passed by the South African subsidiaries of the Company during the year:

- a general authority was granted to Pharmicare Limited ("Pharmacare") to provide direct or indirect financial assistance to a related or inter-related company to Pharmicare. This authority is valid until Pharmicare's next annual general meeting, or until revoked at a special general meeting of shareholders;
- a general authority was granted to Fine Chemicals Corporation (Pty) Limited ("FCC") to provide direct or indirect financial assistance to a related or inter-related company to FCC. This authority is valid until FCC's next annual general meeting, or until revoked at a special general meeting of shareholders;
- a general authority was granted to Aspen Finance (Pty) Limited to provide direct or indirect financial assistance to a related or inter-related company. This authority is valid until Aspen Finance's next annual general meeting, or until revoked at a special general meeting of shareholders; and
- the remuneration payable to the non-executive directors of Aspen Finance (Pty) Limited was approved.

### Auditors

The Audit & Risk Committee and Board have recommended that PricewaterhouseCoopers Inc. be reappointed as the designated auditor of the Group and the Company in terms of the resolution to be proposed at the annual general meeting in accordance with the Companies Act.

The directors further confirm that the A&R Co has addressed the specific responsibility required by it in terms of the Companies Act and that membership of the A&R Co will be proposed to shareholders by ordinary activities of the A&R Co are contained within the A&R Co Report available online at <http://www.aspenpharma.com/results-and-reports/>.

#### Investments in subsidiaries and structured entities

The financial information in respect of the Group and the Company's interests in its material operating subsidiaries and structured entities is set out in note 23 of the Company Annual Financial Statements.

#### Contracts

None of the directors and officers of the Company had an interest in any contract of significance during the financial year, save as disclosed in note 31 of the Group Annual Financial Statements and note 20 of the Company Annual Financial Statements.

#### Borrowings

Borrowings at year-end (net of cash and cash equivalents) amounted to R46 780 million (2017: R37 131 million) are made up as follows:

	2018 R'million	2017 R'million
Non-current borrowings	46 725	28 978
Current borrowings	11 225	18 860
Cash and cash equivalents	<b>(11 170)</b>	(10 707)
	<b>46 780</b>	37 131

The level of borrowings is authorised in terms of the Company's and its subsidiaries' Memoranda of Incorporation and have been authorised in terms of the required Board approvals.

A detailed list of borrowings is set out in note 14 of the Group Annual Financial Statements and note 11 of the Company Annual Financial Statements.

#### Subsequent events

Post year-end, Aspen concluded an agreement (subject to conditions precedent) to divest of its global Nutritionals business, predominantly carried on in Latin America, sub-Saharan Africa and Asia Pacific under the S-26, Alula and Infacare brands, to the Lactalis Group, a leading multinational dairy corporation based in Laval, France, for a fully funded cash consideration of EUR739,8 million as were fully detailed in note 10.

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# Independent auditor's report to the shareholders of Aspen Pharmacare Holdings Limited

## Report on the audit of the consolidated and separate financial statements

### Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects the consolidated and separate financial position of Aspen Pharmacare Holdings Limited ("the Company") and its subsidiaries (together "the Group") as at 30 June 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act of South Africa.

### What we have audited

Aspen Pharmacare Holdings Limited's consolidated and separate financial statements, set out on pages 18 to 119, comprise:

- the Group and Company statements of financial position as at 30 June 2018;
- the Group and Company statements of comprehensive income for the year then ended;
- the Group and Company statements of changes in equity for the year then ended;
- the Group and Company statements of cash flows for the year then ended; and
- the notes to the Group and Company financial statements, which include a summary of significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

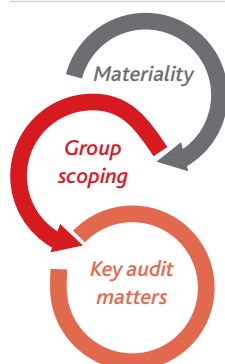
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the *Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for *Accountants Code of Ethics for Professional Accountants* (Parts A and B).

### Our audit approach

#### Overview



#### Overall Group materiality

- Overall Group materiality: R369.8 million which represents 5% of consolidated profit before tax.

#### Group audit scope

Our audit included full scope audits of Aspen's financially significant components. Review and analytical procedures were performed over the remaining components.

#### Key audit matters

- Measurement of goodwill and indefinite life intangible assets and useful life of intangible assets
- Uncertain tax positions
- Accounting for the purchase of the residual rights to the AstraZeneca Anaesthetics Portfolio

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

## Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our Group audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

<b>Overall Group materiality:</b>	R369.8 million
<b>How we determined it:</b>	5% of consolidated profit before tax
<b>Rationale for the materiality benchmark applied:</b>	We chose consolidated profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is consistent with quantitative materiality thresholds used for profit-oriented companies in this sector.

## How we tailored our Group audit scope and our areas of focus

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Our Group audit scoping assessment included consideration of financially significant components, based on indicators such as the contribution to consolidated assets, consolidated revenue and consolidated profit before tax. Based on this assessment we identified 15 financially significant components, which in aggregate account for a majority of the consolidated revenue, consolidated profit before tax and consolidated total assets of the Group. These financially significant components of the Group were subject to full scope audits of their financial reporting information submitted to the Company.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group engagement team, or component auditors from other PwC network firms or other audit firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group engagement team met with the component auditors of the most significant audit components and engaged with the remaining component auditors by means of discussing pertinent matters and reviewing reporting documents submitted to us as the Group engagement team. In order to obtain sufficient audit evidence in respect of non-significant components, the Group engagement team performed analytical review procedures on their financial information. These components have been assessed to be financially inconsequential to the Group.

# Independent auditor's report to the shareholders of Aspen Pharmacare Holdings Limited continued

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that there are no key audit matters to communicate in our report with regard to the audit of the separate financial statements of the Company for the current period.

Key audit matter	How our audit addressed the key audit matter
<p><b>Measurement of goodwill and indefinite life intangible assets</b></p> <p><b>This key audit matter relates to the audit of the consolidated financial statements.</b></p> <p>Refer to note 1: Intangible assets and note 3: Goodwill.</p> <p>We determined this area to be a matter of most significance to the audit due to the size of the goodwill (R6 126 million) and indefinite life intangible assets balance (R64 497 million) as at 30 June 2018, and the risk of impairment of the goodwill and intangible assets included in the cash-generating units ("CGUs") of the Group. The assignment of useful lives is judgemental and this judgement has a material impact on the financial statements.</p> <p>Management has determined that R64 056 million of the carrying value of intangible assets as at 30 June 2018 relates to intangible assets with indefinite useful lives, which require annual impairment assessments in terms of IFRS.</p> <p>Management's assessment of the "value-in-use" of the Group's CGUs is determined using estimated future cash flows. The impairment reviews performed by the Group contain a number of significant judgements and estimates including turnover growth, profit margins and pre-tax discount rates across multiple territories. Changes in these assumptions could lead to an impairment to the carrying value of goodwill and intangible assets.</p> <p>In respect to goodwill, management determined that there is sufficient headroom between the value-in-use of the CGUs and their carrying values. However, it remains an area of significant judgement because of the assumptions used for calculating the recoverable amount.</p> <p>The assignment of useful lives to intangible assets is subjective and is based on a number of management judgements. Changes in circumstances may necessitate management to reassess the useful life of assets. Management base their assumptions in this regard on past experience, detailed assessments, business plans for individual intangible assets and the nature of the individual asset. The factors taken into account by management when making this classification is set out in note 1: Intangible assets – Significant judgements and estimates.</p> <p>During the current year, impairment charges of R750 million were recognised. Management attributed a finite useful life to brands with a value of R400 million that were previously considered to be indefinite, as part of the annual assessment of useful lives.</p>	<p>We obtained the Group's impairment analyses and tested the reasonableness of key assumptions, including revenue growth, profit margins, cash conversion, terminal values and discount rates.</p> <p>Our audit procedures included comparing key assumptions to business plans and economic forecasts. We found management's key assumptions to be in line with these.</p> <p>We utilised our valuation expertise to assess the reasonability of the discount rates used by testing the assumptions against market data and widely applied foreign risk premiums. In addition, we performed calculations with more conservative assumptions to evaluate the impact of the particular assumption on the impairment calculations as a whole. We found the discount rate applied by management to be reasonable.</p> <p>We evaluated whether management had identified the relevant CGUs with reference to goodwill and individual intangible assets, and found this to be the lowest level at which management monitors goodwill and intangible assets.</p> <p>We compared the future cash flow forecasts to the approved budgets and found them to be consistent and reasonable in relation to the current year financial results. We compared the current year actual financial results with the forecasts utilised in the prior year impairment calculations and did not identify material unexplained variances.</p> <p>We focused our audit effort on the indefinite life intangible assets that were partially impaired and those with an excess of less than 10% when comparing the net present value of discounted cash flows to net book value of the CGU. These assets had a heightened risk of additional impairment of the total indefinite life intangible assets.</p> <p>We obtained and assessed management's classification and useful life assessment for intangible assets by obtaining business plans evidencing the future growth forecasts, barriers to entry for the asset, brand awareness, customer base and the historic gross margins achieved on the product. We challenged management's assumptions with regards to the indefinite useful life classification of certain intangible assets by considering the individual brand plans, historical performance, evidence of competitor entry into the market and future growth forecasts to identify whether any indicators of declining growth rate exists. Where such trends were identified, we investigated the reason for this trend and considered the impact on the useful life assumption. We also considered the implication of these trends on the impairment testing performed. Based on our work performed, we concurred with management's assertion that no additional brands were required to be assigned a finite useful life and no additional impairment was required.</p>



Key audit matter	How our audit addressed the key audit matter
<p><b>Uncertain tax positions</b></p> <p><b>This key audit matter relates to the audit of the consolidated financial statements.</b></p> <p>Refer to note: 27 – Taxation.</p> <p>The Group operates in a complex multinational tax environment and the increased disclosure of transfer pricing reporting as recommended by the OECD has provided greater transparency to tax authorities internationally and increased scrutiny is expected as a result. Management judgement is required in assessing the carrying amount of provisions required in respect of uncertain tax positions, and as a result we determined this to be a matter of most significance to the audit.</p>	<p>Using our specialist international tax and transfer pricing knowledge, we evaluated and challenged management’s judgements in respect of estimates of tax exposures and contingencies in order to assess the adequacy of the Group’s tax provisions. This included obtaining and inspecting third-party tax opinions that the Group used to assess the appropriateness of any assumptions made and the legal basis of the claims. In understanding and evaluating management’s judgements, we considered the status of recent and current tax authority audits and enquiries, the outcome of previous claims, judgemental positions taken in tax returns and developments in the tax environment.</p> <p>Based on our review of management’s assessment of uncertain tax positions, we found the level of provisioning to be reasonable.</p>
<p><b>Accounting for the purchase of the residual rights to the AstraZeneca Anaesthetics Portfolio</b></p> <p><b>This key audit matter relates to the audit of the consolidated financial statements.</b></p> <p>Refer to note E to the Group statement of cash flows:</p> <p>In the previous financial year, the Group acquired the commercialisation rights to products in specified territories from AstraZeneca. This transaction was accounted for as a business combination in terms of IFRS 3.</p> <p>In the current financial year, the Group acquired the remaining rights to products from AstraZeneca. These rights include the trademarks, patents, domain names, manufacturing know-how and regulatory information.</p> <p>We determined that this was a matter of most significance to the audit due to the value of the transaction and the judgement that was applied by management to determine whether the transaction is a business combination in applying the guidance in IFRS 3 or an asset acquisition. Management determined that the purchase of the residual rights was an asset acquisition.</p>	<p>We inspected the underlying acquisition agreements for the transaction to assess whether the transaction resulted in the inputs, processes and outputs necessary to qualify as a purchase of a business in terms of IFRS 3 or an asset acquisition in terms of IAS 38.</p> <p>We focused our testing on the substance of the purchase agreement to assess whether the residual rights consist of inputs and processes which, if applied to those inputs, have the ability to create outputs in addition to the outputs already acquired as part of the distribution rights in the previous financial year.</p> <p>Based on our testing of management’s assessment we have come to the same conclusion that no additional outputs were acquired in addition to the outputs acquired in the previous financial year. As a result, we agreed with management’s accounting treatment for the purchase of the residual rights to the AstraZeneca Portfolio as an asset acquisition in terms of IAS 38.</p>

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# Independent auditor's report to the shareholders of Aspen Pharmacare Holdings Limited continued

## Other information

The directors are responsible for the other information. The other information comprises the information included in the Aspen Pharmacare Holdings Limited Annual Financial Statements 2018, which includes the Directors' Report, the Audit & Risk Committee Report and the Certificate of the Company Secretary as required by the Companies Act of South Africa, and the Aspen Pharmacare Holdings Limited Integrated Report 2018. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on other legal and regulatory requirements**

In terms of the IRBA Rule published in *Government Gazette* Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Aspen Pharmacare Holdings Limited for 21 years.

#### **PricewaterhouseCoopers Inc.**

*Director: Craig West*

*Registered Auditor*

4 Lisbon Road, Waterfall City

26 October 2018

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## Group statement of financial position

at 30 June 2018

	Notes	2018 R'million	2017 R'million
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	1	72 163	60 006
Property, plant and equipment	2	11 368	9 749
Goodwill	3	6 126	5 940
Deferred tax assets	4	966	987
Contingent environmental indemnification assets	5	802	747
Other non-current assets	6	1 189	801
<b>Total non-current assets</b>		<b>92 614</b>	<b>78 230</b>
<b>Current assets</b>			
Inventories	7	14 496	13 611
Receivables and other current assets	8	14 421	13 592
Cash and cash equivalents	9	11 170	10 707
Total operating current assets		40 087	37 910
Assets classified as held-for-sale	10	135	200
<b>Total current assets</b>		<b>40 222</b>	<b>38 110</b>
<b>Total assets</b>		<b>132 836</b>	<b>116 340</b>
<b>Shareholders' equity</b>			
Retained income		37 052	32 354
Non-distributable reserves		11 050	8 774
Share capital (net of treasury shares)	11	1 905	1 929
Share-based compensation reserve	13	60	54
Ordinary shareholders' equity		50 067	43 111
Non-controlling interests	12	28	27
<b>Total shareholders' equity</b>		<b>50 095</b>	<b>43 138</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	14	46 725	28 978
Other non-current liabilities	15	2 775	4 381
Unfavourable and onerous contracts	17	1 382	1 635
Deferred tax liabilities	4	2 213	2 085
Contingent environmental liabilities	16	802	747
Retirement and other employee benefit obligations	18	635	570
<b>Total non-current liabilities</b>		<b>54 532</b>	<b>38 396</b>
<b>Current liabilities</b>			
Borrowings	14	11 225	18 860
Trade and other payables	19	10 414	10 257
Other current liabilities	20	6 196	5 341
Unfavourable and onerous contracts	17	374	348
<b>Total current liabilities</b>		<b>28 209</b>	<b>34 806</b>
<b>Total liabilities</b>		<b>82 741</b>	<b>73 202</b>
<b>Total equity and liabilities</b>		<b>132 836</b>	<b>116 340</b>

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## Group statement of comprehensive income

for the year ended 30 June 2018

	Notes	2018 R'million	2017 R'million
Revenue	21	42 596	41 213
Cost of sales		(20 991)	(21 317)
<b>Gross profit</b>		<b>21 605</b>	19 896
Selling and distribution expenses		(7 460)	(6 720)
Administrative expenses		(3 103)	(2 780)
Other operating income		419	345
Other operating expenses		(2 224)	(2 420)
<b>Operating profit</b>		<b>9 237</b>	8 321
Investment income	25	343	287
Financing costs	26	(2 235)	(2 369)
<b>Operating profit after investment income and financing costs</b>		<b>7 345</b>	6 239
Share of after-tax net profits from joint ventures	6.2	51	13
<b>Profit before tax</b>		<b>7 396</b>	6 252
Tax	27	(1 385)	(1 124)
<b>Profit for the year</b>		<b>6 011</b>	5 128
<b>Other comprehensive income, net of tax*</b>			
Net (losses)/gains from cash flow hedging in respect of business acquisitions		(96)	188
Currency translation gains/(losses)		2 372	(3 521)
Remeasurement of retirement and other employee benefit obligations		1	44
<b>Total comprehensive income</b>		<b>8 288</b>	1 839
<b>Profit for the year attributable to</b>			
Equity holders of the parent		6 010	5 128
Non-controlling interests		1	–
		<b>6 011</b>	5 128
<b>Total comprehensive income attributable to</b>			
Equity holders of the parent		8 287	1 839
Non-controlling interests		1	–
		<b>8 288</b>	1 839
<b>Earnings per share</b>			
<b>Basic earnings per share (cents)</b>	28	<b>1 316,6</b>	1 123,4
<b>Diluted earnings per share (cents)</b>	28	<b>1 316,6</b>	1 123,4

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

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## Group statement of changes in equity

for the year ended 30 June 2018

	Non-distributable reserves					Total attributable to equity holders of the parent R'million	Non-controlling interests R'million	Total R'million
	Share capital (net of treasury shares) R'million	Hedging reserve R'million	Foreign currency translation reserve R'million	Share-based compensation reserve R'million	Retained income R'million			
<b>Balance at 30 June 2016</b>	1 938	354	11 753	52	28 412	42 509	27	42 536
Total comprehensive income	–	188	(3 521)	–	5 172	1 839	–	1 839
Profit for the year	–	–	–	–	5 128	5 128	–	5 128
Other comprehensive income/(loss)	–	188	(3 521)	–	44	(3 289)	–	(3 289)
Dividends paid	–	–	–	–	(1 230)	(1 230)	–	(1 230)
Deferred incentive bonus shares exercised	24	–	–	(24)	–	–	–	–
Treasury shares purchased	(33)	–	–	–	–	(33)	–	(33)
Share-based payment expenses	–	–	–	26	–	26	–	26
<b>Balance at 30 June 2017</b>	<b>1 929</b>	<b>542</b>	<b>8 232</b>	<b>54</b>	<b>32 354</b>	<b>43 111</b>	<b>27</b>	<b>43 138</b>
Total comprehensive income	–	(96)	2 372	–	6 011	8 287	1	8 288
Profit for the year	–	–	–	–	6 010	6 010	1	6 011
Other comprehensive (loss)/income	–	(96)	2 372	–	1	2 277	–	2 277
Dividends paid	–	–	–	–	(1 313)	(1 313)	–	(1 313)
Treasury shares purchased	(44)	–	–	–	–	(44)	–	(44)
Deferred incentive bonus shares exercised	20	–	–	(20)	–	–	–	–
Share-based payment expenses	–	–	–	26	–	26	–	26
<b>Balance at 30 June 2018</b>	<b>1 905</b>	<b>446</b>	<b>10 604</b>	<b>60</b>	<b>37 052</b>	<b>50 067</b>	<b>28</b>	<b>50 095</b>

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## Group statement of cash flows

for the year ended 30 June 2018

	Notes	2018 R'million	2017 R'million
<b>Cash flows from operating activities</b>			
Cash generated from operations	A	10 328	9 902
Financing costs paid	B	(2 077)	(2 200)
Investment income received	C	261	287
Tax paid	D	(1 495)	(1 502)
<b>Cash generated from operating activities</b>		<b>7 017</b>	<b>6 487</b>
<b>Cash flows from investing activities</b>			
Capital expenditure – property, plant and equipment		(2 145)	(1 484)
Proceeds on the sale of property, plant and equipment		17	9
Capital expenditure – intangible assets		(881)	(1 147)
Acquisition of residual rights – AZ Anaesthetics	E	(5 202)	–
Proceeds on the sale of intangible assets		62	832
Acquisition of subsidiaries and businesses	G	(152)	(9 428)
Disposal of subsidiary		–	45
Acquisition of joint venture		–	(52)
Payment of deferred fixed and contingent consideration relating to prior year business acquisitions		(4 599)	(192)
Proceeds received from/(investment in) other non-current assets		50	(291)
Proceeds on the sale of assets classified as held-for-sale		37	91
<b>Cash used in investing activities</b>		<b>(12 813)</b>	<b>(11 617)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		19 186	25 251
Repayment of borrowings		(11 496)	(19 032)
Dividends paid		(1 313)	(1 230)
Treasury shares purchased		(44)	(33)
<b>Cash generated from financing activities</b>		<b>6 333</b>	<b>4 956</b>
<b>Movement in cash and cash equivalents before currency translation movements</b>			
		<b>537</b>	<b>(174)</b>
Currency translation movements		389	(526)
Movement in cash and cash equivalents		926	(700)
Cash and cash equivalents at the beginning of the year		7 188	7 888
<b>Cash and cash equivalents at the end of the year</b>	F	<b>8 114</b>	<b>7 188</b>

For the purposes of the statement of cash flows, cash and cash equivalents comprise bank balances, short-term bank deposits less bank overdrafts.

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## Notes to the Group statements of cash flows

for the year ended 30 June 2018

	2018 R'million	2017 R'million
<b>A. Cash generated from operations</b>		
Operating profit	9 237	8 321
Amortisation of intangible assets	632	567
Depreciation of property, plant and equipment	740	700
Impairment charges	1 657	1 479
Reversal of impairment charges	(130)	(3)
Loss on the sale of property, plant and equipment	–	30
Loss on the sale of intangible assets	4	96
Share-based payment expense – employees	43	56
Deferred revenue	(127)	(129)
Loss on the sale of subsidiary	–	70
Unfavourable and onerous contracts	(357)	(346)
Other non-cash items	208	(24)
Cash operating profit	11 907	10 817
Working capital movements	(1 579)	(915)
Increase in inventories	(1 057)	(1 085)
Increase in trade and other receivables	(248)	(2 733)
(Decrease)/increase in trade and other payables	(274)	2 903
	10 328	9 902
<b>B. Financing costs paid</b>		
Interest expense	(1 884)	(1 818)
Net foreign exchange losses	(16)	(200)
Borrowing costs capitalised to property, plant and equipment	(177)	(182)
	(2 077)	(2 200)
<b>C. Investment income received</b>		
Interest received per statement of comprehensive income	343	287
Non-cash investment income received	(82)	–
	261	287
<b>D. Tax paid</b>		
Amounts payable at the beginning of the year	(334)	(766)
Tax charged to the statement of comprehensive income	(1 334)	(1 095)
Currency translation movements	(30)	25
Amounts owing at the end of the year	526	564
Amounts receivable at the end of the year	(323)	(230)
	(1 495)	(1 502)
<b>E. Acquisition of residual rights relating to AZ anaesthetics portfolio</b>		
<p>In the prior year AGI acquired the exclusive rights to commercialise the anaesthetics portfolio of AstraZeneca globally (excluding the USA) (“the AZ anaesthetics”). With effect from 1 November 2017, AGI acquired the remaining rights to the intellectual property and manufacturing know-how related to the AZ anaesthetics (“the residual rights”). The fair value of the residual rights capitalised to intangible assets in the year was R8 060 million and R5 202 million of the consideration has been paid in the current year. The balance of R2 858 million, included in other non-current and current liabilities, comprises the present value of future deferred fixed and performance-related milestone payments. Management has determined that this transaction should be treated as a business combination and not an asset acquisition. Management evaluated whether the transaction resulted in the acquisition of inputs and processes that had the ability to create outputs in addition to those acquired in the previous year (treated as a business combination). Management came to the conclusion that no additional outputs, nor employees, were acquired and therefore treated this transaction as an asset acquisition rather than a business combination.</p>		



	2018 R'million	2017 R'million
<b>F. Cash and cash equivalents</b>		
Bank balances	9 688	10 005
Short-term bank deposits	1 450	543
Cash-in-transit and cash-on-hand	32	159
Cash and cash equivalents per the statement of financial position	11 170	10 707
Less: Bank overdrafts <sup>^</sup>	(3 056)	(3 519)
Cash and cash equivalents per the statement of cash flows	8 114	7 188

<sup>^</sup> Banks overdrafts are included within current borrowings in the statement of financial position.

#### G. Acquisition of subsidiaries and businesses

##### June 2018

Set out below is the provisional accounting for the following business combination:

##### Alphamed business acquisition

With effect from 12 June 2018, Aspen Pharmacare acquired control of 100% of the share capital of Alphamed for a consideration of R164 million.

The estimated post-acquisition operating profits is not material to the Group.

Due to Alphamed being a standalone company, incorporating manufacturing and development operations, Aspen is accounting for its acquisition as a business combination. Due to the timing of the transaction Aspen has not yet completed the detailed exercise to identify and value the separately identifiable intangible assets acquired and thereafter the goodwill, if any, arising as a result of the transaction. This will be completed as part of the finalisation of the accounting for the acquisition.

Legal ownership of the shares finally transferred to Aspen Pharmacare on 18 September 2018, after the transaction was ratified by the outgoing shareholders following approval of the transaction by the Reserve Bank of India.

	R'million
<b>Fair value of assets and liabilities acquired</b>	
Property, plant and equipment	85
Non-current financial receivables	1
Inventories	19
Receivables and prepayments	33
Cash and cash equivalents at acquisition	2
Non-current borrowings	(3)
Deferred tax liabilities	(3)
Trade and other payables	(41)
Current borrowings	(7)
<b>Fair value of net assets acquired</b>	<b>86</b>
Goodwill	78
Cash and cash equivalents at acquisition	(2)
Consideration outstanding at year-end	(10)
<b>Cash outflow on acquisition</b>	<b>152</b>

##### June 2017

Set out below is the final accounting for the following business combinations:

##### AstraZeneca Anaesthetics Portfolio

With effect from 1 September 2016, AGI acquired the exclusive rights to commercialise the anaesthetics portfolio of AstraZeneca globally (excluding the USA). As consideration for the commercialisation rights, AGI has paid USD520 million of which USD110 million was paid in the current year. In addition, at acquisition, AGI capitalised performance-related milestone payments of USD250 million of which USD150 million was paid in the current year.

Post-acquisition revenue included in the statement of comprehensive income was R7 123 million (2017: R6 457 million). The estimation of post-acquisition operating profits is impracticable and not reasonably determinable due to the immediate integration of the business into the existing operations of the Group.

##### Fraxiparine and Arixtra in China, Pakistan and India

As part of its acquisition of the thrombosis products Fraxiparine and Arixtra from GSK in 2014, AGI also acquired an option to purchase the same products in certain countries to which GSK retained the rights, most notably China. AGI has exercised its option and, with effect from 1 January 2017, acquired Fraxiparine and Arixtra in these countries for a consideration of GBP45 million.

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## Notes to the Group statements of cash flows continued

for the year ended 30 June 2018

### G. Acquisition of subsidiaries and businesses continued

Post-acquisition revenue included in the statement of comprehensive income was R616 million (2017: R253 million). The estimation of post-acquisition operating profits is impracticable and not reasonably determinable due to the immediate integration of the business into the existing operations of the Group.

#### GSK Anaesthetics Portfolio

With effect from 1 March 2017 AGI acquired a portfolio of anaesthetics globally (excluding the USA) from GSK. As consideration, AGI has paid GBP180 million and in addition, capitalised milestone payments of GBP100 million at acquisition of which GBP42 million was paid in the current year.

Post-acquisition revenue included in the statement of comprehensive income was R1 209 million (2017: R608 million). The estimation of post-acquisition operating profits is impracticable and not reasonably determinable due to the immediate integration of the business into the existing operations of the Group.

	AstraZeneca Anaesthetics Portfolio R'million	Fraxiparine and Arixtra in China, Pakistan and India R'million	GSK Anaesthetics Portfolio R'million	Total R'million
<b>Fair value of assets and liabilities acquired</b>				
Intangible assets	11 062	731	4 387	16 180
Deferred tax liabilities	(331)	(22)	(132)	(485)
<b>Fair value of net assets acquired</b>	<b>10 731</b>	<b>709</b>	<b>4 255</b>	<b>15 695</b>
Goodwill	331	22	132	485
Net gains from cash flow hedging in respect of business acquisition	–	(40)	(167)	(207)
Deferred and contingent consideration	(5 045)	–	(1 500)	(6 545)
<b>Cash outflow on acquisition</b>	<b>6 017</b>	<b>691</b>	<b>2 720</b>	<b>9 428</b>

Management has determined that these transactions should be accounted for as business combinations and not as asset acquisitions.

There are three components that should be considered when assessing if a transaction is a business combination, these are inputs, processes and outputs.

Aspen considered all these transactions to be business combinations due to the following:

- Aspen acquired intangible assets or commercialisation rights with each of these acquisitions that were regarded as inputs;
- Aspen acquired specialised sales forces with each of the acquisitions, regarded as processes; and
- The output of an economic inflow of profits from the commercialisation of the intangible assets acquired which includes the right of Aspen to procure the manufacturing output from the counterparties.

#### Segmental reporting

The reportable segments reflect the current operating model of the Group and achieve alignment with the way in which the business is managed and reported on by the Chief Operating Decision Maker ("CODM"). The business segments reported are the Pharmaceutical and Nutritional business segments.

The Pharmaceutical business segment has been further split into the Therapeutic Focused Brands and Other Pharmaceuticals reportable segments.

Therapeutic Focused Brands consist of focused brands in the portfolios comprising Aspen's three major pharmaceutical therapeutic areas, being Anaesthetics, Thrombosis and High Potency & Cytotoxics. Other Pharmaceuticals comprises revenue from Regional Brands (being the balance of the Commercial Pharmaceutical Brands) as well as manufacturing revenue relating to both APIs and finished dose form products.

The entity-wide revenue disclosure reflects the regional split of revenue within the reportable segments. The regions are as follows:

- Sub-Saharan Africa;
- Developed Europe;
- Australasia;
- Latin America;
- Developing Europe & CIS;
- China;
- Japan;
- Other Asia;
- MENA; and
- USA and Canada.

The financial information of the Group's reportable segments is reported to the CODM for purposes of allocating resources to the segment and assessing its performance.

Each of the reportable segments is managed by a segment manager.

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## Group segmental analysis

for the year ended 30 June 2018

	2018				
	Therapeutic Focused Brands R'million	Other Pharmaceuticals R'million	Total Pharmaceuticals R'million	Nutritionals R'million	Total R'million
Revenue	18 934	20 571	39 505	3 091	42 596
Cost of sales	(7 946)	(11 348)	(19 294)	(1 697)	(20 991)
Gross profit	10 988	9 223	20 211	1 394	21 605
Selling and distribution expenses			(6 578)	(882)	(7 460)
Contribution profit			13 633	512	14 145
Administrative expenses					(3 103)
Net other operating income					249
Depreciation					740
<b>Normalised EBITDA*</b>					12 031
<i>Adjusted for:</i>					
Depreciation					(740)
Amortisation					(632)
Loss on sale of assets					(4)
Impairment of assets					(872)
Reversal of impairments					130
Restructuring costs					(199)
Transaction costs					(160)
Product litigation costs					(317)
<b>Operating profit</b>					9 237
Gross profit (%)	58,0	44,8	51,2	45,1	50,7
Selling and distribution expenses (%)			16,7	28,5	17,5
Contribution profit (%)			34,5	16,6	33,2
Administrative expenses (%)					7,3
Normalised EBITDA (%)					28,2

	2017				
	Therapeutic Focused Brands R'million	Other Pharmaceuticals R'million	Total Pharmaceuticals R'million	Nutritionals R'million	Total R'million
Revenue	17 417	20 572	37 989	3 224	41 213
Cost of sales	(8 438)	(11 047)	(19 485)	(1 832)	(21 317)
Gross profit	8 979	9 525	18 504	1 392	19 896
Selling and distribution expenses			(5 880)	(840)	(6 720)
Contribution profit			12 624	552	13 176
Administrative expenses					(2 780)
Net other operating income					320
Depreciation					700
<b>Normalised EBITDA*</b>					11 416
<i>Adjusted for:</i>					
Depreciation					(700)
Amortisation					(567)
Loss on sale of assets					(196)
Impairment of assets					(726)
Reversal of impairments					4
Restructuring costs					(494)
Transaction costs					(208)
Product litigation costs					(208)
<b>Operating profit</b>					8 321
Gross profit (%)	51,6	46,3	48,7	43,2	48,3
Selling and distribution expenses (%)			15,5	26,1	16,3
Contribution profit (%)			33,2	17,1	32,0
Administrative expenses (%)					6,7
Normalised EBITDA (%)					27,7

\* Normalised EBITDA represents operating profit before depreciation and amortisation adjusted for specific non-trading items as defined in the Group's accounting policy.

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## Group segmental analysis continued

for the year ended 30 June 2018

	% change				
	Therapeutic Focused Brands %	Other Pharmaceuticals %	Total Pharmaceuticals %	Nutritionals %	Total %
Revenue	9	0	4	(4)	3
Cost of sales	(6)	3	(1)	(7)	(2)
Gross profit	22	(3)	9	0	9
Selling and distribution expenses			12	5	11
Contribution profit			8	(7)	7
Administrative expenses					12
Net other operating income					(22)
Depreciation					6
Normalised EBITDA*					5

\* Normalised EBITDA represents operating profit before depreciation and amortisation adjusted for specific non-trading items as defined in the Group's accounting policy.

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## Group revenue segmental analysis

for the year ended 30 June 2018

	2018 R'million	2017 R'million	Change %
<b>Commercial Pharmaceuticals by customer geography</b>	<b>33 270</b>	31 437	6
Sub-Saharan Africa	8 127	7 459	9
Developed Europe	7 434	6 817	9
Australasia	4 816	4 799	0
Latin America	2 929	2 722	8
Developing Europe & CIS	2 780	2 589	7
China	2 415	1 753	38
Japan	1 930	1 932	0
Other Asia	1 401	1 206	16
MENA	877	1 117	(21)
USA & Canada	561	1 043	(46)
<b>Manufacturing revenue by geography of manufacture</b>			
<b>Manufacturing revenue – finished dose form</b>	<b>1 644</b>	2 141	(23)
Australasia	464	472	(2)
Developed Europe	636	638	0
Sub-Saharan Africa	532	1 031	(48)
Latin America	12	–	100
<b>Manufacturing revenue – active pharmaceutical ingredients</b>	<b>4 591</b>	4 411	4
Developed Europe	4 259	3 976	7
Sub-Saharan Africa	332	435	(24)
<b>Total manufacturing revenue</b>	<b>6 235</b>	6 552	(5)
<b>Total Pharmaceuticals</b>	<b>39 505</b>	37 989	4
<b>Nutritionals by customer geography</b>	<b>3 091</b>	3 224	(4)
Australasia	715	795	(10)
Sub-Saharan Africa	1 017	967	5
Latin America	1 290	1 462	(12)
MENA	4	–	100
China	65	–	100
<b>Total revenue</b>	<b>42 596</b>	41 213	3
<b>Summary of regions</b>			
Sub-Saharan Africa	10 008	9 892	1
Developed Europe	12 329	11 431	8
Australasia	5 995	6 066	(1)
Latin America	4 231	4 184	1
Developing Europe & CIS	2 780	2 589	7
China	2 480	1 753	41
Japan	1 930	1 932	0
Other Asia	1 401	1 206	16
MENA	881	1 117	(21)
USA & Canada	561	1 043	(46)
<b>Total revenue</b>	<b>42 596</b>	41 213	3

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## Group revenue segmental analysis continued

for the year ended 30 June 2018

### Commercial Pharmaceuticals therapeutic area analysis

2018

	Anaesthetic Brands R'million	Thrombosis Brands R'million	High Potency & Cytotoxic Brands R'million	Therapeutic Focused Brands R'million	Regional Brands R'million	Total R'million
<i>By customer geography</i>						
<b>Commercial Pharmaceuticals</b>						
Sub-Saharan Africa	143	9	99	251	7 876	8 127
Developed Europe	2 170	3 471	1 417	7 058	376	7 434
Australasia	713	21	477	1 211	3 605	4 816
Latin America	762	71	790	1 623	1 306	2 929
Developing Europe & CIS	434	1 876	406	2 716	64	2 780
China	1 779	616	20	2 415	–	2 415
Japan	1 213	48	372	1 633	297	1 930
Other Asia	658	151	262	1 071	330	1 401
MENA	156	159	193	508	369	877
USA & Canada	304	8	136	448	113	561
<b>Total Commercial Pharmaceuticals</b>	<b>8 332</b>	<b>6 430</b>	<b>4 172</b>	<b>18 934</b>	<b>14 336</b>	<b>33 270</b>

2017

	Anaesthetic Brands R'million	Thrombosis Brands R'million	High Potency & Cytotoxic Brands R'million	Therapeutic Focused Brands R'million	Regional Brands R'million	Total R'million
<i>By customer geography</i>						
<b>Commercial Pharmaceuticals</b>						
Sub-Saharan Africa	144	7	126	277	7 182	7 459
Developed Europe	1 700	3 168	1 472	6 340	477	6 817
Australasia	639	25	483	1 147	3 652	4 799
Latin America	605	92	838	1 535	1 187	2 722
Developing Europe & CIS	317	1 714	472	2 503	86	2 589
China	1 453	252	48	1 753	–	1 753
Japan	1 293	46	408	1 747	185	1 932
Other Asia	429	176	258	863	343	1 206
MENA	231	169	275	675	442	1 117
USA & Canada	254	16	307	577	466	1 043
<b>Total Commercial Pharmaceuticals</b>	<b>7 065</b>	<b>5 665</b>	<b>4 687</b>	<b>17 417</b>	<b>14 020</b>	<b>31 437</b>

	Change %					Total %
	Anaesthetic Brands %	Thrombosis Brands %	High Potency & Cytotoxic Brands %	Therapeutic Focused Brands %	Regional Brands %	
<i>By customer geography</i>						
<b>Commercial Pharmaceuticals</b>						
Sub-Saharan Africa	(1)	29	(21)	(9)	10	9
Developed Europe	28	10	(4)	11	(21)	9
Australasia	12	(16)	(1)	6	(1)	0
Latin America	26	(23)	(6)	6	10	8
Developing Europe & CIS	37	9	(14)	9	(26)	7
China	22	>100	(58)	38	0	38
Japan	(6)	4	(9)	(7)	61	0
Other Asia	53	(14)	2	24	(4)	16
MENA	(32)	(6)	(30)	(25)	(17)	(21)
USA & Canada	20	(50)	(56)	(22)	(76)	(46)
<b>Total Commercial Pharmaceuticals</b>	<b>18</b>	<b>14</b>	<b>(11)</b>	<b>9</b>	<b>2</b>	<b>6</b>

# Notes to the Group Annual Financial Statements

for the year ended 30 June 2018

## 1. Intangible assets

### Accounting policy

#### Recognition and measurement

Intangible assets are stated at historical cost less accumulated amortisation and accumulated impairment losses. Intangible assets are not revalued.

#### Cost

##### Intellectual property

The International Financial Reporting Standards do not prescribe a specific method of accounting for acquisitions of intangible assets that involve future contingent and/or milestone payments. An accounting policy choice exists and the financial liability approach has been adopted to account for these types of transactions under the cost accumulation method. Under this accounting policy, the liability is recognised at fair value at the date of initial recognition of the asset and subsequently remeasured through the statement of comprehensive income to account for changes in fair value of the liability. This will account for a higher intangible asset value and corresponding liability on acquisition when compared to the cost accumulation method, with the accounting for notional interest on the capitalised future payments.

An indefinite useful life intangible asset is an intangible asset where there is no foreseeable limit to the period over which the asset is expected to generate future economic benefits for the Group.

##### Development costs

Expenditure on acquired patents, trademarks, dossiers, licences and know-how is capitalised. Expenditure incurred to extend the term of the patents or trademarks is capitalised. All other expenditure is charged to the statement of comprehensive income when incurred.

Development costs directly attributable to the production of new or substantially improved products or processes controlled by the Group are capitalised (until the date of commercial production) if the costs can be measured reliably, the products and processes are technically feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. All the remaining development costs are charged to the statement of comprehensive income. Research expenditure is charged to the statement of comprehensive income when incurred.

The amounts that are recognised as intangible assets consist of all direct costs relating to the intellectual property and also include the cost of intellectual property development employees and an appropriate portion of relevant overheads. Other development costs that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

##### Product participation and contractual rights

Product participation rights acquired to co-market or manufacture certain third-party products for a period of time as contractually agreed are capitalised to intangible assets. The intellectual property is owned by the lessor.

##### Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets if they meet the following criteria:

- the costs can be measured reliably;
- the software is technically feasible;
- future economic benefits are probable;
- the Group intends to and has sufficient resources to complete development; and
- the Group intends to use or sell the asset.

##### Accumulated amortisation

##### Intellectual property

Definite intangible assets are recognised at cost and amortised on a straight-line basis over their estimated remaining useful lives. Estimated useful lives are reviewed annually.

Amortisation is included in other operating expenses in the statement of comprehensive income.

##### Development costs

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

##### Product participation and contractual rights

Product participation and other acquired product-related contracted distribution rights are capitalised and amortised over the remaining contractual term net of any contracted residual values. Intellectual property relating to the acquired rights are not owned by Aspen.

##### Software

Computer software is recognised at cost and amortised on a straight-line basis over its estimated remaining useful lives. Estimated useful lives are reviewed annually.



**1. Intangible assets** continued  
**Accounting policy** continued

**Impairment**

An impairment assessment is performed on indefinite useful life intangible assets annually, or more frequently if there are impairment indicators. Finite useful life intangible assets are reviewed annually, but only assessed for impairment when there are impairment indicators. Impairment testing is performed by comparing the recoverable amount to the carrying value of the intangible asset.

The recoverable amounts of the intangible assets are determined as the higher of value-in-use and fair value less costs to sell.

**Value-in-use**

Key assumptions relating to this valuation include the discount rate and cash flows used to determine the value-in-use. Future cash flows are estimated based on the most recent budgets and forecasts approved by management covering a period of up to 10 years and are extrapolated over the useful life of the asset to reflect the long-term plans of the Group using the estimated growth rate for the specific business or product. The estimated future cash flows and discount rates used are pre-tax based on an assessment of the current risks applicable to the specific asset and/or entity and country in which it operates or the product is sold.

Management determines the expected performance of the assets based on the following:

- an assessment of existing products against past performance and market conditions;
- an assessment of existing products against existing market conditions; and
- the pipeline of products under development, applying past experiences of launch success and existing market conditions.

The growth rate used to extrapolate cash flow projections beyond the period covered by the budgets and forecasts take into account the long-term average rates of the industry in which the cash generating unit is operating. Estimations are based on a number of key assumptions such as volume, price and product mix which will create a basis for future growth and gross margin. These assumptions are set in relation to historic figures and external reports on market growth. If necessary, these cash flows are then adjusted to take into account any changes in assumptions or operating conditions that have been identified subsequent to the preparation of the budgets and forecasts.

The weighted average cost of capital is derived from a pricing model based on credit risk and the cost of the debt. The variables used in the model are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash generating units. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter.

Intangible assets that have been impaired in past financial years are reviewed for possible reversal of impairment at each reporting date.

**1. Intangible assets** continued

**Significant judgements and estimates**

**Indefinite useful life intangible assets**

Significant judgement is needed by management when determining the classification of intangible assets as finite or indefinite useful life assets. The following factors are taken into account when this classification is made:

- historical product sales, volume and profitability trends as well as the expected uses for the asset further evident from budgets, future growth and plans to invest in each of the assets over the long term are taken into account when this is being assessed;
- estimates of useful lives of similar assets – historical trends, market sentiment and/or the impact of any competitive activity;
- the strategy (2019 budget, specific marketing plans, specific enhancement plans and the identification of new markets) for obtaining maximum economic benefit from the asset;
- rates of technical, technological or commercial obsolescence in the industry are slow and evident in the fact that most of the reinvestment in technology is mainly expansion rather than replacement due to obsolescence;
- the stability of the industry and economy in which the asset will be deployed;
- the willingness and ability of the entity to commit resources to maintain the performance of the asset;
- the period of the entity's control over the asset and any legal or other restriction on its ability to use the asset;
- redundancy of a similar medication due to changes in market preferences; and
- development of new drugs treating the same disease.

In assessing whether any intangible assets ought to be reclassified from indefinite life to definite life, in addition to specific known events that could indicate a reclassification is appropriate, management considers the following key criteria when selecting intangible assets for such an assessment:

- any intangible asset that has been impaired by 25% or more of its original cost (including any impairment in the current financial year); or
- intangible assets the forecasts for which reflect future compound sales declines in the current year's impairment tests and for which the headroom calculated is less than 10% of the carrying value of the asset.

Indefinite useful life intangible assets constitutes 89% of total intangible assets (2017: 87% of total intangible assets).

**Definite useful life assets**

In the current year, management transferred R400 million indefinite useful life intangible assets as part of the annual assessment of useful lives.

**Amortisation rates and residual values**

The Group amortises its assets over their estimated useful lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires a significant degree of judgement to be applied by management. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product lifecycles and maintenance programmes.

Significant judgement is applied by management when determining the residual values for intangible assets only in the event of contractual obligations in terms of which a termination consideration is payable to the Group will management apply a residual value to the intangible asset.

*The estimated remaining useful life information for 2018 was as follows:*

Intellectual property	Up to 25 years
Product participation and other contractual rights	Up to 41 years
Computer software	Up to 9 years

1. **Intangible assets** continued  
**Reconciliation of balance**

	Intellectual property R'million	Development costs R'million	Product participation and other contractual rights R'million	Computer software R'million	Total R'million
<b>2018</b>					
<b>Carrying value</b>					
Cost	73 596	1 646	1 691	1 707	78 640
Accumulated amortisation	(3 271)	(267)	(276)	(684)	(4 498)
Accumulated impairment losses	(1 857)	(118)	(1)	(3)	(1 979)
	<b>68 468</b>	<b>1 261</b>	<b>1 414</b>	<b>1 020</b>	<b>72 163</b>
<b>Movement in intangible assets</b>					
Carrying value at the beginning of the year	56 473	1 199	1 406	928	60 006
Additions	395	219	–	267	881
Acquisition of residual rights – AZ Anaesthetics	8 060	–	–	–	8 060
Disposals	–	(64)	–	(3)	(67)
Amortisation	(390)	(45)	(16)	(181)	(632)
Reclassification between categories	7	(8)	–	1	–
Impairment losses	(648)	(66)	–	(36)	(750)
Impairment losses reversed	127	–	–	–	127
Currency translation movements	4 444	26	24	44	4 538
	<b>68 468</b>	<b>1 261</b>	<b>1 414</b>	<b>1 020</b>	<b>72 163</b>
<b>2017</b>					
<b>Carrying value</b>					
Cost	60 504	1 504	1 713	1 413	65 134
Accumulated amortisation	(2 768)	(223)	(306)	(483)	(3 780)
Accumulated impairment losses	(1 263)	(82)	(1)	(2)	(1 348)
	56 473	1 199	1 406	928	60 006
<b>Movement in intangible assets</b>					
Carrying value at the beginning of the year	44 920	1 110	2 270	767	49 067
Acquisition of subsidiaries and businesses	16 180	–	–	–	16 180
Additions	393	372	–	382	1 147
Disposals	–	(81)	(810)	(37)	(928)
Amortisation	(366)	(47)	(19)	(135)	(567)
Impairment losses	(307)	(141)	–	–	(448)
Currency translation movements	(4 347)	(14)	(35)	(49)	(4 445)
	56 473	1 199	1 406	928	60 006

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# Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2018

## 1. Intangible assets continued Indefinite useful life intangible assets

	2018 R'million	2017 R'million
<b>Split of balance</b>		
(1) ELIZ products	5 194	4 827
(2) Specialist Global Brands	4 394	4 021
(3) GSK OTC Brands	3 389	3 281
(4) GSK Classic Brands	1 731	2 080
(5) Mono-Embolex business	2 089	1 945
(6) MSD business	8 625	7 964
(7) GSK Thrombosis business	11 215	10 420
(8) AstraZeneca Anaesthetics Portfolio	19 313	10 089
(9) GSK Anaesthetics Portfolio	5 156	4 803
(10) Other Brands	3 391	2 924
	<b>64 497</b>	<b>52 354</b>

The key brands for the abovementioned indefinite life intangible assets are as follows:

- (1) Eltroxin, Lanoxin, Imuran and Zyloric.
- (2) Alkeran, Leukeran, Purinethol, Kemadrin, Lanvis, Myleran, Septrin and Trandate.
- (3) Phillips Milk of Magnesia, Dequadin, Solpadeine, Cartia, Zantac and Borstol.
- (4) Imigran, Lamictal, Mesasil and Zofran.
- (5) Mono-Embolex
- (6) Deca Durabolin, Desogrestrel, Dexmethasone, Meticorten, Metrigen, Orgaran, Ovestin, Testosterone and Thyrax.
- (7) Arixtra and Fraxiparine.
- (8) Diprivan, EMLA, Marcaine, Naropin, Carbocaine, Citanest and Xylocaine.
- (9) Ultiva, Nimbox, Mivacron, Tracrium and Anectine.

### Impairment of intangible assets

Key assumptions on impairment tests for significant indefinite useful life intangible assets were as follows in 2018:

	Carrying value of intangible assets (R'million)	Period covered by forecasts and budgets	Growth in revenue (% per annum)	Gross profit (% per annum)	Growth (% per annum)*	Pre-tax discount rate applied to cash flows (% per annum)
ELIZ Products	5 194	5 years	Ranging between 0 and 7	Average of 63	Ranging between 0 and 1	Ranging between 10 and 12
Specialist Global Brands	4 394	5 years	Ranging between (4) and 81	Average of 72	0	Ranging between 8 and 12
GSK OTC Brands	3 389	5 years	Ranging between (2) and 20	Average of 54	Ranging between (1) and 8	Ranging between 9 and 25
GSK Classic Brands	1 731	5 years	Ranging between (8) and 3	Average of 68	Ranging between (1) and 1	Ranging between 8 and 14
Mono-Embolex business	2 089	5 years	Ranging between 0 and 7	Average of 38	0	7
MSD business	8 625	5 years	Ranging between (6) and 46	Average of 69	Ranging between (1) and 3	Ranging between 7 and 14
GSK Thrombosis business	11 215	5 years	Ranging between (17) and 8	Average of 49	0	Ranging between 11 and 12
AstraZeneca Anaesthetics Portfolio	19 313	5 years	Ranging between (6) and 6	Average of 59	0	Ranging between 10 and 12
GSK Anaesthetics Portfolio	5 156	5 years	Ranging between (1) and 26	Average of 62	0	Ranging between 10 and 16

\* Growth rate used to extrapolate cash flows beyond period covered by abovementioned budgets and forecasts.

## 1. Intangible assets continued

### Indefinite useful life intangible assets continued

Based on the calculations the appropriate impairments and reversal of impairments were recognised for these indefinite useful life intangible assets. There are no reasonable possible changes in any key assumption which would cause the carrying value of the remaining indefinite useful life intangible assets to exceed its value-in-use.

Key assumptions on impairment tests for significant indefinite useful life intangible assets were as follows in 2017:

	Carrying value of intangible assets (R'million)	Period covered by forecasts and budgets	Growth in revenue (% per annum)	Gross profit (% per annum)	Growth (% per annum)*	Pre-tax discount rate applied to cash flows (% per annum)
ELIZ Products	4 827	10 years	Ranging between (3) and 3	Average of 73	0	Ranging between 9 and 11
Specialist Global Brands	4 021	10 years	Ranging between 1 and 7	Average of 84	0	Ranging between 8 and 10
GSK OTC Brands	3 281	5 – 10 years	Ranging between 0 and 14	Average of 71	Ranging between 1 and 5	Ranging between 9 and 24
GSK Classic Brands	2 080	5 – 10 years	Ranging between (2) and 6	Average of 68	0	10
Mono-Embolex business	1 945	10 years	Ranging between 1 and 3	Average of 41	0	7
MSD business	7 964	5 years	Ranging between (13) and 62	Average of 75	1	Ranging between 8 and 15
GSK Thrombosis business	10 420	5 years	Ranging between 0 and 2	Average of 46	0	11
AstraZeneca Anaesthetics Portfolio	10 089	8 years	Ranging between (6) and 14	Average of 37	(1)	16
GSK Anaesthetics Portfolio	4 803	9 years	Ranging between 1 and 3	Average of 62	Ranging between (5) and 0	13

\* Growth rate used to extrapolate cash flows beyond period covered by abovementioned budgets and forecasts.

	2018 R'million	2017 R'million
<b>Impairment of intangible assets (included in other operating expenses)</b>		
Impairment of intangible assets can be split as follows:		
(1) GSK Classic Brands in AGI – Australia	191	271
(2) Novartis Brands in AGI – Brazil	190	–
(3) GSK OTC Brands in AGI	114	–
(4) MSD Brands in AGI	44	–
(5) Brands in Brazil	46	–
(6) Development costs in South Africa	124	177
(7) Other	41	–
	<b>750</b>	<b>448</b>

- The outlook on revenue evolution and profitability has declined for certain GSK Classic Brands owned by AGI and distributed in Australia. The carrying value of intangible assets was determined based on value-in-use calculations. The key assumptions detailed above were used.
- The impairment in the current year related to the Tofranil product for which the outlook on profitability and revenue evolution has resulted in the anticipated discontinuation of the product.
- The outlook on revenue evolution and profitability has declined for certain GSK OTC Brands owned by AGI and distributed in Australasia and South East Asia. The carrying value of intangible assets was determined based on value-in-use calculations. The key assumptions detailed above were used.
- The outlook on revenue evolution and profitability has declined for a MSD Brand (Benutrex) owned by AGI and now only distributed in Ecuador (previously distributed in Venezuela). The carrying value of intangible assets was determined based on value-in-use calculations. The following assumptions were used:
  - period covered by the forecasts and budgets of five years;
  - growth in revenue per annum of 8%;
  - gross profit percentage per annum of 54%;
  - growth rate to extrapolate cash flows beyond period covered by mentioned forecasts and budgets of 2%; and
  - annual pre-tax discount rate applied to cash flows of 13.4%.
- The impairment related to certain OTC brands in Brazil for which the outlook on profitability and revenue evolution had declined. The carrying value of the assets was determined based on fair value less cost to sell.
- The impairment relates to product development projects which were no longer technically or commercially feasible and therefore were fully written off.

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**1. Intangible assets** continued**Reversal of impairment of intangible assets (included in other operating income)**

The reversal of impairment losses of intangible assets can be split as follows:

	2018 R'million	2017 R'million
(1) GSK Classic Brands in AGI – Australia	96	–
(2) Specialist Global Brands in AGI	15	–
(3) GSK OTC Brands in AGI	16	–
	<b>127</b>	–

The same circumstances that caused the original impairment resulted in the reversal of the impairments.

- (1) This related to certain GSK Classic Brands (Augmentin, Imigran and Zantac) owned by AGI and distributed in Australia in terms of which the outlook on revenue evolution and profitability has improved. The carrying value of intangible assets was determined based on value-in-use calculations. The following assumptions were used:
- period covered by the forecasts and budgets of five years;
  - growth in revenue per annum of 0%;
  - gross profit percentage per annum ranging between 64% and 79%;
  - growth rate to extrapolate cash flows beyond the period covered by mentioned forecasts and budgets of 0%; and
  - annual pre-tax discount rate applied to cash flows ranging between 9,4% and 9,7%.
- (2) The reversal in the current year related to Kemadrin for which the outlook on profitability and revenue evolution had improved.
- (3) The reversal in the current year related to certain GSK OTC products (Cofal & Valda) for which the outlook on profitability and revenue evolution had improved.

	2018 R'million	2017 R'million
<b>Commitments</b>		
Capital commitments, include all projects for which specific Board approval has been obtained up to the reporting date. Capital expenditure will be financed from funds generated out of normal business operations and existing borrowing facilities. Projects still under investigation for which specific Board approval has not yet been obtained are excluded from the following:		
Authorised and contracted for	26	83
Authorised but not yet contracted for	355	394
	<b>381</b>	477

**Other disclosures**

No intangible assets have been pledged as security for borrowings.

## 2. Property, plant and equipment

### Accounting policy

#### Recognition and measurement

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

#### Cost

Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The cost of self-constructed assets includes expenditure on materials, direct labour and an allocated proportion of project overheads. Costs capitalised for work-in-progress in respect of activities to develop, expand or enhance items of property, plant and equipment are classified as part of assets under capital work-in-progress. Subsequent costs are included in the asset's carrying value, or recognised as a separate asset, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income in the period in which they are incurred.

Gains or losses on disposals of property, plant and equipment are determined by comparing proceeds with the carrying value and are included in operating profit in the statement of comprehensive income.

Costs directly attributable to major development projects of property, plant and equipment are capitalised to the asset.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments.

#### Depreciation

Property, plant and equipment is depreciated to its estimated residual value on a straight-line basis over its expected useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year-end date. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Land and buildings comprise mainly factories and office buildings. Owned land is not depreciated. Leasehold improvements are depreciated over the lesser of the period of the lease and the useful life of the asset.

#### Impairment

The Group reviews the carrying value of its property, plant and equipment annually and if events occur which call into question the carrying value of the assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated, being the higher of the asset's fair value less cost to sell and value-in-use. In assessing value-in-use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash generating units). Where the carrying value exceeds the estimated recoverable amount, such assets are written down to their recoverable amount.

#### Operating leases

Leases where a significant portion of risks and rewards of ownership is retained by the lessor are classified as operating leases. Operating lease costs (net of any incentives from the lessor) are charged against operating profit on a straight-line basis over the period of the lease.

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**2. Property, plant and equipment** continued**Significant judgements and estimates****Depreciation and residual values**

The Group depreciates its assets over their estimated useful lives. The estimation of the useful lives of assets is based on historic performance as well as expectations about future use and therefore requires a significant degree of judgement to be applied by management. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product lifecycles and maintenance programmes. These depreciation rates represent management's current best estimate of the useful lives of these assets.

Significant judgement is applied by management when determining the residual values for property, plant and equipment. When determining the residual value the following factors are taken into account:

- external residual value information (if available); and
- internal technical assessments for complex plant and machinery.

The Group has reviewed the residual values and useful lives of the assets. No material adjustment resulted from such review in the current year.

**Depreciation rates**

The estimated remaining useful life information for 2018 was as follows:

Buildings (including leasehold improvements)	Up to 50 years
Plant and equipment	Up to 25 years
Computer equipment	Up to 10 years
Office equipment and furniture	Up to 10 years

**Reconciliation of balance**

	Land and buildings R'million	Plant and equipment R'million	Other tangible assets <sup>®</sup> R'million	Capital work-in-progress R'million	Total R'million
<b>2018</b>					
Carrying value					
Cost	4 756	5 911	1 077	4 583	16 327
Accumulated depreciation	(1 144)	(2 743)	(653)	–	(4 540)
Accumulated impairment losses	(46)	(86)	(12)	(275)	(419)
	<b>3 566</b>	<b>3 082</b>	<b>412</b>	<b>4 308</b>	<b>11 368</b>
<b>Movement in property, plant and equipment</b>					
Carrying value at the beginning of the year	3 554	2 827	387	2 981	9 749
Acquisition of subsidiaries and businesses	–	–	–	85	85
Additions	57	279	123	1 686	2 145
Borrowing costs capitalised	–	–	–	177	177*
Disposals	(2)	(11)	(4)	–	(17)
Depreciation	(181)	(417)	(142)	–	(740)
Reclassification between categories	60	454	41	(555)	–
Impairment losses <sup>^</sup>	–	(48)	(1)	(22)	(71)
Reversal of impairment losses	–	3	–	–	3
Currency translation movements	78	(5)	8	(44)	37
	<b>3 566</b>	<b>3 082</b>	<b>412</b>	<b>4 308</b>	<b>11 368<sup>#</sup></b>

<sup>®</sup> Other tangible assets comprise computer equipment, office equipment and furniture.

\* Borrowing costs capitalised represent financing costs arising on the construction of qualifying assets. The average effective interest rate for the year was 8,7% (2017: 8,5%).

<sup>#</sup> Included in the total are leased assets amounting to R45,5 million (2017: R52,7 million).

<sup>^</sup> Impairment of individually immaterial property, plant and equipment at various production sites.



2. **Property, plant and equipment** continued

**Reconciliation of balance** continued

	Land and buildings R'million	Plant and equipment R'million	Other tangible assets <sup>®</sup> R'million	Capital work-in- progress R'million	Total R'million
<b>2017</b>					
<b>Carrying value</b>					
Cost	4 552	5 144	951	3 250	13 897
Accumulated depreciation	(950)	(2 273)	(555)	–	(3 778)
Accumulated impairment losses	(48)	(44)	(9)	(269)	(370)
	3 554	2 827	387	2 981	9 749
<b>Movement in property, plant and equipment</b>					
Carrying value at the beginning of the year	3 233	2 743	435	3 260	9 671
Additions	82	325	119	958	1 484*
Borrowing costs capitalised	–	–	–	182	182
Disposals	(2)	(19)	(17)	(1)	(39)
Disposal of subsidiary	(4)	(2)	–	–	(6)
Depreciation	(167)	(406)	(127)	–	(700)
Reclassification between categories	561	312	25	(898)	–
Reclassification to assets classified as held-for-sale	–	–	–	(169)	(169)
Impairment losses <sup>^</sup>	–	(9)	–	(269)	(278)
Impairment losses reversed	–	3	–	–	3
Currency translation movements	(149)	(120)	(48)	(82)	(399)
	3 554	2 827	387	2 981	9 749 <sup>#</sup>

<sup>®</sup> Other tangible assets comprise computer equipment, office equipment and furniture.

\* Borrowing costs capitalised represent financing costs arising on the construction of qualifying assets. The average effective interest rate for the year was 8,7% (2017: 8,5%).

<sup>#</sup> Included in the total are leased assets amounting R45,5 million (2017: R52,2 million).

<sup>^</sup> Included in this amount is R269 million relating to certain property, plant and equipment that was impaired in the Sterile manufacturing facility in South Africa. These assets have been transferred to assets classified as held-for-sale, refer to note 10 for more details. The remainder of the impairment relates to impairments on individually immaterial property, plant and equipment at various production sites.

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# Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2018

## 2. Property, plant and equipment continued

### Commitments

	2018 R'million	2017 R'million
<b>Capital commitments</b>		
Capital commitments, excluding potential capitalised borrowing costs, include all projects for which specific Board approval has been obtained up to the reporting date. Capital expenditure will be financed from funds generated out of normal business operations and existing borrowing facilities. Projects still under investigation for which specific Board approvals have not yet been obtained are excluded from the following:		
Authorised and contracted for	1 786	735
Authorised but not yet contracted for	3 829	5 573
	<b>5 615</b>	<b>6 308</b>
<b>Operating lease commitments</b>		
The Group rents buildings under non-current, non-cancellable operating leases and also rents offices, warehouses, parking and other equipment under operating leases that are cancellable at various short-term notice periods by either party.		
The future minimum operating lease payments are as follows:		
Less than 1 year	132	112
Between 1 and 5 years	164	181
Later than 5 years	19	29
	<b>315</b>	<b>322</b>
Operating leases comprise a number of individually insignificant leases. These leasing arrangements do not impose any significant restrictions on the Group.		
<b>Other disclosure</b>		
<b>Summary of land and buildings</b>		
Land	747	719
Buildings	2 819	2 835
	<b>3 566</b>	<b>3 554</b>
<b>The depreciation charge was classified as follows in the statement of comprehensive income</b>		
Cost of sales	583	529
Selling and distribution expenses	52	57
Administrative expenses	105	114
	<b>740</b>	<b>700</b>

No property, plant and equipment was pledged or committed as security for any borrowings.

### 3. Goodwill

#### Accounting policy

##### Recognition and measurement

Goodwill on the acquisition of subsidiaries or businesses is capitalised and shown separately on the face of the statement of financial position and carried at cost less accumulated impairment losses.

##### Cost

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the acquisition date fair value of previously held equity interests and the fair value of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

The profit or loss realised on disposal or termination of an entity is calculated after taking into account the carrying value of any related goodwill.

##### Impairment

For the purposes of impairment testing, goodwill is allocated to the smallest cash generating unit. Each of those cash generating units represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. Impairment assessments are performed annually, or more frequently if there are indicators that the balance might be impaired. Impairment testing is performed by comparing the value-in-use of the cash generating unit to the carrying value. Impairment testing is only performed on cash generating units that are considered to be significant in comparison to the total carrying value of goodwill.

##### Value-in-use

Key assumptions include the discount rate and cash flows used to determine the value-in-use. Future cash flows are estimated based on the most recent budgets and forecasts approved by management covering periods between five and eight years and are extrapolated over the useful life of the asset to reflect the long-term plans for the Group using the estimated growth rate for the specific business or product. The estimated future cash flows and discount rates used are pre-tax based on an assessment of the current risks applicable to the specific entity and country in which it operates.

Management determines the expected performance of the assets based on the following:

- an assessment of existing products against past performance and market conditions;
- an assessment of existing products against existing market conditions; and
- the pipeline of products under development, applying past experiences of launch success and existing market conditions.

The growth rate used to extrapolate cash flow projections beyond the period covered by the budgets and forecasts take into account the long-term average rates of the industry in which the cash generating unit is operating. Estimations are based on a number of key assumptions such as volume, price and product mix which will create a basis for future growth and gross margin. These assumptions are set in relation to historic figures and external reports on market growth. If necessary, these cash flows are then adjusted to take into account any changes in assumptions or operating conditions that have been identified subsequent to the preparation of the budgets and forecasts.

The weighted average cost of capital rate is derived from a pricing model based on credit risk and the cost of the debt. The variables used in the model are established on the basis of management judgement and current market conditions. Management judgement is also applied in estimating the future cash flows of the cash generating units. These values are sensitive to the cash flows projected for the periods for which detailed forecasts are not available and to the assumptions regarding the long-term sustainability of the cash flows thereafter.

Impairment losses recognised for goodwill are not reversed in subsequent financial years.

#### Reconciliation of balance

	2018 R'million	2017 R'million
Carrying value at the beginning of the year	5 940	6 021
Acquisition of subsidiaries and businesses	78	485
Disposal of subsidiary	–	(104)
Currency translation movements	108	(462)
	<b>6 126</b>	5 940
<b>Split of balance</b>		
Sigma business – Australasia	4 116	4 079
AstraZeneca Anaesthetics Portfolio	325	303
MSD business	382	351
Other	1 303	1 207
	<b>6 126</b>	5 940

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## Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2018

### 3. Goodwill continued

#### Impairment of goodwill

Key assumptions on the impairment tests for goodwill were as follows in 2018:

	Carrying value of goodwill (R'million)	Period covered by forecasts and budgets	Growth in turnover (% per annum)	Gross profit (% per annum)	Capital expenditure (per annum)	Growth (% per annum)*	Pre-tax discount rate applied to cash flows (% per annum)
Sigma business	4 116	5 years	Ranging between (6) and 3	Average of 53	AUD3 million	3	11%
AstraZeneca Anaesthetics Portfolio	325	5 years	Ranging between (6) and 6	Average of 59	Nil	0	Ranging between 10 and 12
MSD business	382	5 years	Ranging between (6) and 46	Average of 69	Nil	Ranging between (1) and 3	Ranging between 7 and 14

\* Growth rate used to extrapolate cash flows beyond period covered by abovementioned budgets and forecasts.

Key assumptions on the impairment tests for goodwill were as follows in 2017:

	Carrying value of goodwill (R'million)	Period covered by forecasts and budgets	Growth in turnover (% per annum)	Gross profit (% per annum)	Capital expenditure (per annum)	Growth (% per annum)*	Pre-tax discount rate applied to cash flows (% per annum)
Sigma business	4 079	5 years	Ranging between (3) and 2	57	Ranging between AUD3 million and AUD12 million	3	10
AstraZeneca Anaesthetics Portfolio	303	8 years	Ranging between (6) and 14	Average of 37	Nil	Ranging between (5) and 0	16
MSD business	351	5 years	Ranging between (13) and 62	Average of 75	Nil	Ranging between 0 and 1	Ranging between 8 and 15

\* Growth rate used to extrapolate cash flows beyond period covered by abovementioned budgets and forecasts.

Based on the calculations no impairments were recognised. There are no reasonable possible changes in any key assumption which would cause the carrying value of goodwill to exceed its value-in-use.

**4. Deferred tax**  
**Accounting policy**

**Recognition and measurement**

Deferred tax is provided using the liability method, providing for temporary differences arising between the tax base and the accounting carrying value of amounts reflected in the consolidated financial statements. Deferred tax is, however, not provided for temporary differences that arise from the initial recognition of an asset or liability where that transaction does not affect accounting and tax profits or losses. The only exception to this being when that asset or liability arises in terms of a business combination. Deferred tax is determined at tax rates that are enacted or substantively enacted at year-end and are expected to apply when that temporary difference reverses.

Deferred tax is not provided on temporary differences arising on investments in subsidiaries and associates where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are only offset to the extent that the balances are recoverable from the same tax authority and there is a legal right to offset them at settlement of those balances.

**Significant judgements and estimates**

A deferred tax asset is recognised for unused tax losses or deductible temporary differences only to the extent that it is probable that taxable profits will arise in future against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date to ensure that the tax benefit will be realised. If it is determined that the tax benefit will not be realised, the deferred tax asset will be reversed.

**Reconciliation of balance**

	<b>2018</b> <b>R' million</b>	2017 R' million
Deferred tax liabilities – opening balance	<b>2 085</b>	1 752
Deferred tax assets – opening balance	<b>(987)</b>	(1 093)
Net deferred tax liabilities – opening balance	<b>1 098</b>	659
Statement of comprehensive income credit/(debit)	<b>21</b>	(9)
Charge to equity	<b>(1)</b>	(1)
Acquisition of subsidiaries and businesses	<b>3</b>	485
Currency translation movements	<b>126</b>	(36)
	<b>1 247</b>	1 098
<b>Split of balance</b>		
Deferred tax liabilities	<b>2 213</b>	2 085
Deferred tax assets	<b>(966)</b>	(987)
	<b>1 247</b>	1 098
<b>Deferred tax balance comprises</b>		
Intangible assets	<b>1 999</b>	1 886
Property, plant and equipment	<b>488</b>	532
Non-current liabilities	<b>280</b>	317
Provisions	<b>(586)</b>	(551)
Onerous contract	<b>(378)</b>	(454)
Tax losses	<b>(357)</b>	(422)
Retirement benefit obligations	<b>(121)</b>	(117)
Other receivables and payables	<b>(76)</b>	(96)
Other	<b>(2)</b>	3
	<b>1 247</b>	1 098

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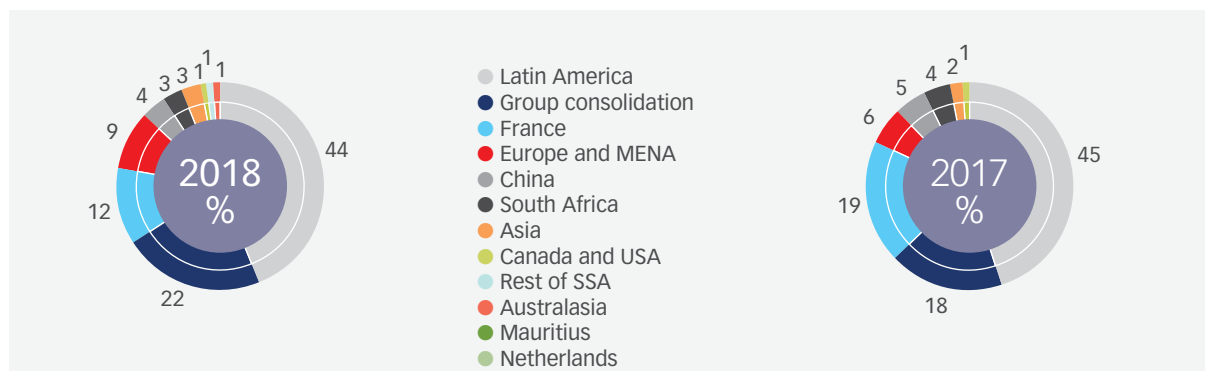
# Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2018

## 4. Deferred tax continued

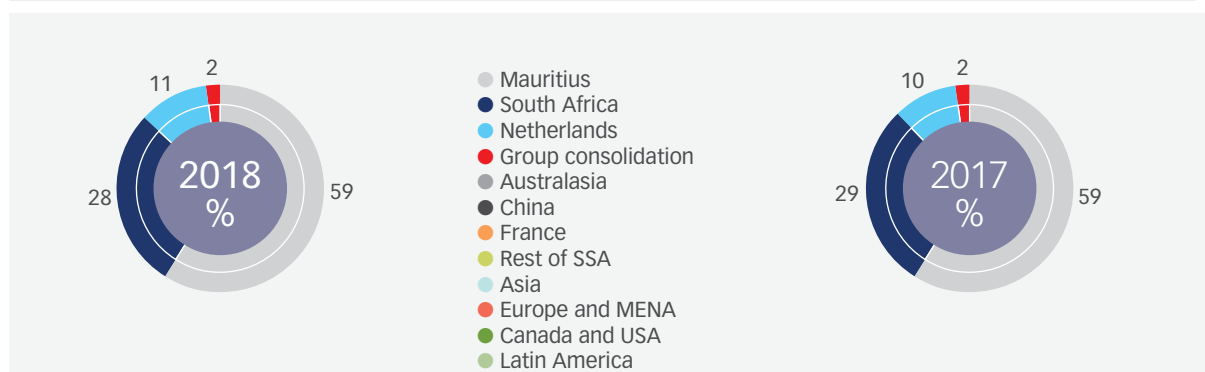
### Deferred tax asset

(%)



### Deferred tax liability

(%)



### The statement of comprehensive income (credit)/debit comprises

	2018 R'million	2017 R'million
Intangible assets	(15)	20
Property, plant and equipment	44	44
Non-current liabilities	37	70
Provisions	35	41
Onerous contract	(76)	(58)
Tax losses	(65)	254
Retirement benefit obligations	(4)	(48)
Other receivables and payables	20	(250)
Other	3	(64)
	<b>(21)</b>	<b>9</b>

The Group has tax losses which mainly arose in Argentina, Brazil, Canada, Costa Rica and Mexico of R859 million (2017: R903 million) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as the relevant businesses have been in a break-even or loss-making position and it is not anticipated that this situation will reverse in the foreseeable future. This position will be reassessed annually.

## 5. Contingent environmental assets and indemnification liabilities

### Accounting policy

#### Recognition and measurement

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

Liabilities for environmental restoration are recognised when the Group has a legal or a constructive obligation, as a result of a past event, and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation and the obligation can be measured reliably. The environmental liabilities are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

### Reconciliation of balance

	2018 R'million	2017 R'million
Carrying value at the beginning of the year	747	818
Currency translation movements	55	(71)
	<b>802</b>	<b>747</b>

## 6. Other non-current assets

### Accounting policy

#### Recognition and measurement

##### *Other non-current receivables*

Other non-current receivables are initially recognised at fair value and subsequently measured at amortised cost, less impairments, using the effective interest rate method. No fair value adjustment is made for the effect of time value of money where receivables have a short-term profile.

A provision for impairment of other non-current receivables is established when there is objective evidence that the Group will not be able to collect all amounts due as a result of one or more events that occurred after the initial recognition (a "loss event") and that loss event has an impact on the estimated future cash flows of the assets that can be reliably estimated.

##### *Investment in joint ventures*

Investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has interests in joint ventures which are accounted for using the equity method, after initially being recognised at cost in the statement of financial position.

#### Financial assets

Enterprise development loans and export advance to API supplier are classified as "loans and receivables" in terms of IAS 39 – *Financial Instruments: Recognition and Measurement*. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in non-current assets as they all have maturities more than 12 months from year-end. The Group determines the classification of its financial assets at initial recognition when the Group becomes party to the contractual provisions of the instrument.

celebrating 20 years

## Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2018

### 6. Other non-current assets continued

#### Split of balance

	Notes	2018 R'million	2017 R'million
Other non-current receivables	6.1	940	603
Investments in joint ventures	6.2	194	143
Other		55	55
		<b>1 189</b>	801
<b>6.1 Other non-current receivables</b>			
<b>Summary of balance</b>			
Employee benefits – reimbursive rights		231	223
Exports advance to API supplier		303	327
Deferred performance rebate		345	–
Enterprise development loans		62	53
Alphamed acquisition		1	–
Current portion included in trade and other receivables		(2)	–
		<b>940</b>	603
<b>Split of balance</b>			
Financial instruments		709	381
Non-financial instruments		231	222
		<b>940</b>	603

#### *Employee benefits – reimbursive rights*

As part of the GSK Thrombosis business acquisition in 2014, Aspen acquired certain non-current employee-related liabilities (which have been included in retirement and other employee benefit obligations on the statement of financial position). As part of the agreement GSK is responsible for pre-acquisition liabilities. The value of the non-current employee-related liabilities acquired are based on independent valuations and as such an equal and opposite asset was recognised. GSK will reimburse Aspen as and when the liabilities are paid out to employees who qualify for the benefits. Management considers the credit risk associated with these non-current receivables to be low.

#### *Exports advance to API supplier*

The export advance was made to a supplier of active pharmaceutical ingredients and is to be settled through the provision of a certain level of inventory annually over the course of a 10-year supply agreement.

#### *Deferred performance rebate*

The Busulfan performance-related payments referred to in note 15.1 have been capitalised and are being amortised on a straight-line basis over five years, being the term of the relevant distribution agreement.

#### *Enterprise development loans*

Various agreements have been entered into with several BBBEE beneficiaries whereby loan funding has been advanced by Aspen. These loans have various terms ranging from three to five years and all the loans will be repaid at the end of their respective terms. The loans bear interest at the South African prime rate plus margins ranging from minus 2% to plus 1% (2017: South African prime rate plus margins ranging from minus 2% to plus 1%).

All the loans are secured by either immovable property, specified movable assets or cession of specified book debts. Management considers the credit risk associated with these non-current receivables to be low.



6. **Other non-current assets** continued

6.2 **Investments in joint ventures**

**Reconciliation of balance**

	<b>2018</b>	2017
	<b>R'million</b>	R'million
Carrying value at the beginning of the year	<b>143</b>	66
Acquisition of joint venture	–	64
Share of after tax net profit from joint venture	<b>51</b>	13
	<b>194</b>	143
<b>Summary of balance</b>		
NZ New Milk	<b>130</b>	79
Aspen Nutritional Hong Kong Limited	<b>64</b>	64
	<b>194</b>	143

**NZ New Milk**

On 31 October 2014, the Company acquired a 50% shareholding in NZ New Milk, a contract manufacturer of infant nutritionals incorporated in Auckland, New Zealand. The company is a private company and no quoted market price is available for its shares. In terms of a supply agreement concluded between AGI and NZ New Milk, long-term supply of infant nutritionals for distribution by Aspen in Australia will be secured.

Equity-accounted earnings have been recognised in the statement of comprehensive income.

**Aspen Nutritional Hong Kong Limited**

On 8 March 2017, the Company acquired a 50% shareholding in Aspen Nutritional Hong Kong Limited, a company incorporated in Hong Kong. It is one of the Company's exclusive distributors of the "Alula" infant milk products. The distributor has the expertise and experience in marketing and promotion of infant milk products and will establish business through its China based subsidiary to commercialise the products in the territory. The company is a private company and no quoted market price is available for its shares.

Equity-accounted earnings have been recognised in the statement of comprehensive income.

**General**

As part of the sale of the Nutritional business, note 10, both the above joint ventures are included in the transaction.

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**7. Inventories****Accounting policy****Recognition and measurement**

The Group recognises inventories initially at cost when it has control of the inventories, expects it to provide future economic benefits and the cost can be measured reliably. Cost is determined on the first-in-first-out basis. Cost includes expenditure incurred in acquiring, manufacturing and transporting the inventory to its present location. Inventories are subsequently measured at the lower of cost and net realisable value. The carrying values of finished goods and work-in-progress include raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity), but exclude borrowing costs. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and applicable variable selling expenses.

A provision for obsolete inventories is established when there is evidence that no future economic benefits will be obtained for such inventories. The carrying amount of the inventories is reduced and the amount of the loss is recognised in the statement of comprehensive income within cost of sales.

**Significant judgements and estimates****Determination of net realisable value of inventories**

Management is required to exercise considerable judgement in the determination of net realisable value, specifically relating to the forecasting of demand.

All inventories are at cost (2017: raw materials of R500 million were carried at net realisable value).

Management is also required to exercise significant judgement in estimating the provision for obsolete stock. Such judgement would take into account the following:

- change in technology;
- regulatory requirements; and
- stock nearing expiry dates.

	2018 R'million	2017 R'million
<b>Summary of balance</b>		
Raw materials	3 810	3 835
Work-in-progress	5 465	4 654
Finished goods	4 844	4 827
Consumables	377	295
	<b>14 496</b>	<b>13 611</b>
<b>Impairment of inventories</b>		
<b>The impairment charge (included in cost of sales) is made up as follows:</b>		
Write-down of inventories recognised as an expense*	835	623
Movement in the provision for impairment	(69)	115
	<b>766</b>	<b>738</b>
<i>* The write-down relates to expired pharmaceutical finished product inventories and manufacturing inventories write-offs. Due to the finite shelf life of pharmaceutical products they are more susceptible to impairment. The manufacturing entities inherently incur inventories write-offs as a result of production-related inefficiencies.</i>		
<b>Reconciliation of provision for impairment</b>		
Balance at the beginning of the year	878	825
Raised during the year	929	777
Utilised during the year	(998)	(662)
Currency translation movements	23	(62)
	<b>832</b>	<b>878</b>

**Other disclosures**

Inventories to the value of R2,1 billion (2017: R1,8 billion) have been pledged as security for the 10-year interest-free loan from MSD. Refer to note 15.1.

## 8. Receivables and other current assets

### Accounting policy

#### Recognition and measurement

Receivables and other current assets are initially recognised at fair value and subsequently measured at amortised cost, less impairments, using the effective interest rate method. No fair value adjustment is made for the effect of time value of money where receivables have a short-term profile. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due as a result of one or more events that occurred after the initial recognition (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or late payments are considered indicators that the trade receivable is impaired.

The amount of the provision is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. This provision is recognised through the use of an allowance account for losses. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is credited against administrative expenses in the statement of comprehensive income.

#### Financial assets

Financial instruments related to trade and other receivables are classified as "loans and receivables" in terms of IAS 39 – *Financial Instruments: Recognition and Measurement*. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets as they all have maturities less than 12 months from year end. The Group determines the classification of its financial asset at initial recognition when the Group becomes party to the contractual provisions of the instrument.

	Notes	2018 R'million	2017 R'million
<b>Split of balance</b>			
Trade and other receivables	8.1	14 072	13 360
Derivatives	8.2	26	2
Current tax assets		323	230
		<b>14 421</b>	13 592
<b>8.1 Trade and other receivables</b>			
<b>Summary of balance</b>			
Trade receivables		11 018	10 933
Allowance account for losses		(181)	(164)
Net trade receivables		10 837	10 769
Indirect taxes		1 567	925
Prepayments		359	420
Other		1 309	1 246
		<b>14 072</b>	13 360
<b>Split of balance</b>			
Financial assets		11 214	11 071
Non-financial assets		2 858	2 289
		<b>14 072</b>	13 360
<b>Impairment of trade and other receivables</b>			
The impairment charge (included in administrative expenses) is made up as follows:			
Bad debts written off		4	7
Movement in the allowance account for losses		15	8
		<b>19</b>	15
<b>Reconciliation of allowance account for losses</b>			
Balance at the beginning of the year		164	180
Raised during the year		22	69
Utilised during the year		(7)	(61)
Currency translation movements		2	(24)
Balance at the end of the year		<b>181</b>	164

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**8. Receivables and other current assets** continued

## 8.1 Trade and other receivables continued

**Other disclosures**

Age analysis of trade and other receivables (financial instruments only)

	2018		2017	
	Gross R'million	Allowance account for losses R'million	Gross R'million	Allowance account for losses R'million
Fully performing	9 571	–	9 763	–
Past due by 1 to 60 days	835	–	822	–
Past due by 61 to 90 days	163	–	248	–
Past due by 91 to 120 days	142	–	147	–
Past due by more than 120 days	684	(181)	255	(164)
	<b>11 395</b>	<b>(181)</b>	11 235	(164)

**Credit risk**

The Group has policies in place to ensure that sales of products are made to customers with a solid credit history. Ongoing credit evaluations on the financial condition of customers are performed and where appropriate credit guarantee insurance cover is purchased. Balances to the value of R2,1 billion (2017: R2,0 billion) were covered by credit guarantee insurance. Trade receivables consist primarily of a large, widespread customer base. The granting of credit is controlled by application and account limits. Trade and other receivables are carefully monitored for impairment. One debtors balance (2017: one debtors balance) constitutes a significant concentration of credit risk to an amount of R1,7 billion (2017: R1,5 billion). This balance constitutes 15,9% (2017: 13,5%) of the total gross trade receivables which relates to a customer with a longstanding relationship with the Group and there have been no defaults on payments. There are no other single customers representing more than 10% of total gross trade receivables for the years ended 30 June 2018 and 2017.

The Group has made allowance for specific trade debtors which have clearly indicated financial difficulty and the likelihood of repayment has become impaired. Amounts past their due dates which are not provided for are considered to be recoverable. More than 95% of the trade receivables balance relates to customers that have a longstanding insurable history with the Group and there has been no default on payments.

Impairment losses are recorded in the allowance account for losses until the Group is satisfied that no recovery of the amount owing is possible, at which point the amount is considered irrecoverable and is written off against the financial asset.

	2018 R'million	2017 R'million
<b>Currency analysis of trade and other receivables (financial instruments only)</b>		
Australian Dollar	691	670
Brazilian Real	273	309
Euro	1 948	1 841
Mexican Peso	317	280
Pound Sterling	353	635
South African Rand	3 016	2 459
Russian Ruble	283	321
US Dollar	2 571	3 424
Other currencies	1 762	1 132
	<b>11 214</b>	11 071

**General**

The Group holds no collateral over any trade and other receivables.

Trade and other receivables are predominantly non-interest bearing.

8. **Receivables and other current assets** continued

8.2 Derivative financial instruments – asset

	2018 R'million	2017 R'million
Balance at the beginning of the year	2	28
Fair value gains recognised in the statement of comprehensive income	(133)	(20)
Fair value loss/(gains) recognised in equity	96	(3)
Transfer from liabilities	63	(2)
Translation of foreign operations	(2)	(1)
	<b>26</b>	2
<b>The balance can be split as follows:</b>		
Forward exchange contracts	26	–
Interest rate swaps	–	2
	<b>26</b>	2

This balance consists of derivatives where hedge accounting was not applied.

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows discounted using the appropriate yield curve.

The net market value of all forward exchange contracts at year-end was calculated by comparing the forward exchange contracted rates to the equivalent of year-end market foreign exchange rates. The present value of these net market values was then discounted using the appropriate currency-specific discount curve.

The forward exchange contracts and interest rate swaps were classified as “level 2” assets in the fair value measurement hierarchy.

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**9. Cash and cash equivalents****Accounting policy****Recognition and measurement**

Cash and cash equivalents are initially measured at fair value and subsequently carried at amortised cost. For the purposes of the statement of financial position, cash and cash equivalents comprise bank balances and short-term bank deposits. For the purposes of the statement of cash flows, cash and cash equivalents comprise bank balances, short-term bank deposits less bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. Bank overdrafts are repayable on demand.

**Financial assets**

Cash and cash equivalents are classified as "loans and receivables" in terms of *IAS 39 – Financial Instruments: Recognition and Measurement*. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets as they all have maturities less than 12 months from year-end. The Group determines the classification of its financial assets at initial recognition when the Group becomes party to the contractual provisions of the instrument.

	<b>2018</b>	2017
	<b>R'million</b>	R'million
<b>Summary of balance</b>		
Bank balances	<b>9 688</b>	10 005
Short-term bank deposits	<b>1 450</b>	543
Cash-in-transit and cash-on-hand	<b>32</b>	159
	<b>11 170</b>	10 707
<b>Other disclosures</b>		
<b>Credit risk</b>		
Treasury counterparties consist of a diversified group of prime financial institutions. Cash balances are placed with different financial institutions to minimise risk. The Group does not expect any treasury counterparties to fail to meet their obligations, given their high credit ratings. As at 30 June 2018, more than 69% of the Group's cash and cash equivalent balances were held with institutions with an international credit rating of BB+ or better.		
<b>Currency analysis of cash and cash equivalents</b>		
Australian Dollar	<b>1 064</b>	1 227
Euro	<b>4 303</b>	3 196
South African Rand	<b>3 386</b>	4 019
US Dollar	<b>1 015</b>	1 198
Other currencies	<b>1 402</b>	1 067
	<b>11 170</b>	10 707

**General**

The maturity profile of all cash and cash equivalents balances is less than three months.

The average effective interest rate on interest bearing cash and cash equivalents is 3,7% (2017: 3,2%).

## 10. Assets classified as held-for-sale

### Accounting policy

#### Recognition and measurement

Assets (or disposal groups) are classified as held-for-sale if the carrying amount will be recovered principally through sale rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the assets (or disposal groups) are available for immediate sale in its present condition and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of the classification.

Immediately prior to being classified as held-for-sale the carrying amount of assets and liabilities are measured in accordance with the applicable standard. After classification as held-for-sale it is measured at the lower of the carrying value and fair value less costs to sell. An impairment loss is recognised in the statement of comprehensive income for any initial and subsequent write-down of the asset and disposal group to fair value less costs to sell. A gain for any subsequent increase in fair value less costs to sell is recognised in the statement of comprehensive income to the extent that it is not in excess of the cumulative impairment loss previously recognised.

	2018 R'million	2017 R'million
<b>Reconciliation of balance</b>		
Balance at the beginning of the year	200	87
Disposals	(37)	(87)
Reclassification from assets	23	200
Property, plant and equipment	–	169
Trade and other receivables	18	31
Inventories	5	–
Impairment	(51)	–
	<b>135</b>	200
<b>Split of balance</b>		
Property, plant and equipment – steriles manufacturing facility South Africa*	118	169
Current assets	17	31
	<b>135</b>	200
<b>Carrying value</b>		
Cost	455	469
Accumulated impairment losses	(320)	(269)
	<b>135</b>	200

\* In the prior year certain property, plant and equipment was impaired in the steriles manufacturing facility in South Africa due to the strategic repurposing of that facility for alternative product manufacture which requires different manufacturing equipment. The impaired property, plant and equipment has been valued at an estimated net realisable value and reclassified to assets held-for-sale. In the current year an additional impairment of R51 million was recognised in the statement of comprehensive income.

#### Subsequent events

In September 2018 the Group concluded an agreement (subject to conditions precedent), to divest of its Global Nutritionals Business predominantly carried on in Latin America, sub-Saharan Africa and Asia Pacific under the S-26, Alula and Infacare brands ("Nutritionals business") to the Lactalis Group, a leading multinational dairy corporation based in Laval, France, for a gross consideration of EUR739,8 million. As part of the sale both the joint ventures, note 6.2, will be sold. Approximately EUR62 million of the gross consideration will be paid to Aspen's joint venture partners in Asia Pacific. Management has determined that the disposal has not met the requirements of IFRS 5 dealing with the classification of disposals as assets held-for-sale. Taking into account the factors set out below, management concluded that the disposal of the Nutritionals business was not highly probable as at the balance sheet date and have classified the disposal as a non-adjusting post-balance sheet event.

- The due diligence processes with potential buyer access to information only commenced after year-end. Consequently there were no indications that a willing buyer could be found as this would only be reasonably certain once information has been shared and interest shown in acquiring the business based on access to this information.
- There was no knowledge on what regions of the Nutritionals business may or may not be sold.
- Due to the uncertainty existing at year-end there was no definitive view on a reasonable price.
- Depending on offers received there was a reasonable likelihood that the transaction may not have occurred.

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**11. Share capital (net of treasury shares)****Accounting policy****Share capital**

Issued share capital is stated in the statement of changes in equity at the amount of the proceeds received less directly attributable issue costs.

**Treasury shares**

Shares in the company held by Group subsidiaries and unvested restricted shares held for employee participants in the Group's share plan are classified as treasury shares. The cost price of these shares, together with related transaction costs, is deducted from equity. The issued and weighted average number of shares is reduced by the treasury shares for the purposes of the basic, headline earnings and normalised headline earnings per share calculations. Dividends received on treasury shares are eliminated on consolidation except to the extent that they are paid to participants in the share plan.

When treasury shares held for participants in the share plan vest in such participants, the shares will no longer be classified as treasury shares, their cost will no longer be deducted from equity and their number will be taken into account for the purposes of basic, headline earnings and normalised headline earnings per share calculations.

	Notes	2018 R'million	2017 R'million
<b>Split of balance</b>			
Share capital	11.1	2 089	2 089
Treasury shares	11.2	(184)	(160)
		1 905	1 929

**11.1 Share capital****Authorised**

717 600 000 (2017: 717 600 000) ordinary shares of no par value

–

–

**Issued**

456 451 541 (2017: 456 435 185) ordinary shares of no par value

2 089

2 089

**Reconciliation of shares**

	Million	Million
Shares in issue at the beginning of the year	456,4	456,4
Shares issued – share schemes	0,1	–
Shares in issue at the end of the year	456,5	456,4

The unissued shares have been placed under the control of the directors until the forthcoming annual general meeting.

All shares are fully paid up, and no amounts are outstanding in terms of shares issued during the year.

**11.2 Treasury shares**

	2018 R'million	2017 R'million
<b>Treasury shares held</b>		
481 208 (2017: 410 239) ordinary shares of no par value	184	160
<b>Reconciliation of balance</b>		
At the beginning of the year	160	151
Shares purchased	44	33
Deferred incentive bonus shares exercised	(20)	(24)
Balance at the end of the year	184	160

**Reconciliation of shares**

	Million	Million
Number of shares at the beginning of the year	0,4	0,5
Shares purchased	0,2	–
Deferred incentive bonus shares exercised	(0,1)	(0,1)
Number of shares at the end of the year	0,5	0,4



## 12. Non-controlling interests

	2018 R'million	2017 R'million
Balance at the beginning of the year	27	27
Share of profits	1	–
<b>Balance at the end of the year</b>	<b>28</b>	<b>27</b>

## 13. Share-based compensation reserve

### Accounting policy

The Group has equity-settled and cash-settled share-based compensation plans.

Share options, share appreciation rights, deferred incentive bonuses and phantom shares are granted to management and key employees. The schemes in operation are classified as equity-settled share-based compensation plans, except for the South African Management Deferred Incentive Bonus Scheme which is a compound financial instrument with both an equity and cash-settled portion as well as the Aspen International Phantom Share Scheme, which is a cash-settled scheme, under which the entity receives services from employees in exchange for cash based on changes in the Aspen share price.

When instruments are exercised, the proceeds received net of any directly attributable transaction costs are credited to share capital.

The Aspen Share Incentive Trusts regulate the operation of the share incentive schemes and are consolidated into the Annual Financial Statements.

### Equity-settled schemes

The equity-settled schemes (Aspen Share Incentive Scheme, Aspen Share Appreciation Plan and South African Management Deferred Incentive Bonus Scheme) allows certain employees the option or rights to acquire ordinary shares in Aspen Pharmacare Holdings Limited. Such equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at grant date of the equity-settled share-based payment is charged as employee costs, with a corresponding increase in equity, on a straight-line basis over the period that the employee becomes unconditionally entitled to the options, rights or shares, based on management's estimate of the shares that will vest and adjusted for the effect of non-market vesting conditions. These share options, rights and equity portion of the deferred incentive bonus are not subsequently revalued.

Fair value is determined using the binomial pricing model where applicable. The expected life used in the models has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations such as volatility, dividend yield and the vesting period. The fair value takes into account the terms and conditions on which the incentives are granted and the extent to which the employees have rendered services to the reporting date.

### Cash-settled schemes

For cash-settled share awards, the services received from employees are measured at fair value and recognised in the statement of comprehensive income as an expense over the vesting period with recognition of a corresponding liability in trade and other payables. The fair value of the liability is remeasured at each reporting date and at the date of settlement, with changes in fair value recognised in the statement of comprehensive income.

### Compound financial instrument share scheme

The Group has entered into a share-based payment agreement whereby the employee has the right to choose either settlement in cash or settlement in equity. The entity has thus granted a compound financial instrument, which includes a debt component and an equity component.

On measurement date management has measured the fair value of the debt component first. Thereafter, the fair value of the equity instrument was measured, taking into consideration the fact that the employee forfeits the right to receive cash in order to obtain the shares.

The services received from the employees in respect of each component (debt and equity) shall be accounted for separately at each reporting date. The debt component will be accounted for as a cash-settled share-based payment arrangement. The debt component shall therefore be measured at fair value at each reporting date, with changes in fair value recognised in the statement of comprehensive income over the period that the employee provides services to the Group.

celebrating 20 years

## Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2018

### 13. **Share-based compensation reserve** continued

#### **Summary of schemes**

The Group currently operates the following share-based payment schemes:

#### **Legacy share schemes**

The following share schemes are still operational in terms of awards which were previously made. No new awards are being made under the schemes.

#### *Aspen Share Incentive Scheme*

The scheme was adopted by shareholders in January 1999. In terms of the scheme adopted, and subsequent amendments, share options were granted to management and key employees. Participants in the scheme were entitled to take release of the options granted in five equal annual tranches, commencing on the second anniversary of the date granted and expiring on the eighth anniversary of the grant date. All outstanding options in terms of this scheme have been exercised and the scheme has therefore been terminated.

#### *Aspen Share Appreciation Plan*

The plan was adopted by shareholders in October 2005. In terms of the plan, share appreciation rights were awarded to key management. Participants were awarded rights to receive shares in the Company equivalent to an amount calculated by reference to the increase in value of the rights between the date of the grant and the date of exercise of the rights. The rights vested on the third anniversary of the award date and expire on the fifth anniversary of that date. To the extent that outstanding share appreciation rights are exercised on or after vesting date, the appropriate number of shares will be listed and awarded to the participant. A single employee still holds share appreciation rights and no new rights have been issued in terms of this scheme since the end of the 2013 financial year. The single employee that held share appreciation rights exercised these rights in the prior financial year. The scheme has therefore been terminated.

13. **Share-based compensation reserve** continued

**Summary of schemes** continued

The Aspen South African Management Deferred Incentive Bonus Scheme

	<b>Nature and purpose of the scheme</b>	<b>Determination of value awards</b>	<b>Vesting</b>
<b>Medium-term component of the scheme</b>	<p>The scheme is designed to acknowledge performance and reward individuals for achievement of both the relevant Aspen business which employs the individual and the individual's performance for the trading period immediately preceding the date that the award is made. This scheme is also aimed at ensuring critical executive and professional skills retention and enhancing congruence between the interests of senior and executive employees and shareholders. Alignment between shareholder and employee interests has been successful as most eligible employees have historically elected to receive the value of the award in Aspen shares (2017: 89%, 2016: 97% and 2015: 99%).</p>	<p>The value of the award to an employee in terms of this scheme is determined according to the achievement of predetermined performance targets by the executive or manager, the Group company in which they are employed and/or the specific division or operating arm of that company. Individual performance is assessed against pre-set key performance measures and company performance is assessed relative to the operating profit budget of the company for which the employee works. The value of awards in terms of this component of the scheme is capped in respect of the value that can be awarded on an annual basis, with this cap varying according to the level of seniority of the executive or manager. The maximum award does not exceed 33% of the total remuneration cost (excluding incentives) in any instance. An enhancement of 10% is given to employees who elect to receive the award in shares.</p>	<p>The eligible employee is given the choice at the date of the award to receive the deferred incentive bonus either in cash or Aspen shares. These awards vest three years after the date of the award. To the extent that an employee elects to receive shares pursuant to the award, these shares are bought on behalf of these employees on the open market by Aspen Group companies to avoid the dilution of shareholders. Should the employee retire within the three-year period, the medium-term incentive will be accelerated to the date of retirement. Employees who resign or who are dismissed for any reason other than retrenchment or medical incapacity forfeit unvested awards.</p> <p>Share awards are acquired and held by an unrelated intermediary to enable Aspen to settle its future obligation to participating employees upon vesting.</p>
<b>Long-term component of the scheme</b>	<p>During the previous year a long-term component to the Aspen South African Management Deferred Incentive Bonus Scheme has been introduced to ensure the retention of a limited number of key senior executives.</p>	<p>The value of the awards granted to employees in terms of this component of the scheme is on an <i>ad hoc</i> basis and in the discretion of the Remuneration &amp; Nomination Committee.</p>	<p>These awards vest after a period of 10 years and may only be settled in shares. Awards made in terms of this component of the scheme will not be accelerated in the event that a recipient retires within the 10-year period and before the age of 65, unless the express approval of the Remuneration &amp; Nomination Committee has been obtained for such acceleration. The further rules and provisions for this component of the scheme are, for the most part, similar to the rules of the medium-term component of this scheme.</p>

# Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2018

## 13. Share-based compensation reserve continued

### Summary of schemes continued

The Aspen International Phantom Share Scheme

	Nature and purpose of the scheme	Determination of value awards	Vesting
<b>Medium-term component of the scheme</b>	<p>In order to incentivise the management of Aspen's non-South African businesses in the medium term, a phantom share scheme exists for selected employees.</p> <p>The scheme has been designed to incentivise managers for the medium term, align their goals with those of the Aspen Group and to match their reward to movements in the Aspen share price. Due to regulatory restrictions in respect of transfer and ownership of Aspen shares to offshore employees, the scheme is operated on a phantom basis, which is designed to give an employee the same economic benefit as ownership of shares.</p>	<p>Awards are linked to performance of the employee, the business and growth in the Aspen share price. The value of awards that can be awarded annually in terms of this component of the scheme is capped, with this cap varying according to the level of seniority of the executive or manager and territory of employment. The maximum award does not exceed 33% of the total remuneration cost (excluding incentives) in any instance.</p>	<p>The phantom shares entitle eligible employees to receive a bonus based initially on a predetermined value and thereafter on changes in the Aspen share price. These awards vest after a period of three years and are paid out in cash to the employee by the Aspen company employing him or her. Should the employee retire within the three-year period, the medium-term incentive will be accelerated to the date of retirement. Employees who resign or who are dismissed for any reason other than retrenchment or medical incapacity forfeit unvested awards.</p>
<b>Long-term component of the scheme</b>	<p>The Aspen International Phantom Share Scheme is aimed at ensuring the retention of a limited number of key offshore senior executives.</p>	<p>The value of the awards granted to employees in terms of this component of the scheme is on an <i>ad hoc</i> basis and are determined at the discretion of the Remuneration &amp; Nomination Committee.</p>	<p>These awards vest after a period of 10 years and are settled in cash. Awards made in terms of this component of the scheme will not be accelerated in the event that a recipient retires within the 10-year period and before the age of 65, unless the express approval of the R&amp;N Co has been obtained for such acceleration. The further rules and provisions for this component of the scheme are, for the most part, similar to the rules of the medium-term component of this scheme.</p>

13. **Share-based compensation reserve** continued

**Reconciliation of schemes**

Aspen South African Management Deferred Incentive Bonus Scheme

Award price (R)	Expiry date	Shares outstanding on 30 June 2017 '000 <sup>#</sup>	Awarded during the year '000	Released during the year '000	Lapsed/cancelled during the year '000*	Shares outstanding on 30 June 2018 '000 <sup>#</sup>	Fair value at award date (R)	Share price at award date (R)
338,44	Oct 2017	65	–	63	2	–	290,90	336,50
300,62	Oct 2018	104	–	8	13	83	365,00	286,51
326,70	May 2026	214	–	–	–	214	365,00	317,50
305,86	Oct 2019	104	–	8	6	90	373,26	310,00
305,18	Oct 2020	–	136	2	4	130	297,84	319,45
		487	136 <sup>^</sup>	81	25	517		

The fair value was determined by reference to the share price on the award date.

<sup>#</sup> The total number of shares were not vested at 30 June 2018 and 30 June 2017.

\* Lapsed or cancelled shares, held by the Aspen Share Incentive Scheme Trust, are re-allocated to future grants.

<sup>^</sup> During the year the Group bought 135 953 shares (2017: 105 927 shares) that will be held in the respective Aspen Group employee company until vesting date. These shares are accounted for as treasury shares in the Group Annual Financial Statements.

Aspen International Phantom Share Scheme

Award price (R)	Expiry date	Shares outstanding on 30 June 2017 '000 <sup>#</sup>	Awarded during the year '000	Exercised during the year '000	Lapsed/cancelled during the year '000	Shares outstanding on 30 June 2018 '000 <sup>#</sup>
326,84	Oct 2017	60	–	58	2	–
299,44	Oct 2018	92	–	–	5	87
326,70	May 2026	48	–	–	–	48
316,00	Oct 2019	95	–	–	5	90
286,55	Oct 2020	–	113	–	2	111
		295	113	58	14	336

<sup>#</sup> The total number of shares were not vested at 30 June 2018 or 30 June 2017.

The fair value was determined by reference to the share price on the grant date. The closing share price on measurement date was R258,22 (2017: R287,10).

The liability included in trade and other payables on the statement of financial position relating to the Aspen International Phantom Share Scheme is R46,1 million (2017: R65,7 million).

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**14. Borrowings****Accounting policy****Recognition and measurement**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest rate method, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings.

Fees paid on the establishment of selected loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment against the loan for liquidity services and amortised over the period of the facility to which it relates.

The Group presents separately current and non-current borrowings on the face of the statement of financial position. A liability is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after year-end.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. All other borrowing costs are expensed in the statement of comprehensive income in the period in which they are incurred.

**Financial liabilities at amortised cost**

Borrowings are classified as “liabilities at amortised cost” in terms of IAS 39 – *Financial Instruments: Recognition and Measurement*. Financial liabilities are recognised on the transaction date when the Group becomes a party to the contract and thus has a contractual obligation and are derecognised when these contractual obligations are discharged, cancelled or expired.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group 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, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants 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 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.

**Currency analysis and maturity profile of total borrowings**

	2018			2017		
	Within 1 year R'million	Between 1 – 5 years R'million	Total R'million	Within 1 year R'million	Between 1 – 5 years R'million	Total R'million
<b>Finance lease and instalment credit liabilities</b>						
Rand	7	8	15	13	9	22
	7	8	15	13	9	22
<b>Bank overdrafts</b>						
Rand	3 056	–	3 056	3 519	–	3 519
	3 056	–	3 056	3 519	–	3 519
<b>Unsecured loans</b>						
(1) Euro syndicated term and revolving loans	–	36 690	36 690	11 563	19 461	31 024
(5) Euro – other	4 583	–	4 583	254	–	254
Euro – capital raising fees	(56)	(98)	(154)	(53)	(102)	(155)
(2) Australian Dollar syndicated revolving loan	–	3 554	3 554	–	4 046	4 046
Australian Dollar – capital raising fees	(3)	(9)	(12)	–	(36)	(36)
(3) Rand syndicated term and revolving loans	–	6 600	6 600	–	5 600	5 600
(4) Rand – other	3 645	3	3 648	3 564	–	3 564
Rand – capital raising fees	(7)	(23)	(30)	–	–	–
	8 162	46 717	54 879	15 328	28 969	44 297
<b>Total borrowings</b>	<b>11 225</b>	<b>46 725</b>	<b>57 950</b>	<b>18 860</b>	<b>28 978</b>	<b>47 838</b>

#### 14. Borrowings continued

##### Currency analysis and maturity profile of total borrowings continued

###### (1) Euro syndicated term and revolving loans

The borrowings comprise	Amount EUR'million	Date obtained	Term	Interest terms <sup>#</sup>
Facility A loan <sup>^</sup>	1 000	May 2018	Two years repayable July 2020	EURIBOR + margin of 1,95%
Facility B loan	500	May 2018	Four years repayable July 2022	EURIBOR + margin of 2,20%
Facility C loan	789	May 2018	Four years repayable July 2022	EURIBOR + margin of 2,25%

<sup>#</sup> Margin quoted for Facility C loan includes utilisation fees of 0,40%. To the extent that the Group's ratio of net borrowings to earnings before interest, tax and depreciation and amortisation (the "leverage ratio") increases or decreases, so the margin applicable to these loans will increase or decrease. The margin presented in this table is based on a leverage ratio of between 3,50 and 3,75. To the extent that EURIBOR is negative, EURIBOR is set at nil.

<sup>^</sup> Facility A loan's margin increases every six months over its term. Interest terms presented in this table are based on a weighted average margin over the term of the loan, assuming a leverage ratio of between 3,50 and 3,75.

The repayment profile is set out below:

	Facility A loan EUR'million	Facility B loan EUR'million	Facility C loan EUR'million	Total EUR'million
Year ending 30 June 2021	1 000	–	–	1 000
Year ending 30 June 2023	–	500	789	1 289
	1 000	500	789	2 289

###### (2) Australian Dollar syndicated revolving loan

The borrowings comprise	Amount AUD'million	Date obtained	Term	Interest terms <sup>#</sup>
Facility G loan	350	May 2018	Four years repayable July 2022	BBSY + margin of 1,95%

<sup>#</sup> To the extent that the Group's ratio of net borrowings to earnings before interest, tax and depreciation and amortisation (the "leverage ratio") increases or decreases, so the margin applicable to these loans will increase or decrease. The margin presented in this table is based on a leverage ratio of between 3,50 and 3,75.

###### (3) Rand syndicated term and revolving loans

The borrowings comprise	Amount R'million	Date obtained	Term	Interest terms <sup>#</sup>
Facility D loan	6 000	May 2018	Four years repayable July 2022	JIBAR + margin of 1,90%
Facility E loan	600	May 2018	Four years repayable July 2022	JIBAR + margin of 1,95%

<sup>#</sup> To the extent that the Group's ratio of net borrowings to earnings before interest, tax and depreciation and amortisation (the "leverage ratio") increases or decreases, so the margin applicable to these loans will increase or decrease. The margin presented in this table is based on a leverage ratio of between 3,50 and 3,75.

The repayment profile is set out below

	Facility D loan R'million	Facility E loan R'million	Total R'million
Year ending 30 June 2023	6 000	600	6 600
	6 000	600	6 600

###### (4) Rand – other

The borrowings comprise	Amount R'million	Term	Interest terms
Various short-term loans	1 302	On demand	Ranging between 7,45% and 8,50%
Trade finance	126	Less than three months	JIBAR + margin of 0,75%
Various short-term loans	1 033	Ranging between three and six months	SAFEX + margin of between 1,40% and 1,55%
Various short-term loans	1 200	Ranging between six months and twelve months	JIBAR + margin of between 1,34% and 1,44%

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2018

14. Borrowings continuedCurrency analysis and maturity profile of total borrowings continued

(5) Euro – other

The borrowings comprise	Amount EUR'million	Term	Interest terms
Various short-term loans	282	Less than three months	EURIBOR + margin of between 1,00% and 1,50%

## Interest rate profile of total borrowings

	2018			2017		
	Total R'million	Interest rate %	Average effective interest rate %	Total R'million	Interest rate %	Average effective interest rate %
<b>Bank overdrafts – floating rate (linked to South African prime overdraft rate)</b>	<b>3 056</b>	<b>Rates ranging between prime and prime less 3,0%</b>	<b>7,2</b>	3 519	Rates ranging between prime and prime less 3,0%	7,5
<b>Unsecured loans – floating rate</b>	<b>54 894</b>			44 319		
Linked to BBSY <sup>^</sup>	3 554	+ margin of 1,95%	4,1	4 071	+ margin of 2,0%	3,8
Linked to SAFEX	1 033	+ margin of between 1,40% and 1,55%	7,8	1 440	+ margin of 1,4%	8,2
Linked to JIBAR <sup>^</sup>	7 926	+ margin ranging between 0,75% and 1,95%	8,8	6 819	+ margin ranging between 1,9% and 2,2%	8,5
Linked to South African prime overdraft rate	–	–	–	550	Less margin ranging between 1,0% and 2,7%	7,9
Linked to overnight call rate	1 302	Overnight call rates ranging between 7,45% and 8,5%	7,6	354	Overnight call rates ranging between 8,0% and 8,3%	8,0
Linked to EURIBOR <sup>^</sup>	41 273	+ margin ranging between 1,00% and 2,25%	1,7	31 276	+ margin ranging between 1,0% and 2,4%	2,1
Other	2	Various	–	–	–	–
Capital raising fees <sup>#</sup>	(196)	–	–	(191)	–	–
<b>Total borrowings</b>	<b>57 950</b>			47 838		

<sup>#</sup> Capital raising fees relate to the Group's syndicated term and revolving loans and have been shown separately in this table as they are non-interest bearing.

<sup>^</sup> Margin quoted for Facility C loan includes utilisation fees of 0,40%. With respect to the Group's syndicated term and revolving loans, to the extent that the Group's ratio of net borrowings to earnings before interest, tax and depreciation and amortisation (the "leverage ratio") increases or decreases, so the margin applicable to these loans will increase or decrease. The margin for 2018 presented in this table is based on a leverage ratio of between 3,50 and 3,75. To the extent that EURIBOR is negative, EURIBOR is set at nil. The below table demonstrates the cumulative change in margin applicable to the Group's syndicated term and revolving loans for changes in its leverage ratio:

2018		2017	
>3,75 but <4,00	+0,15%	>3,50	+0,30%
>3,50 but <3,75	0	>3,00 but <3,50	0
>3,00 but <3,50	-0,15%	>2,50 but <3,00	-0,10%
>2,50 but <3,00	-0,25%	>2,00 but <2,50	-0,20%
>2,00 but <2,50	-0,35%	>2,00 but <2,50	-0,30%
<2,00	-0,45%	>2,00	-0,40%

## Definitions

- JIBAR – Johannesburg Interbank Acceptance Rate
- SAFEX – South African Futures Exchange Call Rate
- EURIBOR – Euro Interbank Offer Rate
- BBSY – Bank Bill Swap Yield



#### 14. Borrowings continued

##### Other disclosures

	2018	2017
<b>Movement in net borrowings</b>		
Opening balance	<b>47 838</b>	43 600
Repayment of borrowings	<b>(11 496)</b>	(19 032)
Utilisation of borrowings	<b>19 186</b>	25 251
Capital raising fees released	<b>209</b>	112
Movement due to changes in foreign exchange rates	<b>2 213</b>	(2 093)
Closing balance	<b>57 950</b>	47 838

The Group had the following undrawn borrowing facilities at year-end:

- South African Rand denominated facilities of R3 538 million; and
- a Euro denominated facility of EUR361 million.

These facilities may only be drawn to the extent that the facilities are not currently subject to an event of default.

All negotiated facilities are reviewed annually.

#### 15. Other non-current liabilities

##### Accounting policy

###### Recognition and measurement

###### *Other non-current financial liabilities*

Other non-current financial liabilities are recognised initially at fair value and expected future payments are discounted to present value using an appropriate market-related discount rate. The liabilities are subsequently measured at amortised cost using the effective interest rate method. The amount expected to be settled within 12 months from year-end date is shown as current and the amounts expected to be settled 12 months after year-end date is shown as non-current on the statement of financial position.

The difference between the total capital repayments and the present value of the liabilities will be released to financing costs in the statement of comprehensive income over the terms on the liabilities.

###### *Deferred revenue*

The Group recognises, as deferred revenue, contributions by third parties to the cost of specific capital expenditure projects. Deferred revenue is recognised at the fair value of the consideration received in advance. Upon completion of a relevant capital expenditure project the related deferred revenue is released to the statement of comprehensive income over the remaining term of the supply contract with the contributing third party. The amount expected to be realised within 12 months from year-end date is shown as current and the amounts expected to be realised 12 months after year-end date is shown as non-current on the statement of financial position.

###### *Environmental liabilities*

Environmental liabilities are recognised when the Group has a legal or a constructive obligation, as a result of a past event, and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation and the obligation can be measured reliably.

###### *Financial liabilities*

Other non-current financial liabilities are classified as "liabilities at amortised cost" in terms of IAS 39 – *Financial Instruments: Recognition and Measurement*. Financial liabilities are recognised on the transaction date when the Group becomes a party to the contract and thus has a contractual obligation and are derecognised when these contractual obligations are discharged, cancelled or expired.

##### Summary of balance

	Notes	2018 R'million	2017 R'million
Other non-current financial liabilities	15.1	<b>2 524</b>	4 299
Deferred revenue	15.2	<b>163</b>	–
Environmental liabilities	16	<b>88</b>	82
		<b>2 775</b>	4 381

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**15. Other non-current liabilities** continued**15.1 Other non-current financial liabilities**

	2018 R'million	2017 R'million
<b>Reconciliation of balance</b>		
Balance at the beginning of the year	8 721	2 543
Deferred performance payment on Busulfan	381	–
AstraZeneca Anaesthetics	8 102	5 045
Loss on cash flow hedge – included in hedging reserve	(111)	–
GSK Anaesthetics Portfolio	–	1 500
Repayments	(10 005)	(192)
Notional interest	408	339
Currency translation movements	585	(514)
	<b>8 081</b>	8 721
<b>Split of balance</b>		
Non-current	2 524	4 299
Current	5 557	4 422
	<b>8 081</b>	8 721
<b>Split of balance</b>		
10- year interest-free loan	2 147	1 845
Deferred consideration payable to AstraZeneca	4 357	4 665
Deferred consideration payable to GSK	999	1 610
Deferred consideration payable to MSD	183	401
Deferred consideration payable to McGuff	159	200
Deferred consideration payable to Sunrise	33	–
Deferred performance payment on Busulfan	203	–
	<b>8 081</b>	8 721

**10-year interest-free loan**

As part of a historical business combination, Aspen acquired inventories to the value of R3,3 billion, a portion of which was funded by way of a 10-year, interest-free loan from MSD. The discount rate used in valuing this loan was 8%. This loan was obtained in October 2013 and is repayable at the end of the 10-year period. In addition to inventories given as security for this loan (refer to note 7), the Group provided a further guarantee to the value of R3 017 million to MSD.

**Deferred consideration payable to AstraZeneca**

The AstraZeneca deal is made up of two components:

**Business combination AZ Anaesthetics Portfolio prior year:**

With effect from 1 September 2016, AGI acquired the exclusive rights to commercialise the Anaesthetics Portfolio of AstraZeneca globally (excluding the USA). As consideration for the commercialisation rights, AGI paid USD520 million of which USD110 million was paid in the current year. In addition, AGI capitalised sales-related payments of USD250 million of which USD150 million was paid in the current year. Further sales-related payments of USD138 million were not capitalised as the probability of achievement was remote.

The repayment profile is set out below:

	2018 USD'million	2017 USD'million
Year ended 30 June 2018	–	260
Year ending 30 June 2019	100	100
	<b>100</b>	360

15. **Other non-current liabilities** continued

15.1 **Other non-current financial liabilities** continued

**Deferred consideration payable to AstraZeneca** continued

**Acquisition of residual rights relating to AZ Anaesthetics Portfolio:**

On 1 September 2016 AGI acquired the exclusive rights to commercialise the anaesthetics portfolio of AstraZeneca globally (excluding the USA). With effect from 1 November 2017, AGI acquired the remaining rights to the intellectual property and manufacturing know-how related to the AZ Anaesthetics ("the residual rights"). The transaction has been classified as an intangible asset acquisition and not a business combination. The fair value of the residual rights is R8 060 million (USD627 million) and R5 202 million (USD405 million) of the consideration has been paid in the current financial year. The balance of R2 858 million (USD222 million) comprises the present value of future deferred fixed and performance-related milestone payments.

The discount rate used in present valuing the deferred consideration was 3,5%.

The repayment profile is set out below:

	2018 USD'million	2017 USD'million
Year ending 30 June 2019	222	–
	222	–

**Deferred consideration payable to GSK**

In the prior year, AGI concluded a transaction with GSK in terms of which they paid GBP180 million with further potential milestone payments of up to GBP100 million based on the gross profitability of the acquired portfolio in the 36 months following completion. Based on the expected performance of the acquired portfolio over the 36-month period the deferred consideration recognised is 100% of the total possible consideration. Should the gross profit of the acquired portfolio be 10% below that expected, the deferred consideration payable would reduce to GBP77 million.

The discount rate used in present valuing the deferred consideration was 3,5%.

In the current year GBP42 million (2017: Rnil) has been repaid.

The repayment profile is set out below:

	2018 GBP'million	2017 GBP'million
Year ended 30 June 2018	–	42
Year ending 30 June 2019	43	43
Year ending 30 June 2020	15	15
	58	100

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**15. Other non-current liabilities** continued**15.1 Other non-current financial liabilities** continued**Deferred consideration payable to MSD**

The total purchase consideration for the MSD business was USD600 million. USD533 million of the consideration was paid on 2 January 2014. In the current year USD14 million (2017: USD14 million) has been repaid.

The discount rate used in valuing the deferred consideration was 3,5%.

The repayment profile is set out below:

	2018 USD'million	2017 USD'million
Year ended 30 June 2018	–	14
Year ending 30 June 2019	14	14
	14	28

**Deferred consideration payable to McGuff**

In the year ended 30 June 2016, AGI concluded a transaction with McGuff in terms of which they agreed to pay milestone payments for the HPC business. The amount is partially dependent on future sales performance. In the current year USD4 million (2017: USDnil) has been repaid.

The discount rate used in valuing the deferred consideration was 3,0%.

The repayment profile is set out below:

	2018 USD'million	2017 USD'million
Year ended 30 June 2018	–	4
Year ending 30 June 2019	5	5
Year ending 30 June 2020	3	3
Year ending 30 June 2022	3	3
Year ending 30 June 2023	1	1
	12	16

**Deferred consideration payable to Sunrise**

In the prior year the AGI entered into an agreement with Sunrise Pharmaceuticals LLC for the exclusive supply of Bzotropine tablets in the United States. The Company acquired the related intellectual property and approved abbreviated new drug application for an upfront consideration of USD5 million and subsequent milestone payments of USD1,5 million and USD2 million payable by the end of 2020.

The discount rate used in present valuing the deferred consideration was 3,0%.

In the current year USD1 million has been repaid.

The repayment profile is set out below:

	2018 USD'million	2017 USD'million
Year ended 30 June 2018	–	1
Year ending 30 June 2019	2	2
Year ending 30 June 2020	2	2
	4	5

**Deferred performance payment on Busulfan**

During the year, AGI entered into an agreement with a US-based distributor for the exclusive supply and distribution of Busulfan in the United States. As part of the agreement, AGI will pay a volume-based incentive payment of USD30 million over three-calendar years. In the current year, AGI paid USD15 million and contingent on future sales performance a further USD15 million will be payable by 30 June 2019. The discount rate used in present valuing the deferred consideration was 3%.

15. **Other non-current liabilities** continued  
**15.2 Deferred revenue**

	2018 R'million	2017 R'million
<b>Reconciliation of balance</b>		
Balance at the beginning of the year	312	482
Recognised in the statement of comprehensive income	(127)	(129)
Currency translation movements	16	(41)
	<b>201</b>	312
<b>Split of balance</b>		
Non-current	163	–
Current	38	312
	<b>201</b>	312
<b>Split of balance</b>		
Capital expenditure projects – Aspen Oss	201	312
	<b>201</b>	312

16. **Contingent environmental liabilities**  
**Reconciliation of balance**

	2018 R'million	2017 R'million
Balance at the beginning of the year	82	90
Currency translation movements	6	(8)
Balance at the end of the year	<b>88</b>	82

The environmental liabilities relates to the estimated cost of remediating soil contamination at the Boxtel site in the Netherlands. The remediation at Boxtel will be managed and funded by the Group and the amount of EUR5,5 million is based on an estimate by an independent expert.

17. **Unfavourable and onerous contracts**  
**Accounting policy**

**Recognition and measurement**

An unfavourable and onerous contract is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The Group has entered into binding legal agreements for the supply of products to vendors at below market value and/or cost to manufacture. The estimated costs required to settle the obligation are discounted to present value using appropriate market-related discount rates.

An unfavourable contract is principally based on the difference between the market price and the contract selling price.

Certain supply contracts for the third-party manufacture of products in Aspen Oss and in Aspen NDB have been classified as either unfavourable or onerous. These liabilities will be released to revenue over the term and quantity of supply of the contracts in terms of *IAS 18 – Revenue*.

	2018 R'million	2017 R'million
<b>Reconciliation of balance</b>		
Balance at the beginning of the year	1 983	2 657
Release to the statement of comprehensive income	(357)	(348)
Currency translation movements	130	(326)
	<b>1 756</b>	1 983
<b>Split of balance</b>		
Non-current	1 382	1 635
Current	374	348
	<b>1 756</b>	1 983

**18. Retirement and other employee benefit obligations**

**Accounting policy**

**Pension benefits**

The Group operates or contributes to defined contribution plans and defined benefit plans for its employees in certain countries in which it operates.

**Defined contribution plans**

A defined contribution plan is a provident fund under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees relating to employee service in the current and prior financial years. For defined contribution plans, the Group pays contributions to publicly or privately held pension insurance plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Group has no further payment obligations. The payments made to provident funds are expensed as incurred and are included in staff costs. Refer to note 24 of the Group Annual Financial Statements.

**Defined benefit plans**

A defined benefit plan is a pension plan that is not a defined contribution plan. It defines the amount of pension benefits that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group's net obligation in respect of defined benefit pension plans is actuarially calculated separately for each plan by deducting the fair value of plan assets from the present value of the gross obligation for retirement benefit obligations. The gross obligation is determined by estimating the future benefit attributable to employees in return for services rendered to date.

This future benefit is discounted to determine its present value, using discount rates based on government bonds, that have maturity dates approximating the terms of the Group's obligations and which are denominated in the currency in which the benefits are expected to be paid. Independent actuaries perform the calculation annually using the projected unit credit method.

Past service costs are recognised immediately in the statement of comprehensive income.

Actuarial gains and losses arising from experience adjustments and changes to actuarial assumptions are recognised in other comprehensive income as remeasurements in the period in which they arise.

**Other non-current employee benefits**

Some Group companies provide other non-current benefits to their employees. The entitlement to these benefits is usually conditional on the employee remaining in service up to a given age or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

**Defined benefit plans – post-retirement medical aid obligations**

In terms of Group policy post-retirement medical aid benefits are not provided for any employees, with the exception of certain South African employees who joined the Group before 28 February 2000. The Group has honoured its contractual commitment in respect of post-retirement medical aid obligations to these employees and pensioners employed before the change in policy.

The present value of the expected future post-retirement medical aid obligation is quantified to the extent that service has been rendered, and is reflected on the statement of financial position as a liability. Valuations of these obligations are carried out by independent actuaries on an annual basis using the projected unit credit method. Post-retirement medical aid obligations are accounted for using the same accounting methodologies as described for the defined benefit plans – pension.

## 18. Retirement and other employee benefit obligations continued

The Group operates or contributes to defined contribution plans, defined benefit plans and other long-term plans in certain countries in which it operates.

### Defined contribution plans

Contributions by the Group and in some cases the employees are made to funds set up in South Africa, Australia, Malaysia, Taiwan, Ireland, the Netherlands, Brazil, Tanzania, Kenya and Uganda while no contributions are made to plans established in other geographic areas.

Total contributions paid to the various funds by the Group amounted to R383 million for the current financial year (2017: R357 million). The Group has no further payment obligations once the contributions have been paid. The payments made are expensed as incurred in the statement of comprehensive income and are included in staff costs.

### Defined benefit plans

Contributions by the Group and in some cases by the employees are made for funds set up in South Africa, Germany, the Philippines, Mexico, France, Tanzania and Kenya while no contributions are made for plans established in other geographic areas.

Provisions for pension and medical aid obligations are established for benefits payable in the form of retirement, disability, surviving dependant pensions and medical benefits. The benefits offered vary according to the legal, fiscal and economic conditions of each country.

### Long-term employee benefits

Contributions by the Group are made to funds set up in Germany and France while no contributions are made to plans established in other geographic areas.

#### Principal actuarial assumptions

	Last actuarial valuation done	Full/interim valuation	Valuation method adopted	Discount rate	Medical inflation rate	Salary increase rate
France	June 2018	Full	Projected unit credit	1,7% (2017: 2,0%)	N/A	2,3% (2017: 2,0%)
Germany	June 2018	Full	Projected unit credit	1,6% (2017: 1,8%)	N/A	2,5% (2017: 2,5%)
Kenya	June 2018	Full	Projected unit credit	11,2% (2017: 12,5%)	N/A	12,0% (2017: 12,0%)
Mexico	December 2017	Full	Projected unit credit	7,9% (2017: 7,4%)	N/A	5,0% (2017: 5,0%)
The Philippines	June 2018	Full	Projected unit credit	8,1% (2017: 5,3%)	N/A	6,5% (2017: 6,0%)
South Africa	June 2018	Full	Projected unit credit	9,8% (2017: 9,8%)	8,5% (2017: 8,5%)	N/A
Tanzania	June 2018	Full	Projected unit credit	11,1% (2017: 18,9%)	N/A	9,0% (2017: 9,0%)

These plans have been assessed by independent qualified actuaries and have been found to be in a sound financial position.

Weighted average assumptions used in performing actuarial valuations are determined in consultation with independent actuaries.

Assumptions regarding future mortality experience are set out based on advice, published statistics and experience in each territory.

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**18. Retirement and other employee benefit obligations** continued

	2018 R'million	2017 R'million
<b>Amounts recognised in the statement of financial position</b>		
Present value of retirement and other employee benefit obligations	<b>635*</b>	570*
Deferred tax	<b>(121)</b>	(117)
	<b>514</b>	453
<i>* Included in this amount is an obligation of R231 million (2017: R223 million) for which the Group has a reimbursive right. Refer to note 6.1 for more detail.</i>		
<b>Retirement and other employee benefit obligations comprise</b>		
Unfunded present value of retirement and other employee benefit obligations	<b>766</b>	698
Fair value of plan assets	<b>(131)</b>	(128)
	<b>635</b>	570
<b>The movement in the liability recognised in the statement of financial position is as follows:</b>		
At the beginning of the year	<b>698</b>	814
Current service costs (included in staff costs – cost of sales)	<b>39</b>	37
Benefits paid	<b>(8)</b>	(13)
Contributions paid to the plan by employer	<b>3</b>	3
Net interest expense	<b>13</b>	14
Remeasurements recognised in other comprehensive income – actuarial losses from changes in financial assumptions	<b>(3)</b>	(65)
– Actuarial losses from changes in demographic assumptions	<b>(15)</b>	(26)
– Actuarial gains/(losses) from changes in financial assumptions	<b>12</b>	(39)
Currency translation movements	<b>24</b>	(93)
	<b>766</b>	698
<b>The movement in the fair value of plan assets recognised in the statement of financial position is as follows:</b>		
At the beginning of the year	<b>127</b>	141
Benefits paid	<b>(1)</b>	(1)
Net interest income	<b>–</b>	1
Remeasurements – actual return on plan assets	<b>(3)</b>	(1)
Currency translation movements	<b>8</b>	(13)
	<b>131</b>	127
<b>Fair value of plan assets</b>		
The assets of the pension funds are invested as follows:		
Group insurance annuity policy – South African money market	<b>–</b>	6
European government bonds	<b>128</b>	120
Other	<b>3</b>	2
	<b>131</b>	128

The pension fund assets are measured at fair value at valuation date. The fair value of cash and other assets has been determined by performing market valuations and other valuation techniques at the end of each reporting period.



## 18. Retirement and other employee benefit obligations continued

### Sensitivity analysis

The effect of a 1% change in the assumed discount rate, medical inflation rate and salary increase rate would not have a significant effect on the amounts reported for retirement and other employee benefit obligations.

### Five-year summary

At 30 June	2018 R'million	2017 R'million	2016 R'million	2015 R'million	2014 R'million
Present value of retirement and other employee benefit obligations	766	698	800	488	619
Fair value of plan assets	(131)	(128)	(141)	(118)	(122)
Deficit to be funded	635	570	659	370	497

### Key risks associated with retirement and other employee benefit obligations

- (1) *Inflation risk*: the risk that future inflation is higher than expected.
- (2) *Medical inflation risk*: the risk that future contributions to the medical aid scheme increase faster than assumed.
- (3) *Longevity*: the risk that continuation members live longer than expected and hence the subsidy is payable for longer than expected.
- (4) *Investment risk*: the risk that the return earned by the assets is lower than expected and hence the assets are insufficient.
- (5) *Salary risk*: the risk that future salaries are higher than expected.

## 19. Trade and other payables

### Accounting policy

#### Recognition and measurement

Trade and other payables are recognised when the Group has a legal or a constructive obligation, as a result of a past event, and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation and the obligation can be measured reliably.

#### Financial liabilities

Financial instruments related to trade and other payables are classified as "liabilities at amortised cost" in terms of IAS 39 – *Financial Instruments: Recognition and Measurement*. Financial liabilities are recognised on the transaction date when the Group becomes a party to the contract and thus has a contractual obligation and are derecognised when these contractual obligations are discharged, cancelled or expired.

### Summary of balance

	2018 R'million	2017 R'million
Trade payables	4 487	5 182
Accrued expenses	1 993	1 737
Indirect taxes	1 078	579
Leave pay	435	393
Bonuses	337	232
Other	2 084	2 134
	10 414	10 257
<b>Split of balance</b>		
Financial liabilities	7 222	7 807
Non-financial liabilities	3 192	2 450
	10 414	10 257

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## Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2018

### 19. Trade and other payables continued

#### Other disclosures

	2018 R'million	2017 R'million
<b>Currency analysis of trade and other payables (financial instruments only)</b>		
Australian Dollar	750	692
Euro	2 448	3 029
Kenyan Shilling	48	33
Mexican Peso	295	182
Philippine Peso	31	29
Pound Sterling	154	264
South African Rand	1 808	1 269
Tanzanian Shilling	28	22
US Dollar	1 243	1 743
Other currencies	417	544
	<b>7 222</b>	<b>7 807</b>

All trade and other payables are predominantly non-interest bearing.

No individual vendor represents more than 10% of the Group's trade payables.

### 20. Other current liabilities

#### Accounting policy

##### Financial liabilities at amortised cost

This category of financial liabilities comprises other financial liabilities and deferred payables. These financial liabilities are initially recognised at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

	Notes	2018 R'million	2017 R'million
<b>Split of balance</b>			
Current tax liabilities		526	564
Deferred revenue	15.2	38	312
Derivative financial instruments	20.1	75	43
Other current financial liabilities	15.1	5 557	4 422
		<b>6 196</b>	<b>5 341</b>
<b>20.1 Derivative financial instruments – liability</b>			
Balance at the beginning of the year		43	11
Fair value (gains)/loss recognised in the statement of comprehensive income		(29)	15
Transfer from assets		63	8
Translation of foreign operations		(2)	9
		<b>75</b>	<b>43</b>
<b>The balance is split as follows:</b>			
Forward exchange contracts		66	26
Interest rate swaps		9	17
		<b>75</b>	<b>43</b>

This balance consists of derivatives where hedge accounting was not applied.

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows discounted using the appropriate yield curve.

The net market value of all forward exchange contracts at year-end was calculated by comparing the forward exchange contracted rates to the equivalent of year-end market foreign exchange rates. The present value of these net market values was then discounted using the appropriate currency-specific discount rate.

Interest rate swaps and forward exchange contracts are classified as "level 2" liabilities in the fair value measurement hierarchy.

## 21. Revenue

### Accounting policy

#### Recognition and measurement

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue, net of trade discounts, distribution fees paid to independent wholesalers and excluding value added tax, comprises the total invoice value of goods, co-marketing fees and royalties. In the determination of revenue, all intra-group transactions are excluded.

Sales are recorded when significant risks and rewards of ownership of the goods are transferred to the buyer based on the date goods are delivered to customers, the amount of revenue can be measured reliably and it is probable that future economic benefits will flow to the entity. Revenue arising from co-marketing and royalty agreements is recognised on the accrual basis in accordance with the substance of the relevant agreements.

### Summary of balance

	2018 R'million	2017 R'million
Sale of goods	42 095	40 719
Royalties	–	6
Co-marketing fees	144	142
Unfavourable and onerous contracts release	357	346
	<b>42 596</b>	<b>41 213</b>

## 22. Operating profit

### Operating profit has been arrived at after charging/(crediting)

Loss on the sale of property, plant and equipment	–	30
Auditors' remuneration	48	36
– Audit fees	39	32
Current year	33	31
Prior year underprovision	6	1
– Other services – tax consulting	2	3
– Other services – due diligence	5	–
– Other services	2	1
Net impairment charges	1 527	1 476
Impairment of intangible assets (included in other operating expenses)	750	448
Reversal of impairment of intangible assets (included in other operating income)	(127)	–
Impairment charge – inventories (included in cost of sales)	766	738
Impairment of property, plant and equipment (included in other operating expenses)	71	278
Reversal of impairment of property, plant and equipment (included in other operating income)	(3)	(3)
Impairment of assets-held-for-sale (included in other operating expenses)	51	–
Trade receivables – (impairment charge for bad and doubtful debts (included in administrative expenses)	19	15
Loss on the sale of subsidiary	–	70
Loss on the sale of intangible assets	4	96
Repairs and maintenance expenditure on property, plant and equipment	590	494
Research and development costs	3	2
Operating lease rentals – land and buildings	116	97
Restructuring costs	199	494
Transaction costs	160	208
Product litigation costs	317	208

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## Notes to the Group Annual Financial Statements continued

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### 23. Expenses by nature

	2018				Total R'million
	Cost of sales R'million	Selling and distribution expenses R'million	Administrative expenses R'million	Other operating expenses R'million	
Cost of material and production-related variances	13 420	–	–	–	13 420
Personnel costs and other staff-related costs	3 923	2 987	1 594	–	8 504
Depreciation and amortisation	583	52	105	632	1 372
Advertising and marketing expenses	–	1 315	–	–	1 315
Transport and warehousing costs	251	1 500	–	–	1 751
Impairment charges	781	–	–	821	1 602
Legal and consulting fees	386	368	391	–	1 145
Property costs	459	3	34	–	496
Repairs and maintenance expenditure on property, plant and equipment	567	–	6	–	573
Transaction costs	–	–	–	160	160
Restructuring costs	–	–	–	199	199
Regulatory expenses	–	253	–	–	253
Product litigation costs	–	–	–	317	317
Other	621	982	973	95	2 671
	<b>20 991</b>	<b>7 460</b>	<b>3 103</b>	<b>2 224</b>	<b>33 778</b>

	2017				Total R'million
	Cost of sales R'million	Selling and distribution expenses R'million	Administrative expenses R'million	Other operating expenses R'million	
Cost of material and production-related variances	14 742	–	–	–	14 742
Personnel costs and other staff-related costs	3 713	2 340	1 476	–	7 529
Depreciation and amortisation	544	57	100	567	1 268
Advertising and marketing expenses	–	1 172	–	–	1 172
Transport and warehousing costs	96	1 828	–	–	1 924
Impairment charges	756	–	–	726	1 482
Legal and consulting fees	358	244	317	–	919
Property costs	500	5	35	–	540
Repairs and maintenance expenditure on property, plant and equipment	464	–	15	–	479
Transaction costs	–	1	–	207	208
Restructuring costs	–	–	–	494	494
Regulatory expenses	–	121	–	–	121
Product litigation costs	–	–	–	208	208
Other	144	952	837	218	2 151
	<b>21 317</b>	<b>6 720</b>	<b>2 780</b>	<b>2 420</b>	<b>33 237</b>

## 24. Directors and employees

### Accounting policy

#### Directors' and prescribed officers' remuneration

The directors' and prescribed officers' remuneration represent the remuneration paid to, or receivable by, directors and prescribed officers in their capacity as director, prescribed officer or any other capacity. All amounts in respect of the financial year reported on are presented, including bonuses not accrued for in the Group Annual Financial Statements. This disclosure is provided in terms of the JSE Listings Requirements. A legal opinion obtained by the Company has confirmed that there are no individuals who can be considered as prescribed officers of the Company.

	2018 R'thousand	2017 R'thousand
<b>Directors' remuneration</b>		
<b>Non-executive directors' fees</b>		
Roy Andersen	664	629
John Buchanan	759	825
Linda de Beer	45	–
Kuseni Dlamini	1 098	1 036
Maureen Manyama	267	575
Chris Mortimer	345	362
Babalwa Ngonyama	622	520
David Redfern	284	313
Sindi Zilwa	701	701
Total (A)	4 785	4 961
<b>Executive directors</b>		
Gus Attridge	14 108	13 583
Remuneration	5 947	5 627
Retirement and medical aid benefits	1 005	944
Performance bonus	4 693	4 688
Share-based payment expense	2 463	2 324
Stephen Saad	17 154	16 506
Remuneration	7 227	6 828
Retirement and medical aid benefits	1 186	1 117
Performance bonus	5 677	5 671
Share-based payment expense	3 064	2 890
Total (B)	31 262	30 089
Total emoluments paid by the Company (A+B)	36 548	35 050
	2018 R'million	2017 R'million
<b>Staff costs</b>		
Wages and salaries	6 911	6 139
Defined contribution plan expenses	383	357
Defined benefit plan expenses	52	50
Share-based payment expense – options and appreciation rights	–	2
Share-based payment expense – deferred incentive bonus	27	26
Share-based payment expense – phantom share scheme	16	28
Other Company contributions	536	444
	7 925	7 046
Amount included in cost of sales	3 870	3 648
Wages and salaries	3 411	3 183
Benefits	459	465
Amount included in selling and distribution expenses	2 577	2 020
Wages and salaries	2 236	1 800
Benefits	341	220
Amount included in administrative expenses	1 478	1 378
Wages and salaries	1 264	1 156
Benefits	214	222
<b>Total number of employees at year-end</b>	10 676	10 204
Full-time employees	9 965	9 454
Part-time employees	711	750

**Notes to the Group Annual Financial Statements** continued

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**25. Investment income****Accounting policy****Recognition and measurement**

Investment income comprises interest received on bank balances and short-term deposits and is recognised as it accrues in the statement of comprehensive income, using the effective interest method.

	<b>2018</b> <b>R'million</b>	2017 R'million
Interest on bank balances and short-term deposits	<b>182</b>	259
Other	<b>161</b>	28
	<b>343</b>	287

**26. Financing costs****Accounting policy****Recognition and measurement**

Financing costs comprise interest paid on borrowings, unwinding of notional interest on discounted liabilities, changes in the fair value of financial assets and liabilities at fair value through profit or loss, foreign exchange gains or losses and any gains or losses on hedging instruments that are recognised in the statement of comprehensive income. All borrowing costs are recognised in the statement of comprehensive income using the effective interest method, unless the borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, in which case the directly attributable borrowing costs are capitalised.

	<b>2018</b> <b>R'million</b>	2017 R'million
Interest paid – bank overdraft and borrowings	<b>1 884</b>	1 818
Bank overdrafts and borrowings	<b>1 740</b>	1 737
Other	<b>144</b>	81
Capital raising fees released – transactions	<b>209</b>	112
Notional interest on financial instruments	<b>408</b>	339
Net foreign exchange losses	<b>16</b>	200
Fair value (gains)/losses on derivative financial instruments	<b>(104)</b>	37
Foreign exchange gains on acquisitions	<b>(178)</b>	(137)
	<b>2 235</b>	2 369

Financing costs above exclude financing costs of R177 million which have been capitalised during 2018 to capital work-in-progress (2017: R182 million). Refer to note 2 for detail.

## 27. Income tax

### Accounting policy

The tax expense comprises current tax, deferred tax, capital and wealth taxes and withholding taxes. The tax expense does not include taxes associated with amounts reflected in other comprehensive income, discontinued operations and equity. The tax associated with those amounts is reflected directly in other comprehensive income, discontinued operations or equity, respectively.

#### Current tax

The current tax charge is the tax that is expected to be payable on the profits generated during the year and any adjustments to the tax payable in respect of prior years. The current tax charge also includes provisions where it is likely that a tax authority may take a different position to the filing positions taken by the Group.

#### Deferred tax

The deferred tax charge is the tax that is expected to be payable in future or relief that is expected to materialise in future, applying the liability method. The deferred tax charge includes adjustments to the opening deferred tax balances to recognise tax filing adjustments and to adjust the statutory tax rate that is utilised for determining the opening deferred tax balance.

#### Capital and wealth taxes

Capital and wealth tax is payable at varying rates by companies in the Aspen Group. These taxes generally arise in Latin America and Asia.

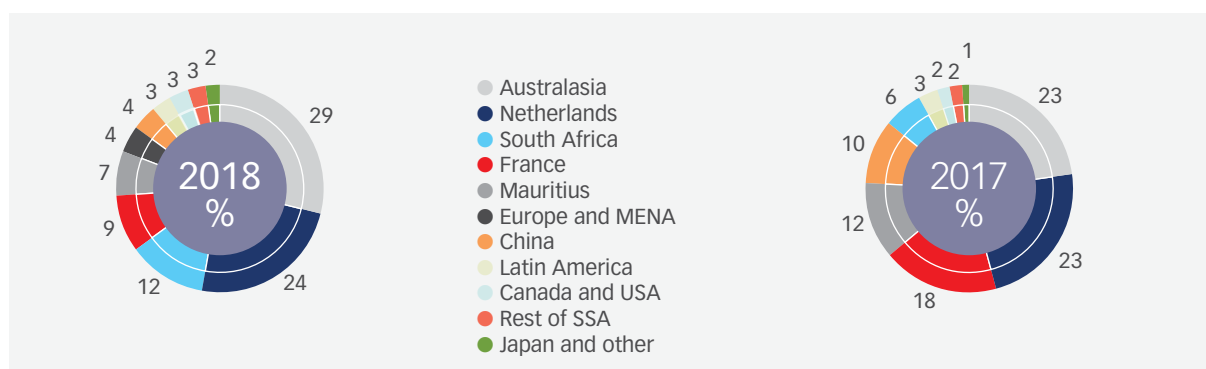
#### Withholding taxes

Withholding tax is payable at varying rates on interest, management fees, licences and dividends which are declared by one Group company to another Group company.

### Summary of balance

	2018 R' million	2017 R' million
Current tax		
Current year	1 498	1 139
Prior year	(164)	(44)
Deferred tax		
Current year	(43)	(35)
Prior year	64	26
Capital and wealth taxes	8	11
Withholding taxes	22	27
	<b>1 385</b>	<b>1 124</b>

The Group operates in 56 countries across the world which have statutory rates of tax from 0% to 40%. The main contributors to the Group's overall tax liability are located in Australasia, China, France, Mauritius, Netherlands and South Africa. The overall contribution is reflected as follows:



**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**27. Income tax** continued**Group's effective tax rate**

The Group's effective tax rate has been restated to provide additional information relating the key drivers of the effective tax rate.

	2018 %	2017 %
<b>Group's effective tax rate</b>		
South African tax rate	<b>28,0</b>	28,0
Differences in foreign tax rates		
Mauritius <sup>1</sup>	<b>(6,4)</b>	(7,9)
Other <sup>2</sup>	<b>0,4</b>	(0,8)
<b>Aggregate statutory base tax rate</b>	<b>22,0</b>	19,3
<b>Movement in rate due to transactions included in normalised headline earnings:</b>		
Non-taxable income arising from underlying tax credits <sup>3</sup>	<b>(5,9)</b>	(7,3)
Tax losses not recognised	–	1,4
Disallowed interest	<b>0,3</b>	0,7
Withholding and other taxes	<b>0,3</b>	0,5
Capital and wealth taxes	<b>0,1</b>	0,3
Disallowed holding company expenses	<b>0,4</b>	0,2
Prior year adjustments	<b>(1,4)</b>	(0,1)
Government incentives	<b>(0,1)</b>	(1,0)
Other disallowed expenses <sup>4</sup>	<b>1,5</b>	3,1
<b>Normalised effective tax rate</b>	<b>17,2</b>	17,1
<b>Movement in rate due to transactions excluded from normalised headline earnings:</b>		
Disallowed impairments	<b>0,4</b>	0,2
Non-taxable capital losses/(profits)	<b>0,1</b>	(0,6)
Disallowed restructuring, transaction costs and financing costs	<b>0,7</b>	0,7
Disallowed product litigation costs	<b>0,3</b>	0,6
<b>Group effective tax rate</b>	<b>18,7</b>	18,0

<sup>1</sup> The statutory rate of tax in Mauritius is 15%. This rate is, however, subject to various credits that are available, which do fluctuate from year to year. The Aspen Group's Mauritius-based operations (namely AGI) contributes -6,4% (2017: -7,9%) to the differences in foreign tax rates with the balance being contributed by the rest of the Group. The year-on-year movement in this difference relates to intellectual property that it acquired from AstraZeneca and GSK during the 2017 fiscal year. Profits arising on these new businesses between the date of acquisition of the intellectual property and the date on which an Aspen entity is able to, in terms of pharmaceutical regulations, market and distribute the product is earned by AGI. Once the marketing and distribution of the products transition to another Aspen entity, a portion of the profits move from AGI to the countries in which the distributor or the manufacturer is located. This cycle can take as much as five years to complete.

<sup>2</sup> The statutory tax rates in the remaining countries range from 0% to 40%. On an overall basis, these entities contribute 0,4% (2017: -0,8%) to the differences in foreign rates of tax. The movement from one year to the next arises from a change in the contribution of each Group entity's profits to the overall profits (refer to note 1 above).

<sup>3</sup> Under Mauritius tax law, a portion of the income earned by AGI is not subject to tax in Mauritius due to the fact that it is shielded by corporate tax that has been paid to other tax authorities which relates to dividends that are received by AGI from its subsidiaries. During the 2017 fiscal year, income that qualifies for these special foreign tax credits in Mauritius was included in the differences in the foreign rates of tax of the effective tax rate reconciliation. The numbers for the 2017 fiscal year have been restated to reflect this amount in non-taxable income arising from underlying tax credits.

<sup>4</sup> This includes consulting fees, contributions to share schemes, donations, entertainment, fines and penalties, legal costs, motor vehicle costs, staff welfare, travel costs and various potentially disallowable costs that form part of the Group provision for uncertain tax positions, which are not deductible for tax purposes in many countries in which the Group operates. These items are immaterial on an individual basis.



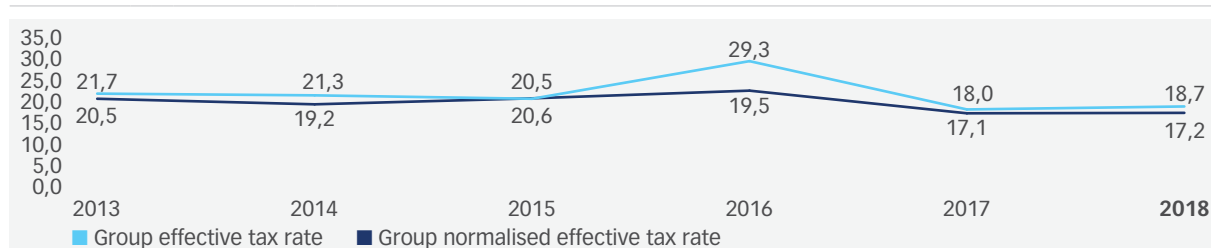
## 27. Income tax continued

### Group's effective tax rate continued

The Group's effective tax rate has been as follows over the preceding five years:

#### Five-year Group effective tax rate

(%)



The effective tax rate was unusually high during the 2016 fiscal year and predominantly arose from the Venezuelan operations being terminated.

## 28. Earnings per share

### Accounting policy

#### Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by a subsidiary of Aspen and held as treasury shares.

Weighted average number of shares in issue is calculated as the number of shares in issue at the beginning of the year, increased by shares issued during the year, weighted on a time basis for the period during which they have participated in the profit of the Group. Shares which are held by a subsidiary company as treasury shares have been adjusted on a time basis in determining the weighted average number of shares in issue.

#### Diluted earnings per share

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company had two categories of dilutive potential ordinary shares, namely share options and share appreciation rights. A calculation is performed to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to the outstanding share options and appreciation rights. Fair value is calculated as the average share price for the year for share options. The closing price is used for share appreciation rights, as these are classified as contingently issuable shares in terms of IAS 33 – *Earnings per share*. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

The difference is added to the denominator as an issue of ordinary shares for no consideration. No dilutive adjustments have been made to earnings.

#### Headline earnings per share

The calculation of headline earnings per share is based on the profit attributable to equity holders of the parent, after excluding all items of a non-trading nature, divided by the weighted average number of ordinary shares in issue during the year. The presentation of headline earnings is not an IFRS requirement, but is required by JSE Listings Requirements and Circular 4 of 2018.

#### Normalised headline earnings per share

Normalised headline earnings are headline earnings adjusted for specific non-trading items, being transaction costs and other acquisition and disposal-related gains or losses, restructuring costs, settlement of product-related litigation costs, net monetary adjustments and currency devaluations relating to hyperinflationary economies and significant once-off tax provision charges or credits arising from the resolution of prior year tax matters.

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# Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2018

## 28. Earnings per share continued

### Reconciliation of earnings

	2018 R'million	2017 R'million
<b>Profit attributable to equity holders of the parent</b>	<b>6 010</b>	5 127
Impairment of property, plant and equipment	<b>50</b>	200
– Gross amount	<b>71</b>	278
– Tax effect	<b>(21)</b>	(78)
Reversal of impairment of property, plant and equipment	<b>(2)</b>	(3)
– Gross amount	<b>(3)</b>	(3)
– Tax effect	<b>1</b>	–
Impairment of intangible assets	<b>733</b>	427
– Gross amount	<b>750</b>	448
– Tax effect	<b>(17)</b>	(21)
Reversal of impairment of intangible assets (gross amount)	<b>(127)</b>	–
Impairment of assets held-for-sale	<b>37</b>	–
– Gross amount	<b>51</b>	–
– Tax effect	<b>(14)</b>	–
Loss on the sale of intangible assets	<b>3</b>	85
– Gross amount	<b>4</b>	96
– Tax effect	<b>(1)</b>	(11)
Loss on the sale of property, plant and equipment	<b>–</b>	25
– Gross amount	<b>–</b>	30
– Tax effect	<b>–</b>	(5)
Loss on the sale of subsidiary (gross amount)	<b>–</b>	70
<b>Headline earnings</b>	<b>6 704</b>	5 931
Restructuring costs	<b>144</b>	362
– Gross amount	<b>199</b>	494
– Tax effect	<b>(55)</b>	(132)
Transaction costs	<b>362</b>	314
– Gross amount	<b>369</b>	320
– Tax effect	<b>(6)</b>	(6)
Foreign exchange gain on acquisitions (gross amount)	<b>(178)</b>	(137)
Product litigation costs	<b>293</b>	208
– Gross amount	<b>317</b>	208
– Tax effect	<b>(24)</b>	–
<b>Normalised headline earnings*</b>	<b>7 325</b>	6 678

\* All adjustments to profit attributable to equity holders of the parent have been disclosed net of tax.

	2018 million	2017 million
<b>Shares</b>		
Weighted average number of shares in issue	<b>456,5</b>	456,4
Weighted average number of shares for diluted earnings per share	<b>456,5</b>	456,4
<b>Performance per share</b>		
	2018 cents	2017 cents
Basic earnings per share	<b>1 316,6</b>	1 123,4
Headline earnings per share	<b>1 468,8</b>	1 299,5
Normalised headline earnings per share	<b>1 604,9</b>	1 463,2
Diluted earnings per share	<b>1 316,6</b>	1 123,4
Diluted headline earnings per share	<b>1 468,8</b>	1 299,5
Diluted normalised headline earnings per share	<b>1 604,9</b>	1 463,2

## 29. Cash dividend

### Accounting policy

Dividends are only accounted for in the Annual Financial Statements and are approved by the Company's shareholders.

The dividend of 315 cents per share will be accounted for in the statement of changes in equity for the year ending 30 June 2019, in accordance with *IAS 10 – Events after Balance Sheet Date*. The dividend of 287,0 cents per share was declared after the year ended 30 June 2017. This dividend has been accounted for in the statement of changes in equity for the year ended 30 June 2018 in accordance with *IAS 10 – Events after Balance Sheet Date*.

## 30. Financial risk management

### 30.1 Introduction

The Group does not trade in financial instruments, but in the ordinary course of business operations, the Group is exposed to a variety of financial risks arising from the use of financial instruments. These risks include:

- market risk (comprising interest rate risk and foreign currency risk);
- liquidity risk;
- credit risk; and
- capital risk.

The Audit & Risk Committee is responsible for the establishment and oversight of the Group's risk management framework. This framework is formally documented, and stipulates the responsibilities and processes for monitoring and managing the risks to which the Group is exposed.

The Group Treasury Committee monitors treasury relevant risks (i.e. liquidity, foreign exchange, interest rate, covenants, counterparty, etc) affecting the Group, on a periodic basis, and provides guidance to local management in managing these risks. Local management is empowered, within the relevant approvals frameworks, to make decisions regarding how to manage these risks, as well as taking ownership for the implementation of any related action. The Group Treasury Committee reports to the Audit & Risk Committee.

Risk management and measurement relating to each of these risks is discussed under the headings below. The Group's objective in using derivative financial instruments for hedging purposes is to reduce the uncertainty over future cash flows arising from foreign currency and interest rate exposures.

### 30.2 Financial instruments by category

The carrying value of financial instruments by category is as follows:

	Loans and receivables R'million	At fair value through other comprehensive income R'million	At amortised cost R'million	Total R'million
<b>June 2018</b>				
<b>Financial assets</b>				
Other non-current receivables	709	–	–	709
Trade and other receivables	11 214	–	–	11 214
Forward exchange contracts (gross settled)	–	26	–	26
Cash and cash equivalents	11 170	–	–	11 170
<b>Total financial assets</b>	<b>23 093</b>	<b>26</b>	<b>–</b>	<b>23 119</b>
<b>Financial liabilities</b>				
Unsecured loans	–	–	54 879	54 879
Finance lease and instalment credit liabilities	–	–	15	15
Bank overdrafts	–	–	3 056	3 056
Other financial liabilities	–	–	8 081	8 081
Trade and other payables	–	–	7 222	7 222
Forward exchange contracts (gross settled)	–	66	–	66
Interest rate swaps (net settled)	–	9	–	9
<b>Total financial liabilities</b>	<b>–</b>	<b>75</b>	<b>73 253</b>	<b>73 328</b>

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# Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2018

## 30. Financial risk management continued

### 30.2 Financial instruments by category continued

	Loans and receivables R'million	At fair value through other comprehensive income R'million	At amortised cost R'million	Total R'million
<b>June 2017</b>				
<b>Financial assets</b>				
Other non-current receivables	381	–	–	381
Trade and other receivables	11 071	–	–	11 071
Interest rate swaps (net settled)	–	2	–	2
Cash and cash equivalents	10 707	–	–	10 707
<b>Total financial assets</b>	<b>22 159</b>	<b>2</b>	<b>–</b>	<b>22 161</b>
<b>Financial liabilities</b>				
Unsecured loans	–	–	44 297	44 297
Finance lease and instalment credit liabilities	–	–	22	22
Bank overdrafts	–	–	3 519	3 519
Other financial liabilities	–	–	8 721	8 721
Trade and other payables	–	–	7 807	7 807
Forward exchange contracts (gross settled)	–	26	–	26
Interest rate swaps (net settled)	–	17	–	17
<b>Total financial liabilities</b>	<b>–</b>	<b>43</b>	<b>64 366</b>	<b>64 409</b>

### 30.3 Market risk management

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The market risks that the Group is primarily exposed to include foreign currency risk and interest rate risk. Market risk is managed by identifying and quantifying risks on the basis of current and future expectations and ensuring that all trading occurs within defined parameters. This involves the review and implementation of methodologies to reduce risk exposure. The reporting on the state of the risk and risk practices to executive management is part of this process. The processes set up to measure, monitor and mitigate these market risks are described below. There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk since the previous period.

### 30.4 Foreign currency risk

The Group's transactions are predominantly entered into in the respective functional currency of the individual operations. However, the Group's operations utilise various foreign currencies (currencies other than the operations functional currencies) in respect of sales, purchases and borrowings and consequently the Group is exposed to exchange rate fluctuations that have an impact on cash flows. These operations are exposed to foreign currency risk in connection with contracted payments in currencies not in their individual functional currency. The translation of foreign operations to the presentation currency of the Group (translation risk), as well as economic risk, is not taken into account when considering foreign currency risk. The Aspen Board defines the Group's appetite for economic risk.

Foreign currency risks are managed through the Group's financing policies and selective use of forward exchange contracts.

Forward exchange contracts are utilised to reduce foreign currency exposure arising from imports and exports. All forward exchange contracts are supported by underlying commitments or transactions which have already occurred.

At 30 June 2018 and 2017 the Group had forward exchange contracts denominated in various currencies in respect of firm commitments and no hedge accounting was applied, other than at 30 June 2018 with respect to forward exchange contracts relating to the AGI's acquisition of residual rights relating to the AZ Anaesthetics portfolio (refer note 15.1).

30. **Financial risk management** continued

30.4 **Foreign currency risk** continued

The tables below reflects the fair values of outstanding forward exchange contracts at year-end:

	Foreign amount million	Forward cover value R'million	Marked to market value R'million	Cumulative (liability)/asset R'million
<b>June 2018</b>				
<i>Imports*</i>				
Swiss Franc	—#	60	65	(5)
Euro	—#	660	681	(21)
Pound Sterling	—#	3	2	1
US Dollar	—#	12	13	(1)
		<b>735</b>	<b>761</b>	<b>(26)</b>
<i>Exports*</i>				
Australian Dollar	41	(417)	(418)	1
Pound Sterling	87	(1 495)	(1 461)	(34)
US Dollar	405	(5 405)	(5 497)	92
Russian Ruble	668	(144)	(146)	2
Mexican Peso	445	(305)	(310)	5
		<b>(7 766)</b>	<b>(7 832)</b>	<b>66</b>
<b>June 2017</b>				
<i>Imports*</i>				
Australian Dollar	—#	3	3	—
Swiss Franc	—#	3	3	—
Euro	25	384	385	(1)
Pound Sterling	1	14	13	1
Japanese Yen	5	1	1	—
US Dollar	7	111	96	15
		516	501	15
<i>Exports*</i>				
Australian Dollar	35	(344)	(347)	3
Pound Sterling	13	(224)	(225)	1
Canadian Dollar	31	(314)	(317)	3
US Dollar	130	(1 706)	(1 706)	—
Russian Ruble	818	(179)	(181)	2
Mexican Peso	268	(194)	(196)	2
		<b>(2 961)</b>	<b>(2 972)</b>	<b>11</b>

\* Includes forward exchange contracts that represent imports and exports being managed on a net basis.

# Foreign amounts are less than 100 million.

**Definitions**

*Marked to market value*

Foreign notional amount translated at the market forward rate at 30 June.

*Forward cover value*

Foreign notional amount translated at the contracted rate.

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**30. Financial risk management** continued**30.4 Foreign currency risk** continued

The maturity profiles of the forward exchange contracts at year-end (including those contracts for which the underlying transactions were recorded but payment not reflected by year-end) are summarised as follows:

	Marked to market value	
	2018 R'million	2017 R'million
Within three months	(1 927)	(2 883)
Between three and six months	133	5
Between six and 12 months	(5 276)	195
	<b>(7 070)</b>	<b>(2 683)</b>

**Sensitivity analysis**

The Group has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income of an instantaneous 10% strengthening or weakening in the Rand against all other currencies, from the rate applicable at 30 June, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice, market rates rarely change in isolation.

The Group is mainly exposed to fluctuations in foreign exchange rates in respect of the Rand, US Dollar, Euro, Brazilian Real, Mexican Peso, Canadian Dollar, Pound Sterling, Australian Dollar and Russian Ruble. The analysis considers the impact of changes in foreign exchange rates on the statement of comprehensive income, excluding currency translation movements resulting from the translation of Group entities that have a functional currency different from the presentation currency, into the Group's presentation currency (and recognised in the foreign currency translation reserve), which amounted to a direct credit to other comprehensive income of R2 372 million at 30 June 2018 (2017: debit of R3 521 million).

The analysis has been performed on the basis of the change occurring at the start of the reporting period and assumes that all other variables, in particular interest rates, remain constant and was performed on the same basis for 2017.

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

	Change in exchange rate %	Weakening in functional currency	
		2018 R'million	2017 R'million
<i>Denominated: functional currency</i>			
Rand:US Dollar	10	(725)	(161)
Rand:Euro	10	(68)	39
Rand:Pound Sterling	10	(79)	(25)
US Dollar:Euro	10	203	216
Other exposures	10	171	124
		<b>(498)</b>	<b>193</b>

A 10% strengthening in the Rand against the above currencies at 30 June would have an equal and opposite effect on profit before tax, on the basis that all other variables remain constant.

The following significant exchange rates against the Rand applied at year-end:

	Spot rate		Average rate	
	2018	2017	2018	2017
Euro	16,04	14,95	15,33	14,84
Australian Dollar	10,16	10,05	9,96	10,26
US Dollar	13,72	13,10	12,86	13,61
Japanese Yen	0,12	0,12	0,12	0,13
Chinese Yuan Renminbi	2,07	1,93	1,97	2,00
Mexican Peso	0,70	0,73	0,69	0,70
Brazilian Real	3,56	3,97	3,87	4,20
Pound Sterling	18,12	17,02	17,29	17,27
Russian Ruble	0,22	0,22	0,22	0,22
Polish Zloty	3,67	3,53	3,62	3,44

### 30. Financial risk management continued

#### 30.5 Interest rate risk

Exposure to interest rate risk on financial assets and liabilities is monitored on a continuous and proactive basis. The debt of the Group is structured on a combination of floating and fixed interest rates. The benefits of fixing or capping interest rates on the Group's various financing activities are considered on a case-by-case and project-by-project basis, taking the specific and overall risk profile into consideration.

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was as follows:

	Carrying value	
	2018 R'million	2017 R'million
<b>Variable rate instruments</b>		
Other non-current receivables	(940)	(603)
Cash and cash equivalents	(5 344)	(6 529)
Borrowings	55 647	45 629
<b>Variable rate exposure</b>	<b>49 363</b>	<b>38 498</b>
<b>Fixed rate instruments</b>		
Borrowings	2 000	2 400
<b>Fixed rate exposure</b>	<b>2 000</b>	<b>2 400</b>

#### Interest rate swaps

The following pay fixed rate, receive floating rate interest rate derivative contracts ("IRS") were in place as at 30 June 2018:

	Outstanding contract amount R'million	Fixed interest rate %	Expiry date
Rand syndicated term loan – Facility D loan	1 000	7,70% (three-month JIBAR)	31 December 2018
Rand syndicated term loan – Facility F loan	1 000	7,72% (three-month JIBAR)	28 June 2019

With respect to the IRSs related to the Facility D and F syndicated term loan, the interest rate swaps were designated in a cash flow hedge relationship up to 29 June 2018, on which date the hedged items were refinanced. The nature of the risks that were hedged (interest rate risk) was the variability of the quarterly interest payments on the hedged items, attributable to movements in the three-month JIBAR rate. Gains and losses recognised in the hedging reserve in equity at 29 June 2018 were released to the statement of comprehensive income as interest (finance costs) as the hedged items were no longer in existence. All remeasurements for the remaining term of the swaps will be recognised directly in the statement of comprehensive income.

The maturity profile of the gross contract amounts at 30 June 2018 are less than one year.

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**30. Financial risk management** continued**30.5 Interest rate risk** continued**Sensitivity analysis**

An increase of 100 basis points in each of the individual interest rate categories for the year ended 30 June would have decreased profit before tax by the following:

	<b>2018</b> <b>R'million</b>	2017 R'million
Three-month EURIBOR	<b>225</b>	279
Three-month BBSY	<b>30</b>	29
Three-month JIBAR, SAFEX and South African prime overdraft rate	<b>80</b>	75
	<b>335</b>	383

A decrease of 100 basis points in each of the individual interest rate categories for the year ended 30 June would have increased/(decreased) profit before tax by the following:

	<b>2018</b> <b>R'million</b>	2017 R'million
Three-month EURIBOR	<b>(21)</b>	279
Three-month BBSY	<b>30</b>	29
Three-month JIBAR, SAFEX and South African prime overdraft rate	<b>80</b>	75
	<b>89</b>	383

Changes in market interest rates also affected equity (hedging reserve) through the impact of such changes on the fair values of the interest rate swaps designated in effective hedge relationships and the extent of the hedge effectiveness. The analysis assumes that all other variables, in particular foreign currency rates, remained constant.

An increase of 1% in the JIBAR yield curve at 30 June 2018 would result in a decrease of R13,9 million (2017: R29,0 million) in the fair value of the derivative liabilities in the statement of financial position. A decrease of 1% in the JIBAR yield curve at 30 June 2018 would result in an increase of R14,1 million (2017: R29,0 million) in the fair value of the derivative liabilities in the statement of financial position.



### 30. Financial risk management continued

#### 30.6 Liquidity risk

Liquidity risk is the risk that an entity in the Group will not be able to meet its obligations as they become due. The Group manages liquidity risk by maintaining an appropriate ratio of sources of liquidity (i.e. cash, available facilities and forecast cash inflows) to uses of liquidity (i.e. maturing loans and forecast cash outflows), and monitoring these components on a regular basis. The Group finances its operations through a mixture of retained earnings, short-term and long-term bank funding. Adequate banking facilities and reserve borrowing capacities are maintained. The Group has sufficient undrawn borrowing facilities, which could be utilised to settle obligations. Refer to note 14 for detail.

The following are the undiscounted contractual maturities of financial assets and liabilities:

	Undiscounted cash flows				Total R'million
	On demand R'million	< 1 year R'million	1 – 5 years R'million	> 5 years R'million	
<b>2018</b>					
<i>Financial assets</i>					
Other non-current financial receivables	–	155	511	58	724
Trade and other receivables (financial instruments only)	–	11 214	–	–	11 214
Forward exchange contracts (gross settled)*	–	26	–	–	26
Gross cash inflows	–	761	–	–	761
Gross cash outflows	–	(735)	–	–	(735)
Cash and cash equivalents	9 720	1 450	–	–	11 170
Total financial assets	9 720	12 845	511	58	23 134
<i>Financial liabilities</i>					
Unsecured loans	(1 428)	(6 915)	(45 404)	–	(53 747)
Bank overdrafts	(3 056)	–	–	–	(3 056)
Derivative financial instruments	–	(75)	–	–	(75)
Trade and other payables (financial instruments only)	–	(7 222)	–	–	(7 222)
Other non-current and current liabilities	–	(5 638)	(601)	(3 407)	(9 646)
Forward exchange contracts (gross settled)*	–	(66)	–	–	(66)
Gross cash inflows	–	7 766	–	–	7 766
Gross cash outflows	–	(7 832)	–	–	(7 832)
Interest rate swaps (net settled)	–	(9)	–	–	(9)
Total financial liabilities	(4 484)	(19 925)	(46 005)	(3 407)	(73 821)
Net exposure	5 236	(7 080)	(45 494)	(3 349)	(50 687)

\* For the purpose of the above table foreign currency cash inflows/(outflows) were translated into Rand using the relevant forward rates.

**Notes to the Group Annual Financial Statements** continued

for the year ended 30 June 2018

**30. Financial risk management** continued**30.6 Liquidity risk** continued

	Undiscounted cash flows				Total R'million
	On demand R'million	< 1 year R'million	1 – 5 years R'million	> 5 years R'million	
<b>2017</b>					
<b>Financial assets</b>					
Other non-current financial receivables	–	31	253	132	416
Trade and other receivables (financial instruments only)	–	11 071	–	–	11 071
Cash and cash equivalents	10 164	543	–	–	10 707
Interest rate swaps (net settled)	–	2	–	–	2
<b>Total financial assets</b>	<b>10 164</b>	<b>11 647</b>	<b>253</b>	<b>132</b>	<b>22 196</b>
<b>Financial liabilities</b>					
Unsecured loans	(1 183)	(14 765)	(30 880)	–	(46 828)
Bank overdrafts	(3 519)	–	–	–	(3 519)
Derivative financial instruments	–	(43)	–	–	(43)
Trade and other payables (financial instruments only)	–	(7 807)	–	–	(7 807)
Other non-current and current liabilities	–	(4 631)	(3 970)	(264)	(8 865)
Forward exchange contracts (gross settled)*	–	(26)	–	–	(26)
Gross cash inflows	–	2 445	–	–	2 445
Gross cash outflows	–	(2 471)	–	–	(2 471)
Interest rate swaps (net settled)	–	(17)	–	–	(17)
<b>Total financial liabilities</b>	<b>(4 702)</b>	<b>(27 289)</b>	<b>(34 850)</b>	<b>(264)</b>	<b>(67 105)</b>
<b>Net exposure</b>	<b>5 462</b>	<b>(15 642)</b>	<b>(34 597)</b>	<b>(132)</b>	<b>(44 909)</b>

\* For the purpose of the above table foreign currency cash inflows/(outflows) were translated into Rand using the relevant forward rates.

**30.7 Credit risk**

Credit risk, or the risk of financial loss due to counterparties to financial instruments not meeting their contractual obligations, is managed by the application of credit approvals, limits and monitoring procedures. Counterparty credit limits are in place and are reviewed and approved by the respective subsidiary Boards.

Credit risk primarily arises from trade and other receivables, other non-current receivables, derivative financial instruments and cash and cash equivalents. The Group's maximum exposure to credit risk is represented by the carrying amount of these financial assets, with the exception of trade receivables covered by credit guarantee insurance. Refer to the respective notes for more detail on how the Group manages credit risks for these financial assets.

**30.8 Capital risk**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide sustainable returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of borrowings, other financial liabilities, deferred payables and equity attributable to holders of the parent, comprising share capital, treasury shares, non-distributable reserves and retained income.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business. The Board reviews this capital structure on a semi-annual basis. As part of the review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations by the Board, the Group may seek to adjust the composition of its capital structure depending on circumstances existing at the time of each review.

There were no changes to the Group's approach to capital management during the year. The gearing ratio has increased since the prior year from 47% to 48%.

In terms of the Group's funding arrangements with its lenders, the Group was subject to the following financial covenants in the year:

The capacity to increase debt (net of cash and cash equivalents) at a Group level is restricted to 4,00 times Group earnings before interest, tax, depreciation, non-recurring items and amortisation.

The Group's net finance charges must be covered by the Group's earnings before interest, tax, depreciation, non-recurring items and amortisation by at least 3,50 times.

As at 30 June 2018, all the above covenants were complied with.

### 31. Related party transactions

#### Transactions with shareholders

The Group did not enter into any transactions with direct beneficial shareholders during the current year, except as described below and in the Directors' Report and note 24.

#### Intra-group transactions and balances

During the year, various companies in the Group entered into licensing, service, lending, financial guarantee, asset disposals, manufacturing and transactions relating to the buying and selling of goods with one another, on an arm's length basis. These intra-group transactions have been eliminated on consolidation. Refer to note 23 of the Company Annual Financial Statements for a list of material operating subsidiaries and structured entities. None of the balances are secured.

#### Transactions and balances with directors

All directors have given general declarations of interest in terms of section 75 of the Companies Act. These declarations indicate that various members of the Board hold various other directorships in South African entities with whom transactions are conducted by the Group in terms of a customer/supplier relationship. These transactions have been concluded on terms and conditions that are no more favourable than those entered into with third parties in arm's length transactions, and are all unsecured.

Chris Mortimer, a non-executive director and shareholder of Aspen, is a full-time practising attorney and managing partner at Chris Mortimer & Associates which provides legal services to the Group. During the year, total legal fees to Chris Mortimer and Associates expensed in the statement of comprehensive income was R8,7 million (2017: R6,9 million). There was Rnil outstanding at year-end (2017: R1,3 million).

Directors' and prescribed officers' remuneration is disclosed in note 24.

#### Transactions with key management personnel

Key management personnel consist of directors of key Group companies.

The key management personnel compensation consists of:

	2018 R'million	2017 R'million
Short-term employee benefits	115	132
Post-employment benefits	10	8
Share-based payment expense	20	23
Total key management remuneration paid	144	163
Number of employees included above	21	25

Other than disclosed above, and in the Directors' Report, no significant related party transactions were entered into during the year under review.

### 32. Contingent liabilities

#### Guarantees to financial institutions

The Group has several guarantees for indebtedness of subsidiaries to financial institutions which amount to R70 545 million (2017: R55 119 million). A guarantee fee is either charged or received by the Company in relation to this guarantee. The guarantee fee is determined by applying transfer pricing principles. The net invoice that is raised by the Company to its subsidiaries is included in the amounts reflected in the related parties note. The guarantees relate mainly to the syndicated term loans as well as cross guarantees provided between Group companies for each other's indebtedness.

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## Residual accounting policies

for the year ended 30 June 2018

### General information

Aspen Pharmacare Holdings Limited is the holding company of the Group and is domiciled and incorporated in the Republic of South Africa.

The principal accounting policies applied in the preparation of these Annual Financial Statements are set in each of the respective notes. Any accounting policies that are general in nature, and/or are applicable to more than one specific note, have been disclosed below.

Except as otherwise disclosed, these policies are consistent in all material respects with those applied in previous years.

### Basis of preparation of financial results

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, financial pronouncements as issued by the Financial Reporting Standards Council (FRSC), the JSE Listings Requirements and the requirements of the South African Companies Act, No 71 of 2008. The Annual Financial Statements have been prepared on the historical cost basis, except for certain financial instruments that have been measured at fair value. The results, cash flows and financial position of a subsidiary that operates in a hyperinflationary economy have been expressed in terms of the measuring unit current at the reporting date. The methods used to measure fair value and the adjustments made to account for these subsidiaries are discussed further in the accounting policies and in the respective notes.

The Annual Financial Statements are prepared on the going concern basis. These accounting policies are applied throughout the Group.

The preparation of Annual Financial Statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Annual Financial Statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The preparation of Annual Financial Statements in conformity with IFRS also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Annual Financial Statements are disclosed in each of the respective notes.

### Group accounting

The Annual Financial Statements reflect the financial results of the Group. All financial results are consolidated with similar items on a line-by-line basis. A listing of the Group's material operating subsidiaries and structured entities are set out in note 23 of the Company Annual Financial Statements.

### Subsidiaries

The financial results of subsidiaries (including structured entities, at this stage limited to the share trusts) are fully consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

Investments in subsidiaries are accounted for at cost less any accumulated impairment losses in the Company Annual Financial Statements. None of the investments in subsidiaries are listed.

When the end date of the reporting period of the parent is different to that of the subsidiary, the subsidiary prepares, for consolidation purposes, additional Annual Financial Statements as of the same date as the Annual Financial Statements of the parent.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Inter-company transactions and balances

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation. To the extent that a loss on a transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss of a non-current assets, that loss is charged to the statement of comprehensive income.

### Changes in ownership in subsidiaries

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

### Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying value recognised in the statement of comprehensive income. The fair value is the initial carrying value for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

### Business combinations and goodwill

The acquisition method of accounting is used when a business is acquired. A business may comprise an entity, group of entities or an unincorporated operation including its operating assets and associated liabilities.

The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued, or liabilities incurred or assumed at the date of exchange. Costs attributable to the acquisition are charged to the statement of comprehensive income. Identifiable assets

acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the acquisition date fair value of previously held equity interests and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. Non-controlling interests at acquisition date is determined as the non-controlling shareholders' proportionate share of the fair value of the net assets of the subsidiary acquired.

Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The profit or loss realised on disposal or termination of an entity is calculated after taking into account the carrying value of any related goodwill.

At the date of the acquisition, acquired deferred tax assets may not be fully recognised under IFRS. Adjustments to the initial recognition of acquired deferred tax assets under IFRS, subsequent to the acquisition date, are recognised in the statement of comprehensive income unless the adjustment qualifies as a measurement period adjustment in which case it is recognised as an adjustment to goodwill.

Contingent consideration in a business combination is included in the cost of a business combination at fair value on the date of acquisition. The classification of the arrangement into debt or equity will dictate the subsequent accounting. If the arrangement is classified as debt the amount will have to be remeasured at each reporting period to fair value with changes being recognised in the statement of comprehensive income. If the arrangement is classified as equity, then remeasurement is not allowed. Existing contingent consideration arrangements are however, grandfathered under the standard that was in existence at the time of acquisition, being *IFRS 3 – Business Combinations*.

When the accounting for a business combination can only be determined provisionally at the date of reporting, provisional values are used. These provisional values are adjusted once the initial accounting has been completed, which must be within 12 months from the date of acquisition, by retrospectively adjusting the fair values of the net assets acquired and goodwill.

Significant judgement is applied by management when considering whether a transaction should be classified as a business combination or as an asset acquisition. A business combination consists of three components namely:

- Inputs;
- Processes; and
- Outputs.

Management would consider all the facts and circumstances of the transactions to determine if all the inputs and processes are acquired to create outputs that result in economic inflows or profits to the Group. If management can demonstrate that outflows are created that result in inflows to the Group the transaction is accounted for as a business combination rather than an asset acquisition.

### **Foreign currency translation Functional and presentation currency**

Items included in the Annual Financial Statements of each entity in the Group are measured using the functional currency of the primary economic environment in which that entity operates. The Annual Financial Statements are presented in Rand, which is the functional and presentation currency of Aspen Pharmacare Holdings Limited.

### **Foreign currency transactions (except for hyperinflationary economies)**

Income and expenditure transactions are translated into the functional currency of the entity at the rate of exchange ruling at the transaction date. To the extent that transactions occur regularly throughout the year, they are translated at the average rate of exchange for the year since this is deemed to provide a reasonable approximation of the actual exchange rates prevailing at the dates on which those transactions occurred.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency of the entity at the rates of exchange ruling at year-end. Foreign exchange gains or losses resulting from the translation and settlement of monetary assets and liabilities are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges.

Currency translation differences on non-monetary financial assets and liabilities such as derivative financial instruments are recognised in the statement of comprehensive income as part of the fair value gain or loss.

### **Foreign operations (except for hyperinflationary economies)**

The results and financial position of all entities that have a functional currency different from the presentation currency of their parent entity are translated into the presentation currency. The basis for the translation is as follows:

- income and expenditure of foreign operations are translated into the Group's presentation currency at the average exchange rate for the year, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenditure transactions are translated at the rates on the dates of the transactions;
- assets and liabilities, including fair value adjustments and goodwill arising on acquisition, are translated at the closing rate at year end; and
- exchange differences arising on translation are recognised as currency translation movements in other comprehensive income and deferred in equity in the foreign currency translation reserve.

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## Residual accounting policies continued

for the year ended 30 June 2018

On consolidation, currency translation movements arising from translation of results and financial position of entities that have a functional currency different from that of the presentation currency of the parent is recognised in other comprehensive income.

On consolidation, differences arising from the translation of the net investment in foreign operations, as well as borrowings and other currency instruments designated as hedges of such investments (if effective), are recognised in other comprehensive income and deferred in equity.

On disposal of part or all of the foreign operation, the proportionate share of the related cumulative gains and losses previously recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity is reclassified from equity to the statement of comprehensive income (as a reclassification adjustment) when the gain or loss on disposal is recognised.

### Financial instruments

#### Accounting for derivative financial instruments and hedging activities

The Group's criteria for a derivative instrument to be designated as a hedging instrument require that:

- the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- there is adequate documentation of the hedging relationship at the inception of the hedge; and
- for cash flow hedges, the forecast transaction that is the subject of the hedge must be highly probable.

The Group designates certain derivatives as one of the following on the date the derivative contract is entered into:

- a hedge of the exposure to changes in fair value of a recognised asset or liability or a firm commitment (fair value hedge);
- a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or
- net investment hedge.

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements in the hedging reserve are accounted for in other comprehensive income. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of comprehensive income within financing costs.

#### Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income as financing costs, along with any changes in fair value of the hedged asset or liability that is attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying value of a hedged item for which the effective interest rate method is used is amortised in the statement of comprehensive income over the period to maturity.

#### Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The ineffective portion is recognised immediately in the statement of comprehensive income within financing costs. Where the forecast transaction or firm commitment results in the recognition of a non-financial asset or a non-financial liability, the gains or losses previously recognised in other comprehensive income and deferred in equity are reclassified from equity and included in the initial cost or other carrying amount of the asset or liability. Otherwise, amounts recognised in other comprehensive income and deferred in equity are reclassified to the statement of comprehensive income as gains or losses in the same financial years during which the hedged firm commitment or forecast transaction affects the statement of comprehensive income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in other comprehensive income and deferred in equity at that time remains in equity and is recognised when the forecast transaction is recognised in the statement of comprehensive income. When the forecast transaction is no longer expected to occur, the cumulative gain or loss recognised in other comprehensive income and deferred in equity is reclassified from equity to the statement of comprehensive income as a reclassification adjustment.

### **Net investment hedge**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in the statement of comprehensive income. Gains or losses recognised in other comprehensive income and accumulated in equity are reclassified to the statement of comprehensive income when the foreign operation is partly disposed of or sold.

### **Fair value estimation**

The fair value of publicly traded derivatives is based on quoted market prices at year-end. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at year-end.

Financial instruments that are measured at fair value in the statement of financial position are classified into the following levels of the fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly, as prices, or indirectly, derived from prices (level 2); and
- inputs for the assets or liabilities that are not based on observable market data, unobservable inputs (level 3).

Quoted market prices or dealer quotes for the specific or similar instruments are used for non-current debt. The fair values of non-current financial assets for disclosure purposes are estimated by discounting the future contractual cash flows at the interest rates available to the Group at year-end. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value of the remaining financial instruments.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group makes assumptions that are based on market conditions existing at each year-end.

The carrying values of the following financial assets and financial liabilities approximate their fair values:

- trade and other financial receivables;
- cash and cash equivalents;
- other non-current receivables;
- amounts due to Group companies;
- amounts due by Group companies;
- trade and other financial payables;
- other non-current financial liabilities;
- other current financial liabilities;
- current borrowings; and
- non-current borrowings.

Information on the fair value of financial instruments is included in the respective notes.

### **Comparative figures**

Comparative figures are reclassified or restated as necessary to afford a proper and more meaningful comparison of results as set out in the affected notes to the Annual Financial Statements.

### **Reclassifications and presentation**

The Annual Financial Statements have been rounded and disclosed in R'million in the current year to augment effective financial analysis. This changed from the previous year where the Annual Financial Statements were reported in R'billion.

Certain amounts have been combined and/or reclassified in the Annual Financial Statements due to either their similarity in nature or not being individually material to disclose separately.

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## Residual accounting policies continued

for the year ended 30 June 2018

### Accounting policies specific to the Company

All the accounting policies disclosed in the Group Annual Financial Statements are applicable to the Company Annual Financial Statements. The following additional accounting policies are applicable to the Company Annual Financial Statements:

#### Revenue

The revenue accounting policy for the Company is consistent with that of the Group with the exception of dividends received from subsidiaries which is included in revenue.

#### Amounts due by Group companies

Amounts due by Group companies are classified as "Loans and receivables" in terms of *IAS 39 – Financial Instruments: Recognition and Measurement*. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets as they all have maturities less than 12 months from year-end. The Group determines the classification of its financial asset at initial recognition when the Group becomes party to the contractual provisions of the instrument.

#### Amounts due to Group companies

Amounts due to Group companies are classified as "liabilities at amortised cost" in terms of *IAS 39 – Financial Instruments: Recognition and Measurement*. Financial liabilities are recognised on the transaction date when the Group becomes a party to the contract and thus has a contractual obligation and are derecognised when these contractual obligations are discharged, cancelled or expired.

#### Constant exchange rate report

The presentation currency of the Group is Rand.

In addition to that the Group has presented selected line items from the consolidated statement of comprehensive income and certain trading profit metrics on a constant exchange rate basis in a supplementary unaudited annexure. Refer to page 120.

#### New standards, amendments and interpretations

The following standards, amendments and interpretations were effective for the first time in the year ended 30 June 2018:

Standards, amendments and interpretations	Description	Effective date	Effect on the Group
Amendment to IAS 12 – <i>Income Taxes</i>  Recognition of deferred tax assets for unrealised losses	The amendment was issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendment clarifies the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. It also clarifies certain other aspects of accounting for deferred tax assets.  The amendment clarifies the existing guidance under IAS 12. It does not change the underlying principles for the recognition of deferred tax assets.	Financial years beginning on or after 1 January 2017.	The Group applied this amendment from the financial year ending 30 June 2018. No material impact for the Group.
Amendment to IAS 7 – <i>Cash Flow Statements</i>	In January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.  The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.	Financial years beginning on or after 1 January 2017.	The Group applied this amendment from the financial year ending 30 June 2018. No material impact to the Group.



## New standards, amendments and interpretations continued

The following standards, amendments and interpretations were not yet effective for the year ended 30 June 2019 and 2020:

Standards, amendments and interpretations	Description	Effective date	Effect on the Group
<p><i>IFRS 9 – Financial Instruments (2009 and 2010)</i></p> <ul style="list-style-type: none"> <li>• Financial liabilities</li> <li>• Derecognition of financial instruments</li> <li>• Financial assets</li> <li>• General hedge accounting</li> </ul>	<p>This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.</p>	<p>Financial years beginning on or after 1 January 2018.</p>	<p>The Group will apply this amendment from the financial year ending 30 June 2019. No material impact expected to the Group.</p>
<p>Amendments to <i>IFRS 10 – Consolidated Financial Statements</i> and <i>IAS 28 – Investments in Associates and Joint Ventures</i> on sale or contribution of assets</p>	<p>The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to <i>IFRS 10, “Consolidated Financial Statements”</i> and <i>IAS 28, “Investments in Associates and Joint Ventures”</i>. Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures.</p> <p>The reason for making the decision to postpone the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.</p>	<p>Financial years beginning on or after 1 January 2017 (postponed).</p>	<p>The Group will apply this amendment when it becomes effective. No material impact expected to the Group.</p>
<p><i>IFRS 15 – Revenue From Contracts With Customers</i></p>	<p>The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer.</p>	<p>Financial years beginning on or after 1 January 2018.</p>	<p>The Group will apply this standard from the financial year ending 30 June 2019. The Group is currently in the process of assessing and finalising their conclusion on the impact.</p>

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## Residual accounting policies continued

for the year ended 30 June 2018

### New standards, amendments and interpretations continued

Standards, amendments and interpretations	Description	Effective date	Effect on the Group
Amendment to IFRS 9 – <i>Financial Instruments</i> , on general hedge accounting	<p>The IASB has amended IFRS 9 to align hedge accounting more closely with an entity's risk management. The revised standard also establishes a more principles-based approach to hedge accounting and addresses inconsistencies and weaknesses in the current model in IAS 39. Effective 1 January 2018.</p> <p>Early adoption of the above requirements has specific transitional rules that need to be followed. Entities can elect to apply IFRS 9 for any of the following:</p> <ul style="list-style-type: none"> <li>• The own credit risk requirements for financial liabilities.</li> <li>• Classification and measurement (C&amp;M) requirements for financial assets.</li> <li>• C&amp;M requirements for financial assets and financial liabilities.</li> <li>• The full current version of IFRS 9 (that is, C&amp;M requirements for financial assets and financial liabilities and hedge accounting). Effective 1 January 2018.</li> </ul>	Financial years beginning on or after 1 January 2018.	The Group will apply this amendment from the financial year ending 30 June 2019. No material impact expected to the Group.
IFRS 16 – <i>Leases</i>	<p>This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular.</p> <p>Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets, however, this exemption can only be applied by lessees.</p> <p>For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard.</p> <p>At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.</p> <p>IFRS 16 supersedes IAS 17, "Leases", IFRIC 4, "Determining Whether an Arrangement Contains a Lease", SIC 15, "Operating Leases – Incentives" and SIC 27, "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".</p>	Financial years beginning on or after 1 January 2019.	The Group will apply this amendment from the financial year ending 30 June 2020. No material impact expected to the Group.

**New standards, amendments and interpretations** continued

Standards, amendments and interpretations	Description	Effective date	Effect on the Group
<p>Amendments to <i>IFRS 2 – Share-based payments</i></p> <p>Clarifying how to account for certain types of share-based payment transactions</p>	<p>This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash settled to equity settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity settled, where an employer is obliged to withhold an amount for the employee’s tax obligation associated with a share-based payment and pay that amount to the tax authority.</p>	<p>Financial years beginning on or after 1 January 2018.</p>	<p>The Group will apply this amendment from the financial year ending 30 June 2019. No material impact expected to the Group.</p>
<p><i>IAS 40 – Investment Property</i></p> <p>Transfers of investment property</p>	<p>These amendments clarify that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.</p>	<p>Financial years beginning on or after 1 January 2018.</p>	<p>The Group will apply this amendment from the financial year ending 30 June 2019. Not applicable to the Group.</p>
<p><i>IFRS 4 – Insurance Contracts</i></p> <p>Regarding the implementation of <i>IFRS 9 – Financial Instruments</i></p>	<p>These amendments introduce two approaches: an overlay approach and a deferral approach. The amended standard will:</p> <ul style="list-style-type: none"> <li>• Give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued; and</li> <li>• Give companies whose activities are predominantly connected with insurance an optional exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments standard – IAS 39.</li> </ul>	<p>Financial years beginning on or after 1 January 2018.</p>	<p>The Group will apply this amendment from the financial year ending 30 June 2019. Not applicable to the Group.</p>

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## Residual accounting policies continued

for the year ended 30 June 2018

### New standards, amendments and interpretations continued

Standards, amendments and interpretations	Description	Effective date	Effect on the Group
<i>IFRIC 23 – Uncertainty Over Income Tax Treatments</i>	IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.	Financial years beginning on or after 1 January 2019.	The Group will apply this amendment when it becomes effective. No material impact expected to the Group.
<i>IFRIC 22 – Foreign Currency Transactions and Advance Consideration</i>	This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The Interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.	Financial years beginning on or after 1 January 2018.	The Group will apply this amendment from the financial year ending 30 June 2019. No material impact expected to the Group.

### Improvements to IFRS

This is a collection of amendments to IFRS. These amendments are the result of conclusions the International Standards Board reached on proposals made in its annual improvements project. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to IFRS. Some amendments involve consequential amendments to other IFRS.

The following improvements were issued in September 2014 and were effective for the financial year ended 30 June 2017:

- *IFRS 5 – Non-current Assets Held-For-Sale and Discontinued Operations;*
- *IFRS 7 – Financial Instruments: Disclosures;*
- *IAS 19 – Employee Benefits; and*
- *IAS 34 – Interim Financial Reporting.*

The following improvements were issued and are not effective for financial years ending on 30 June 2018:

- *IFRS 1 – First-time Adoption of IFRS;*
- *IFRS 12 – Disclosure of Interests in Other Entities;*
- *IAS 28 – Investments in Associates and Joint Ventures;*
- *IFRS 3 – Business Combination;*
- *IFRS 11 – Joint Arrangements; and*
- *IAS 23 – Borrowing Costs.*

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# Company Annual Financial Statements

at 30 June 2018

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## Company statement of financial position

at 30 June 2018

	Notes	2018 R'million	2017 R'million
<b>Assets</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	1	17 590	17 582
Intangible assets	2	568	592
Property, plant and equipment	3	183	168
Investment in joint venture	4	61	61
Deferred tax assets	5	25	6
Available-for-sale financial assets	6	41	22
<b>Total non-current assets</b>		<b>18 468</b>	18 431
<b>Current assets</b>			
Amounts due by Group companies	1	378	431
Cash and cash equivalents	7	42	957
Receivables and prepayments	8	16	24
Current tax assets		42	–
Derivative financial instruments	9	–	1
<b>Total current assets</b>		<b>478</b>	1 413
<b>Total assets</b>		<b>18 946</b>	19 844
<b>Shareholders' equity</b>			
Retained income		14 980	14 362
Share capital	10	3 225	3 225
Non-distributable reserve		132	142
Share-based compensation reserve		94	80
<b>Total shareholders' equity</b>		<b>18 431</b>	17 809
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	11	–	249
<b>Total non-current liabilities</b>		<b>–</b>	249
<b>Current liabilities</b>			
Borrowings	11	68	1 202
Amounts due to Group companies	1	356	415
Other payables	12	91	149
Current tax liabilities		–	20
<b>Total current liabilities</b>		<b>515</b>	1 786
<b>Total liabilities</b>		<b>515</b>	2 035
<b>Total equity and liabilities</b>		<b>18 946</b>	19 844

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## Company statement of comprehensive income

for the year ended 30 June 2018

	Notes	2018 R'million	2017 R'million
Revenue	13	2 518	2 392
Administrative expenses		(567)	(502)
Other operating income		1	1
Other operating expenses		(98)	(105)
<b>Operating profit</b>	14	<b>1 854</b>	1 786
Investment income	17	38	25
Financing costs	18	30	(73)
<b>Profit before tax</b>		<b>1 922</b>	1 738
Tax	19	7	(79)
<b>Profit for the year</b>		<b>1 929</b>	1 659
<b>Other comprehensive income, net of tax*</b>			
Cash flow hedges realised		(1)	(3)
<b>Total comprehensive income</b>		<b>1 928</b>	1 656

\* All items in other comprehensive income may be reclassified to profit and loss.

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## Company statement of changes in equity

for the year ended 30 June 2018

	Non-distributable reserves			Share-based compensation reserve R'million	Retained income R'million	Total R'million
	Share capital R'million	Hedging reserve R'million	Revaluation surplus reserve R'million			
<b>Balance at 1 July 2016</b>	3 205	147	–	69	13 835	17 256
Total comprehensive income	–	(3)	–	–	1 659	1 656
Profit for the year	–	–	–	–	1 659	1 659
Other comprehensive losses	–	(3)	–	–	–	(3)
Issue of ordinary share capital – share schemes	20	–	–	–	–	20
Dividends paid	–	–	–	–	(1 132)	(1 132)
Share-based payment expenses	–	–	–	25	–	25
Revaluation on available-for-sale financial assets	–	–	(2)	–	–	(2)
Deferred incentive bonus shares exercised	–	–	–	(14)	–	(14)
<b>Balance at 30 June 2017</b>	<b>3 225</b>	<b>144</b>	<b>(2)</b>	<b>80</b>	<b>14 362</b>	<b>17 809</b>
Total comprehensive income	–	(1)	–	–	1 929	1 928
Profit for the year	–	–	–	–	1 929	1 929
Other comprehensive losses	–	(1)	–	–	–	(1)
Dividends paid	–	–	–	–	(1 311)	(1 311)
Share-based payment expenses	–	–	–	27	–	27
Revaluation on available-for-sale financial assets	–	–	(9)	–	–	(9)
Deferred incentive bonus shares exercised	–	–	–	(13)	–	(13)
<b>Balance at 30 June 2018</b>	<b>3 225</b>	<b>143</b>	<b>(11)</b>	<b>94</b>	<b>14 980</b>	<b>18 431</b>



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## Company statement of cash flows

for the year ended 30 June 2018

	Notes	2018 R'million	2017 R'million
<b>Cash flows from operating activities</b>			
Cash generated from operations	A	1 887	1 946
Financing costs paid	B	31	(73)
Interest received	C	38	25
Tax paid	D	(68)	(67)
<b>Cash generated from operating activities</b>		<b>1 888</b>	<b>1 831</b>
<b>Cash flows from investing activities</b>			
Capital expenditure – property, plant and equipment		(13)	(5)
Capital expenditure – intangible assets		(66)	(216)
Acquisition of available-for-sale financial assets		(27)	(24)
Net cash inflows/(outflows) – amounts due by Group companies		53	(48)
Acquisition of subsidiaries	E	(154)	(2)
Capital reduction in subsidiary		157	–
Proceeds on sale of intangible assets		1	–
<b>Cash used in investing activities</b>		<b>(49)</b>	<b>(295)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(275)	(15)
Proceeds from issue of ordinary share capital		–	19
Dividends paid		(1 311)	(1 132)
Net cash (outflows)/inflows – amounts due from Group companies		(59)	58
<b>Cash used in financing activities</b>		<b>(1 645)</b>	<b>(1 070)</b>
<b>Cash and cash equivalents</b>			
Movement in cash and cash equivalents		194	466
Cash and cash equivalents at the beginning of the year		(220)	(686)
<b>Cash and cash equivalents at the end of the year</b>	F	<b>(26)</b>	<b>(220)</b>

For the purposes of the statement of cash flows, cash and cash equivalents comprise bank balances less bank overdrafts.

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## Notes to the Company statements of cash flows

for the year ended 30 June 2018

	2018 R'million	2017 R'million
<b>A. Cash generated from operations</b>		
Operating profit	1 854	1 786
Amortisation of intangible assets	28	18
Depreciation of property, plant and equipment	20	15
Impairment of intangible assets	39	44
Deferred incentive bonus shares exercised	(13)	(14)
Share-based payment expense – employees	16	15
Withholding taxes	(6)	(4)
Cash operating profit	1 938	1 860
Working capital movements	(51)	86
Increase in receivables and prepayments	8	19
(Decrease)/increase in other payables	(59)	67
	1 887	1 946
<b>B. Financing costs paid</b>		
Interest expense	(49)	(107)
Net foreign exchange gains	80	34
	31	(73)
<b>C. Investment income received</b>		
Interest received	38	25
	38	25
<b>D. Tax paid</b>		
Amounts payable at the beginning of the year	(20)	(6)
Tax charged to the statement of comprehensive income (excluding deferred and withholding taxes)	(6)	(81)
Amounts owing at the end of the year	–	20
Amounts receivable at the end of the year	(42)	–
	(68)	(67)
<b>E. Acquisition of subsidiary June 2018</b>		
Set out below is the provisional accounting for the following business combination:		
<b>Alphamed business acquisition</b>		
With effect from 12 June 2018, Aspen Pharmacare acquired control of 100% of the share capital of Alphamed for a consideration of R164 million.		
The estimated post-acquisition operating profits is not material to the Company. Due to Alphamed being a standalone company, incorporating manufacturing and development operations, Aspen is accounting for its acquisition as a business combination. Due to the timing of the transaction Aspen has not yet completed the detailed exercise to identify and value the separately identifiable intangible assets acquired and thereafter the goodwill, if any, arising as a result of the transaction. This will be completed as part of the finalisation of the accounting for the acquisition.		
Legal ownership of the shares finally transferred on 18 September 2018, following the meeting of the shareholders after Reserve Bank of India approval had been granted for the transaction.		
	<b>R'million</b>	
<b>Fair value of assets and liabilities acquired</b>		
Property, plant and equipment	85	
Non-current financial receivables	1	
Inventories	19	
Receivables and prepayments	33	
Cash and cash equivalents at acquisition	2	
Non-current borrowings	(3)	
Deferred tax liabilities	(3)	
Trade and other payables	(41)	
Current borrowings	(7)	
<b>Fair value of net assets acquired</b>	86	
Goodwill acquired	78	
Consideration outstanding at year-end	(10)	
<b>Cash outflow on acquisition</b>	154	
<b>F. Cash and cash equivalents</b>		
	2018 R'million	2017 R'million
Cash and cash equivalents per the statement of financial position	42	957
Less: Bank overdrafts*	(68)	(1 177)
Cash and cash equivalents per the statement of cash flows	(26)	(220)

\* Bank overdrafts are included within current borrowings on the statement of financial position.

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# Notes to the Company Annual Financial Statements

for the year ended 30 June 2018

## 1. Investments in subsidiaries

	2018 R'million	2017 R'million
<b>Summary of balance</b>		
Reflected as non-current assets		
Investments at cost less accumulated impairment losses	17 590	17 582
Reflected as current assets		
Amounts due by Group companies <sup>#</sup>	378	431
Reflected as current liabilities		
Amounts due to Group companies <sup>#</sup>	(356)	(415)
	<b>17 612</b>	<b>17 598</b>

<sup>#</sup> The intra-group facilities all bear interest at varying rates depending on whether or not the amounts are treated as a shareholder loan, is financing that has been provided or arises from the ad hoc recovery of expenditure/provision of services. Interest is not levied on current payables and receivables unless the credit days are exceeded, in which case interest is levied on the amounts that remain overdue.

For further details of interests in material operating subsidiaries please refer to note 23.

## 2. Intangible assets

### Reconciliation of balance

	Intellectual property R'million	Product participation and other contractual rights R'million	Computer software R'million	Total R'million
<b>2018</b>				
<b>Carrying value</b>				
Cost	1 149	43	236	1 428
Accumulated amortisation	(746)	(43)	(50)	(839)
Accumulated impairment losses	(21)	–	–	(21)
	<b>382</b>	<b>–</b>	<b>186</b>	<b>568</b>
<b>Movement in intangible assets</b>				
Carrying value at the beginning of the year	393	–	199	592
Additions	1	–	65	66
Disposals	–	–	(1)	(1)
Amortisation	(8)	–	(20)	(28)
Impairment losses	(4)	–	(35)	(39)
Reclassification to property, plant and equipment	–	–	(22)	(22)
	<b>382</b>	<b>–</b>	<b>186</b>	<b>568</b>
<b>2017</b>				
<b>Carrying value</b>				
Cost	1 148	43	229	1 420
Accumulated amortisation	(739)	(43)	(30)	(812)
Accumulated impairment losses	(16)	–	–	(16)
	<b>393</b>	<b>–</b>	<b>199</b>	<b>592</b>
<b>Movement in intangible assets</b>				
Carrying value at the beginning of the year	400	–	38	438
Additions	45	–	171	216
Amortisation	(8)	–	(10)	(18)
Impairment losses	(44)	–	–	(44)
	<b>393</b>	<b>–</b>	<b>199</b>	<b>592</b>

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# Notes to the Company Annual Financial Statements continued

for the year ended 30 June 2018

## 2. Intangible assets

### Indefinite useful life intangible assets

	2018 R'million	2017 R'million
<b>Split of balance</b>		
GSK OTC Brands	255	269
Other	126	111
	<b>381</b>	<b>380</b>

### Impairment of intangible assets

Key assumptions on impairment tests for the GSK OTC Brands were as follows:

- period covered by the forecasts and budgets of five years (2017: 5 – 10 years);
- growth in revenue per annum of between -2% and 20% (2017: 0% and 14%);
- average gross profit percentage per annum of 54% (2017: 71%);
- growth rate to extrapolate cash flows beyond period covered by mentioned forecasts and budgets of -1% and 8% (2017: 1% and 5%); and
- annual pre-tax discount rate applied to cash flows of between 9% and 25% (2017: 9% and 24%).

Based on the above calculations no impairments were recognised for the indefinite useful life intangible assets other than reported in the note. There are no reasonable possible changes in any key assumptions which would cause the carrying value of indefinite useful life intangible assets to exceed its value-in-use.

### Commitments

Capital commitments include all projects for which specific Board approval has been obtained up to the reporting date. Capital expenditure will be financed from funds generated out of normal business operations and existing borrowing facilities. Projects still under investigation for which specific Board approvals have not yet been obtained are excluded from the following:

	2018 R'million	2017 R'million
Authorised and contracted for	1	–
Authorised but not yet contracted for	78	46
	<b>79</b>	<b>46</b>

### Other disclosure

No intangible assets were pledged or committed as security for borrowings.

3. **Property, plant and equipment**  
**Reconciliation of balance**

	Buildings R'million	Other tangible assets® R'million	Total R'million
<b>2018</b>			
<b>Carrying value</b>			
Cost	154	78	232
Accumulated depreciation	(10)	(39)	(49)
	<b>144</b>	<b>39</b>	<b>183</b>
<b>Movement in property, plant and equipment</b>			
Carrying value at the beginning of the year	146	22	168
Additions	1	12	13
Depreciation	(3)	(17)	(20) <sup>#</sup>
Reclassification from intangible assets	–	22	22
	<b>144</b>	<b>39</b>	<b>183<sup>*</sup></b>
<b>2017</b>			
<b>Carrying value</b>			
Cost	153	44	197
Accumulated depreciation	(7)	(22)	(29)
	146	22	168
<b>Movement in property, plant and equipment</b>			
Carrying value at the beginning of the year	148	30	178
Additions	1	4	5
Depreciation	(3)	(12)	(15) <sup>#</sup>
	146	22	168 <sup>*</sup>

® Other tangible assets comprise computer equipment, office equipment and furniture.

<sup>#</sup> Depreciation charge is included in administrative expenses on the statement of comprehensive income.

<sup>\*</sup> Included in the total are leased assets amounting R7 million (2017: R10 million).

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# Notes to the Company Annual Financial Statements continued

for the year ended 30 June 2018

## 3. Property, plant and equipment continued

### Commitments

#### Capital commitments

Capital commitments include all projects for which specific Board approval has been obtained up to the reporting date. Capital expenditure will be financed from funds generated out of normal business operations and existing borrowing facilities. Projects still under investigation for which specific Board approvals have not yet been obtained are excluded from the following:

	2018 R' million	2017 R' million
Authorised but not yet contracted for	34	20
	<b>34</b>	<b>20</b>
<b>Operating lease commitments</b>		
The Company rents buildings under non-cancellable operating leases and also rents office equipment and furniture under operating leases that are cancellable at various short-term notice periods by either party.		
<b>Minimum future lease payments – operating leases</b>		
Land and buildings	1	1
Office equipment and furniture	3	1
Operating lease commitments	4	2
The future minimum operating lease payments are as follows:		
Less than one year	2	2
Between one and five years	2	–
	<b>4</b>	<b>2</b>
These leasing arrangements do not impose any significant restrictions on the Company.		
<b>Other disclosure</b>		
No property, plant and equipment was pledged or committed as security for any borrowings.		
<b>4. Investment in joint venture</b>		
<b>Reconciliation of balance</b>		
Carrying value at the beginning and end of the year	61	61
This investment represents a 50% shareholding in New Zealand New Milk, a contract manufacturer of infant nutritionals incorporated in Auckland, New Zealand. New Zealand New Milk is a private company and no quoted market price is available for its shares.		
As part of the sale of the Nutritionals business, note 10 of the Group Annual Financial Statements, this joint venture are included in the transaction.		
<b>5. Deferred tax assets</b>		
<b>Reconciliation of balance</b>		
Opening balance	6	–
Statement of comprehensive income charge/(credit) – included in tax	14	(2)
Statement of comprehensive income charge – prior year adjustment	5	8
	<b>25</b>	<b>6</b>
<b>Deferred tax balance comprises:</b>		
Property, plant and equipment	(6)	(6)
Intangible assets	17	(2)
Receivables and prepayments	(2)	(2)
Other payables	16	16
	<b>25</b>	<b>6</b>
<b>The statement of comprehensive income charge comprises:</b>		
Property, plant and equipment	2	1
Intangible assets	5	4
Other payables	11	2
Other	1	(1)
	<b>19</b>	<b>6</b>

## 6. Available-for-sale financial assets

	2018 R'million	2017 R'million
At the beginning of the year	22	–
Acquisition of shares in Aspen Pharmacare Holdings Limited*	28	24
Revaluation to fair value – charged to equity	(9)	(2)
At the end of the year	41	22
<p>The Aspen Pharmacare Holdings Limited shares are fair valued by reference to the stock exchange quoted bid prices. These shares are classified as “level 1” assets in the fair value measurement hierarchy.</p> <p><i>* Shares are purchased and held by the Company until vesting of deferred incentive bonus takes place.</i></p>		

## 7. Cash and cash equivalents

### Summary of balance

Bank balances	42	957
---------------	----	-----

### Other disclosure

The average effective interest rate on cash and cash equivalents for the year ended 30 June 2018 is 7,0% (2017: 7,5%)

The total amount of cash and cash equivalents is exposed to credit risk, and are held with highly reputable banks. The Company does not expect any treasury counterparties to fail to meet their obligations, given their high credit ratings.

All cash and cash equivalents are denominated in Rand.

The maturity profile of bank balances is less than one month.

## 8. Receivables and prepayments

### Summary of balance

Prepayments	14	16
Other	2	8
	16	24

### Split of balance

Financial assets	2	8
Non-financial assets	14	16
	16	24

### Other disclosure

The company holds no collateral over any receivables and prepayments.

Receivables and prepayments are non-interest bearing.

All receivables and prepayments classified as financial instruments are fully performing and are denominated in Rand.

The credit quality of receivables and prepayments is considered to be satisfactory.

## 9. Derivative financial instruments

### Reconciliation of balance

Balance at the beginning of the year	1	4
Fair value losses on interest rate swaps (included in other comprehensive income)	(1)	(3)
	–	1

Derivatives in the prior year consist of interest rate swaps.

The fair value of interest rate swaps was calculated as the present value of estimated future cash flows discounted using the appropriate yield curve.

The interest rate swaps were classified as “level 2” assets in the fair value measurement hierarchy.

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# Notes to the Company Annual Financial Statements continued

for the year ended 30 June 2018

## 10. Share capital Summary of balance

	2018 R'million	2017 R'million
<b>Authorised</b>		
717 600 000 (2017: 717 600 000) ordinary shares with no par value	–	–
<b>Issued</b>		
456 451 541 (2017: 456 435 185) ordinary shares with no par value	<b>3 225</b>	3 225
	<b>2018 million</b>	2017 million
Shares in issue at the beginning of the year	<b>456,4</b>	456,4
Shares issued – share schemes	<b>0,1</b>	–
Shares in issue at the end of the year	<b>456,5</b>	456,4

The unissued shares have been placed under the control of the directors until the forthcoming annual general meeting.

All shares are fully paid up, and no amounts are outstanding in terms of shares issued during the year.

## 11. Borrowings Currency analysis and maturity profile of total borrowings

	Within 1 year R'million	2018 Between 1 – 5 years R'million	Total R'million	Within 1 year R'million	2017 Between 1 – 5 years R'million	Total R'million
<b>Bank overdrafts</b>						
Rand	<b>68</b>	–	<b>68</b>	1 177	–	1 177
<b>Unsecured loans</b>						
Rand syndicated term loan – facility F	–	–	–	–	250	250
Rand other	–	–	–	25	–	25
Capital raising fees	–	–	–	–	(1)	(1)
<b>Total borrowings</b>	<b>68</b>	–	<b>68</b>	1 202	249	1 451

### Interest rate profile of total borrowings

	Total R'million	2018 Interest rate %	Average effective interest rate %	Total R'million	2017 Interest rate %	Average effective interest rate %
Bank overdrafts – linked to South African prime overdraft rate	<b>68</b>	<b>Rates ranging between prime and prime less 3,0%</b>	<b>7,2</b>	1 177	less margin of 3,0%	6,9
Unsecured loans – linked to three-month JIBAR	–	–	–	250	+ margin of 2,2%	9,3
Unsecured loans – linked to overnight call rate	–	–	–	25	overnight call	7,8
Capital raising fee <sup>#</sup>	–	–	–	(1)	–	–
<b>Total borrowings</b>	<b>68</b>	–	–	1 451	–	–

<sup>#</sup> Capital raising fees relate to the unsecured loans above but have been shown separately as they are non-interest bearing.

### Other disclosures

There were no undrawn borrowing facilities available at year-end.

There were no defaults or breaches of the contractual terms of the borrowings during the year.



**12. Other payables**

	2018 R'million	2017 R'million
<b>Summary of balance</b>		
Accrued expenses	17	23
Leave pay	12	9
Bonuses	48	46
Other	14	71
	<b>91</b>	149
<b>Split of balance</b>		
Financial liabilities	27	107
Non-financial liabilities	64	42
	<b>91</b>	149
<b>Other disclosures</b>		
All other payables (financial instruments only) are predominantly non-interest bearing and denominated in Rand.		
<b>13. Revenue</b>		
<b>Summary of balance</b>		
Royalties	288	220
Administrative fees received from subsidiaries	365	433
Dividends received from subsidiaries and joint ventures	1 865	1 739
	<b>2 518</b>	2 392
<b>14. Operating profit</b>		
<b>Operating profit has been arrived at after charging</b>		
Audit fees	16	8
Current year	10	5
Prior year underprovision	6	3
Impairment of intangible assets (included in other operating expenses)	39	44
Transaction costs	5	2
Operating lease rentals – land and buildings	–	1
Operating lease rentals – office equipment and furniture	1	–
<b>15. Expenses by nature</b>		
Depreciation of property, plant and equipment	20	15
Amortisation of intangible assets	28	18
Impairment of intangible assets	39	44
Personnel costs and other staff-related costs	331	293
Property costs	4	4
Transaction costs	5	2
Legal and consulting fees	28	22
Insurance	22	23
Information technology costs	88	93
Other	100	93
	<b>665</b>	607
<b>Classified as:</b>		
Administrative expenses	567	502
Other operating expenses	98	105
	<b>665</b>	607

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# Notes to the Company Annual Financial Statements continued

for the year ended 30 June 2018

## 16. Directors and employees

	2018 R'million	2017 R'million
<b>Staff costs</b>		
Wages and salaries	232	204
Defined contribution plans	26	22
Share-based payment expense – deferred incentive bonus (equity portion)	16	15
Other employee contributions	5	4
	<b>279</b>	<b>245</b>

Directors remuneration is disclosed in note 24 in the Group financial statements.

## 17. Investment income

### Summary of balance

Interest received on bank balances	38	20
Interest received from Group companies	–	3
Interest received – Other	–	2
	<b>38</b>	<b>25</b>

## 18. Financing costs

### Summary of balance

Interest paid on borrowings	(49)	(107)
Capital raising fees released	(1)	–
Net foreign exchange gains	80	34
	<b>30</b>	<b>(73)</b>

## 19. Tax

### Summary of balance

Current tax	6	81
Deferred tax	(19)	(6)
Withholding tax	6	4
<b>Total tax charge</b>	<b>(7)</b>	<b>79</b>

	2018 %	2017 %
<b>Reconciliation of effective tax rate</b>		
South African current tax rate	28,0	28,0
<b>Movement in rate due to transactions included in normalised headline earnings:</b>		
Non-taxable income	(27,2)	(28,0)
Withholding and other taxes	0,3	0,2
Disallowed holding company expenses	1,6	2,0
Prior year adjustments	(3,5)	1,2
Other disallowed including provisions for uncertain tax positions	0,2	1,1
<b>Normalised effective tax rate</b>	<b>(0,6)</b>	<b>4,5</b>
<b>Movement in rate due to transactions excluded from normalised headline earnings:</b>		
Disallowed impairments	0,1	–
Disallowed restructuring, transactions costs and financing costs	0,1	–
<b>Effective rate of tax</b>	<b>(0,4)</b>	<b>4,5</b>

## 20. Related party transactions

### Transactions with shareholders

The Company did not enter into any transactions with direct beneficial shareholders during the current year, except as described below and in the Directors' Report and note 24 of the Group's Annual Financial Statements.

### Intra-Group transactions and balances

During the year, the Company entered into arm's length transactions with other companies in the Group.

Refer to note 23 for a list of the material operating subsidiaries and structured entities.

None of the balances are secured.

	2018 R'million	2017 R'million
The following intra-Group transactions took place between Aspen Holdings and Group companies during the current year		
<b>Royalties received</b>	<b>288</b>	220
Pharmacare Limited	284	218
Other subsidiaries	4	2
<b>Administration fees received</b>	<b>365</b>	433
AGI	76	93
Aspen Europe GmbH	–	12
Aspen Healthcare FZ LLC	22	21
Aspen Notre Dame de Bondeville SAS	15	20
Aspen Oss B.V.	33	34
Aspen Pharma Ireland Limited	16	15
Pharmacare Limited	68	91
Other subsidiaries	135	147
<b>Interest received on shareholders' loans – Beta Healthcare International Limited</b>	<b>–</b>	3
<b>Dividends received (and paid to the Company)</b>	<b>1 865</b>	1 739
AGI	528	1 736
New Zealand New Milk	15	–
Aspen Pharmacare Nigeria Limited	3	3
Pharmacare Limited	1 260	–
Other subsidiaries	59	–
The following intra-Group balances were outstanding between Aspen Holdings and Group companies at year-end		
<b>Amounts reflected as current assets</b>	<b>378</b>	432
AGI	11	30
The Aspen Share Incentive Scheme Trust	81	87
Shelys Pharmaceuticals International Limited	142	112
Other subsidiaries	144	203
<b>Amounts reflected as current liabilities</b>	<b>356</b>	415
Pharmacare Limited	324	319
Aspen Port Elizabeth (Pty) Limited	27	27
Other subsidiaries	5	69

# Notes to the Company Annual Financial Statements continued

for the year ended 30 June 2018

## 20. Related party transactions continued

### Transactions and balances with directors

All directors have given general declarations of interest in terms of section 75 of the Companies Act of 2008.

These declarations indicate that various members of the Board hold various other directorships in South African entities with whom transactions are conducted by the Company in terms of a customer/supplier relationship.

These transactions have been concluded on terms and conditions that are no more favourable than those entered into with third parties in arm's length transactions, and are all unsecured.

Chris Mortimer, a non-executive director and shareholder of Aspen, is a full-time practising attorney and managing partner at Chris Mortimer & Associates which provides legal services to the Company. During the year, total legal fees to Chris Mortimer & Associates expensed in the statement of comprehensive income was R0,4 million (2017: R0,4 million) and no balance was outstanding at year-end (2017: Rnil).

### Transactions with key management personnel

Key management personnel consist of directors (including executive directors).

Key management personnel compensation consists of:

	2018 R'million	2017 R'million
Short-term employee benefits	51	49
Post-employment benefits	4	4
Share-based payment expense	16	16
Total key management remuneration paid	71	69
Number of employees included above	14	14

Other than disclosed above, and in the Directors' Report, no significant related party transactions were entered into during the year under review.

## 21. Financial risk management

### 21.1 Introduction

The Company does not trade in financial instruments, but in the ordinary course of business operations, the Company is exposed to a variety of financial risks arising from the use of financial instruments. These risks include:

- market risk (comprising interest rate risk and foreign currency risk);
- liquidity risk;
- credit risk; and
- capital risk.

The Audit & Risk Committee is responsible for the establishment and oversight of a risk management framework which is applicable to the Company. This framework is formally documented, and stipulates the responsibilities and processes for monitoring and managing the risks to which the Company is exposed.

The Company measures and monitors treasury relevant risks (i.e. liquidity, foreign exchange, interest rate, covenants, counterparty, etc) affecting it, and reports on these risks to the Group Treasury Committee on a periodic basis. The Group Treasury Committee provides the Company guidance with respect to managing these risks, however, the Company's management is empowered, within the relevant approvals frameworks, to make decisions regarding how to manage these risks, as well as taking ownership for the implementation of any related action. The Group Treasury Committee reports to the Audit & Risk Committee.

Risk management and measurement relating to each of these risks is discussed under the headings below.

### 21.2 Financial instruments by category

The carrying value of financial instruments by category is as follows:

	Loans and receivables R'million	At fair value through profit or loss R'million	At amortised cost R'million	Total R'million
<b>June 2018</b>				
<b>Financial assets</b>				
Receivables and prepayments	2	–	–	2
Cash and cash equivalents	42	–	–	42
Amounts due by Group companies	378	–	–	378
Total financial assets	422	–	–	422
<b>Financial liabilities</b>				
Bank overdrafts	–	–	68	68
Other payables	–	–	27	27
Amounts due to Group companies	–	–	356	356
Total financial liabilities	–	–	451	451
<b>June 2017</b>				
<b>Financial assets</b>				
Receivables and prepayments	8	–	–	8
Cash and cash equivalents	957	–	–	957
Amounts due by Group companies	431	–	–	431
Interest rate swaps (net settled)	–	1	–	1
Total financial assets	1 396	1	–	1 397
<b>Financial liabilities</b>				
Unsecured loans	–	–	274	274
Bank overdrafts	–	–	1 177	1 177
Other payables	–	–	107	107
Amounts due to Group companies	–	–	415	415
Total financial liabilities	–	–	1 973	1 973

# Notes to the Company Annual Financial Statements continued

for the year ended 30 June 2018

## 21. Financial risk management continued

### 21.3 Market risk management

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The market risks that the Company is primarily exposed to includes foreign currency risk and interest rate risk. Market risk is managed by identifying and quantifying risks on the basis of current and future expectations and ensuring that all trading occurs within defined parameters. This involves the review and implementation of methodologies to reduce risk exposure. The reporting on the state of the risk and risk practices to executive management is part of this process. The processes set up to measure, monitor and mitigate these market risks are described below. There has been no change to the Company's exposure to market risk or the manner in which it manages and measures the risk since the previous period.

### 21.4 Foreign currency risk

The Company's transactions are predominantly entered into in Rand. However, the Company's operations utilise various foreign currencies (currencies other than the operations functional currencies) in respect of expenses incurred. Consequently the Company is exposed to exchange rate fluctuations that have an impact on cash flows. These operations are exposed to foreign currency risk in connection with contracted payments in currencies other than Rand.

Foreign currency risks are managed through the Company's financing policies and selective use of forward exchange contracts.

At 30 June 2018 and 30 June 2017 the Company had no outstanding forward exchange contracts.

#### Sensitivity analysis

The Company had used a sensitivity analysis technique that measured the estimated change to the statement of comprehensive income of an instantaneous 10% strengthening or weakening in the Rand against all other currencies, from the rate applicable at 30 June, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice, market rates rarely change in isolation.

The Company is mainly exposed to fluctuations in foreign exchange rates in respect of the Euro in the previous year. The analysis considered the impact of changes in foreign exchange rates on the statement of comprehensive income.

The analysis had been performed on the basis of the change occurring at the start of the reporting period and assumed that all other variables, in particular interest rates, remain constant and was performed on the same basis for 2017.

A 10% weakening in the Rand against the foreign exchange rates to which the Company is exposed at the reporting date, would have increased profit before tax by Rnil (2017: R7,6 million).

A 10% strengthening in the Rand against the foreign exchange rates would have the equal and opposite effect on profit before tax, on the basis that all other variables remain constant.

### 21.5 Interest rate risk

The Company's interest rate risk arises from interest on bank overdrafts, borrowings, cash and cash equivalents and other non-current receivables. Exposure to interest rate risk is monitored on a continuous and proactive basis.

	Carrying value	
	2018 R'million	2017 R'million
<i>Variable rate instruments</i>		
Receivables and prepayments	–	(4)
Cash and cash equivalents	(42)	(957)
Borrowings	68	1 202
Variable rate exposure	26	241

#### Sensitivity analysis

The Company is exposed mainly to fluctuations in the following market interest rates: South African prime overdraft rate and three-month JIBAR. Changes in market interest rates affect the interest income and expense of floating rate financial instruments.

An increase of 1% in interest rates for the year ended 30 June would have decreased profit before tax by R0,7 million and R8,1 million in 2018 and 2017 respectively. A decrease of 1% will have an equal and opposite effect on profit before tax.

## 21. Financial risk management continued

### 21.6 Liquidity risk

Liquidity risk is the risk that an entity will not be able to meet its obligations as they become due. The Company manages liquidity risk by effectively managing its working capital, capital expenditure and cash flows. The Company finances its operations through a mixture of retained income, bank funding and financing from Group companies. Adequate banking facilities and reserve borrowing capacities are maintained. The Company manages liquidity risk through forecasting and monitoring cash flow requirements on a daily basis.

The following are the undiscounted contractual maturities of financial assets and liabilities:

	Undiscounted cash flows			Total R'million
	On demand R'million	< 1 year R'million	1 – 5 years R'million	
<b>June 2018</b>				
<b>Financial assets</b>				
Receivables and prepayments (financial instruments only)	–	2	–	2
Cash and cash equivalents	–	42	–	42
Amounts due by Group companies	378	–	–	378
Total financial assets	378	44	–	422
<b>Financial liabilities</b>				
Bank overdrafts	(68)	–	–	(68)
Other payables (financial instruments only)	–	(27)	–	(27)
Amounts due to Group companies	(356)	–	–	(356)
Total financial liabilities	(424)	(27)	–	(451)
Net exposure	(46)	17	–	(29)
<b>June 2017</b>				
<b>Financial assets</b>				
Receivables and prepayments (financial instruments only)	–	8	–	8
Cash and cash equivalents	957	–	–	957
Amounts due by Group companies	431	–	–	431
Interest rate swaps (net settled)	–	1	–	1
Total financial assets	1 388	9	–	1 397
<b>Financial liabilities</b>				
Unsecured loans	–	(49)	(343)	(392)
Bank overdrafts	(1 177)	–	–	(1 177)
Other payables (financial instruments only)	–	(107)	–	(107)
Amounts due to Group companies	(415)	–	–	(415)
Total financial liabilities	(1 592)	(156)	(343)	(2 091)
Net exposure	(204)	(147)	(343)	(294)

# Notes to the Company Annual Financial Statements continued

for the year ended 30 June 2018

## 21. Financial risk management continued

### 21.7 Credit risk

Credit risk, or the risk of financial loss due to counterparties to financial instruments not meeting their contractual obligations, is managed by monitoring procedures.

Credit risk primarily arises from receivables and prepayments, derivative financial instruments and cash and cash equivalents. The Company's maximum exposure to credit risk is represented by the carrying values of these financial assets. Refer to the respective notes for more detail on how the Company manages credit risks for these financial assets.

### 21.8 Capital risk

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide sustainable returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Company consists of borrowings and equity attributable to holders of the parent comprising share capital, non-distributable reserves and retained income.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business. The Board reviews the capital structure on a quarterly basis. As part of the review, the Board considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the Board, the Company will balance overall capital structure through payments of dividends (including capital distributions), new shares issued as well as the issue of new borrowings or the redemption of existing borrowings.

There were no changes to the Company's approach to capital management during the year.

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## 22. Contingent liabilities

### Guarantees to financial institutions

The Company has several guarantees for indebtedness of subsidiaries to financial institutions which amount to R70 545 million (2017: R55 119 million). The guarantees relate mainly to the syndicated term loans as well as cross guarantees provided between Group companies for each other's indebtedness. The primary reason for the increase in the value of the guarantees provided is the change in the guarantor structure in respect of the syndicated term loan, whereby all obligators have a joint and several liability for all outstanding commitments from the obligators to lenders under the syndicated term loan agreement. A guarantee fee is either charged or received by the Company in relation to this guarantee. The guarantee fee is determined by applying transfer pricing principles. The net invoice that is raised by the Company to its subsidiaries are included in the amounts reflected in the related parties note. The obligators referred to above comprise:

- Aspen Pharmacare Holdings Limited;
  - Pharmacare Limited;
  - Aspen Finance (Pty) Limited;
  - AGI; and
  - Aspen Asia Pacific (Pty) Limited.
-



## 23. Material operating subsidiaries and structured entities

Country of incorporation	Company	Currency	Issued capital '000	Effective Group holding		Investment	
				2018 %	2017 %	2018 R'million	2017 R'million
<b>Subsidiaries</b>							
<b>Direct</b>							
India	Alphamed	INR	–#	<b>100</b>	–	<b>154</b>	–
Germany	Aspen Bad Oldesloe GmbH	EUR	50	<b>100</b>	100	<b>685</b>	685
Mauritius	Aspen Global Inc.	USD	908 529	<b>100</b>	100	<b>8 654</b>	8 654
France	Aspen Notre Dame de Bondeville SAS	EUR	266 311	<b>100</b>	100	<b>3 780</b>	3 780
The Netherlands	Aspen Oss B.V.	EUR	53 000	<b>100</b>	100	<b>1 389</b>	1 389
Kenya	Beta Healthcare International Limited	KES	30 000	<b>100</b>	100	<b>7</b>	7
South Africa	Fine Chemicals Corporation (Pty) Limited	ZAR	–#	<b>100</b>	100	<b>330</b>	330
South Africa	Pharmacare Limited	ZAR	1 395	<b>100</b>	100	<b>2 080</b>	2 069
South Africa	Aspen Finance (Pty) Limited	EUR	12 000	<b>100</b>	100	<b>213</b>	370
Various	Various	Δ	Δ	<b>Δ</b>	Δ	<b>298</b>	298
<b>Indirect</b>							
France	Aspen France SAS	EUR	–	<b>100</b>	100	–	–
Germany	Aspen Germany GmbH	EUR	–	<b>100</b>	100	–	–
United Arab Emirates	Aspen Healthcare FZ LLC	USD	82	<b>100</b>	100	–	–
Russia	Aspen Health LLC	RUB	615 400	<b>100</b>	100	–	–
Japan	Aspen Japan K.K.	JPY	–	<b>100</b>	–	–	–
Australia	Aspen Nutritionals Australia (Pty) Limited	AUD	–#	<b>100</b>	100	–	–
Brazil	Aspen Pharma – Indústria Farmacêutica Limitada	BRL	385 066	<b>100</b>	100	–	–
Ireland	Aspen Pharma Ireland Limited	EUR	42 001	<b>100</b>	100	–	–
Australia	Aspen Pharma (Pty) Limited	AUD	11 862	<b>100</b>	100	–	–
Australia	Aspen Pharmacare Australia (Pty) Limited	AUD	167 373	<b>100</b>	100	–	–
Tanzania	Shelys Pharmaceuticals Limited	TZS	6 723 843	<b>100</b>	100	–	–
Mexico	Aspen Mexico (previously Wyeth)	MXN	1 944 870	<b>100</b>	100	–	–
Various	Various	Δ	Δ	<b>Δ</b>	Δ	–	–
<b>Trusts (structured entities)^</b>							
South Africa	Aspen Share Appreciation Plan	ZAR	N/A	<b>100</b>	100	–	–
South Africa	Aspen Share Incentive Scheme	ZAR	N/A	<b>100</b>	100	–	–
<b>Total investments in subsidiaries</b>						<b>17 590</b>	<b>17 582</b>

# Less than 1 000.

Δ These direct and indirect holdings are made up of various subsidiaries incorporated in multiple territories.

^ These trusts are structured entities which are consolidated into the Group Annual Financial Statements and are not subject to any other risk exposure.

Detailed information is only given in respect of the Company's material operating subsidiaries. The Company maintains a register of all subsidiaries and structured entities available for inspection at the registered office of Aspen Holdings.

### Definitions

AUD: Australian Dollar	TZS: Tanzanian Shilling
BRL: Brazilian Real	USD: US Dollar
EUR: Euro	ZAR: South African Rand
KES: Kenyan Shilling	INR: Indian Rupee
RUB: Russian Ruble	JPY: Japanese Yen
MXN: Mexican Peso	

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## Illustrative constant exchange rate report – Annexure 1

### Illustrative constant exchange rate report on selected financial data

The Group has presented selected line items from the consolidated statement of comprehensive income and certain trading profit metrics on a constant exchange rate basis in the tables below.

The *pro forma* constant exchange rate information is presented to demonstrate the impact of fluctuations in currency exchange rates on the Group's reported results. The constant exchange rate report is the responsibility of the Group's Board of Directors and is presented for illustrative purposes only. Due to the nature of this information, it may not fairly present the Group's financial position, changes in equity and results of operations or cash flows. The *pro forma* information has been compiled in terms of the JSE Listings Requirements and the Revised Guide on *Pro Forma* information by SAICA and the accounting policies of the Group as at 30 June 2018. The illustrative constant exchange rate report on selected financial data has been derived from the audited financial information and has been reported on by Aspen's auditors in an assurance report, which is available for inspection at the Company's registered office.

The Group's financial performance is impacted by numerous currencies which underlie the reported trading results, where even within geographic segments, the Group trades in multiple currencies ("source currencies"). The constant exchange rate restatement has been calculated by adjusting the prior year's reported results at the current year's reported average exchange rates. Restating the prior year's numbers provides illustrative comparability with the current year's reported performance by adjusting the estimated effect of source currency movements.

The listing of average exchange rates against the Rand for the currencies contributing materially to the impact of exchange rate movements are set out below:

	2018 average rates	2017 average rates
EUR – Euro	15,326	14,840
AUD – Australia Dollar	9,965	10,261
USD – US Dollar	12,856	13,612
CNY – Chinese Yuan Renminbi	1,975	1,999
JPY – Japanese Yen	0,116	0,125
MXN – Mexican Peso	0,686	0,700
BRL – Brazilian Real	3,867	4,198
GBP – British Pound	17,291	17,271
CAD – Canadian Dollar	10,126	10,262
RUB – Russian Ruble	0,218	0,224
PLN – Polish Zloty	3,620	3,440

### Revenue, other income, cost of sales and expenses

For purposes of the constant exchange rate report the prior year's source currency revenue, cost of sales and expenses have been restated from the prior year's relevant average exchange rate to the current year's relevant reported average exchange rate.

### Interest paid net of investment income

Net interest paid is directly linked to the source currency of the borrowing on which it is levied and is restated from the prior year's relevant reported average exchange rate to the current year's relevant reported average exchange rate.

### Tax

The tax charge for purposes of the constant currency report has been recomputed by applying the actual effective tax rate to the restated profit before tax.

	<b>Reported June 2018 (At 2018 average rates) R'million</b>	Reported June 2017 (At 2017 average rates) R'million	Change at reported exchange rates %	Illustrative constant exchange rates June 2017 (At 2018 average rates) R'million	Change at constant exchange rates %
Revenue	<b>42 596</b>	41 213	3	40 690	5
Gross profit	<b>21 605</b>	19 896	9	19 777	9
Normalised EBITDA	<b>12 031</b>	11 416	5	11 427	5
Operating profit	<b>9 237</b>	8 321	11	8 342	11
Normalised headline earnings	<b>7 325</b>	6 678	10	6 675	10
<i>Earnings per share (cents)</i>	<b>1 316,6</b>	1 123,4	17	1 116,2	18
<i>Headline earnings per share (cents)</i>	<b>1 468,8</b>	1 299,5	13	1 288,1	14
<i>Normalised headline earnings per share (cents)</i>	<b>1 604,9</b>	1 463,2	10	1 462,5	10

	<b>Reported June 2018 (At 2018 average rates) %</b>	Reported June 2017 (At 2017 average rates) %
<b>Revenue Currency mix</b>		
EUR – Euro	<b>27</b>	26
ZAR – South African Rand	<b>20</b>	20
AUD – Australia Dollar	<b>13</b>	14
USD – US Dollar	<b>7</b>	11
CNY – Chinese Yuan Renminbi	<b>6</b>	4
JPY – Japanese Yen	<b>5</b>	5
MXN – Mexican Peso	<b>3</b>	3
BRL – Brazilian Real	<b>3</b>	3
GBP – British Pound	<b>2</b>	2
CAD – Canadian Dollar	<b>1</b>	1
RUB – Russian Ruble	<b>1</b>	2
PLN – Polish Zloty	<b>1</b>	1
Other currencies	<b>11</b>	8
<b>Total</b>	<b>100</b>	100

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# Illustrative constant exchange rate report – Annexure 1 continued

## Summarised Group segmental analysis

	<b>Reported June 2018 (At 2018 average rates) R'million</b>	Reported June 2017 (At 2017 average rates) R'million	Illustrative constant exchange rates June 2017 (At 2018 average rates) R'million	Change at constant exchange rates %
<b>Commercial Pharmaceuticals by customer geography</b>	<b>33 270</b>	31 437	30 947	8
Sub-saharan Africa	8 127	7 459	7 402	10
Developed Europe	7 434	6 817	6 941	7
Australasia	4 816	4 799	4 658	3
Latin America	2 929	2 722	2 577	14
Developing Europe & CIS	2 780	2 589	2 611	6
China	2 415	1 753	1 748	38
Japan	1 930	1 932	1 812	7
Other Asia	1 401	1 206	1 148	22
MENA	877	1 117	1 049	(16)
USA & Canada	561	1 043	1 001	(44)
<b>Manufacturing revenue by geography of manufacture</b>				
<b>Manufacturing revenue – finished dose form</b>	<b>1 644</b>	2 141	2 100	(22)
Developed Europe	636	638	667	(5)
Sub-saharan Africa	532	1 031	975	(45)
Australasia	464	472	458	1
Latin America	12	—	—	100
<b>Manufacturing revenue – active pharmaceutical ingredients</b>	<b>4 591</b>	4 411	4 480	2
Developed Europe	4 259	3 976	4 263	—
Sub-saharan Africa	332	435	217	53
<b>Total manufacturing revenue</b>	<b>6 235</b>	6 552	6 580	(5)
<b>Total pharmaceuticals</b>	<b>39 505</b>	37 989	37 527	5
<b>Nutritionals by customer geography</b>	<b>3 091</b>	3 224	3 163	(2)
Latin America	1 290	1 462	1 414	(9)
Sub-saharan Africa	1 017	967	977	4
Australasia	715	795	772	(7)
China	65	—	—	100
MENA	4	—	—	100
<b>Total revenue</b>	<b>42 596</b>	41 213	40 690	5
<b>Summary of regions</b>				
Developed Europe	12 329	11 431	11 871	4
Sub-saharan Africa	10 008	9 892	9 571	5
Australasia	5 995	6 066	5 888	2
Latin America	4 231	4 184	3 991	6
Developing Europe & CIS	2 780	2 589	2 611	6
Japan	2 480	1 753	1 748	42
China	1 930	1 932	1 812	7
Other Asia	1 401	1 206	1 148	22
MENA	881	1 117	1 049	(16)
USA & Canada	561	1 043	1 001	(44)
<b>Total revenue</b>	<b>42 596</b>	41 213	40 690	5

**Summarised Group segmental analysis**  
**Commercial pharmaceuticals therapeutic area analysis**

	Reported June 2018 (At 2018 average rates)					Total R'million
	Anaesthetic Brands R'million	Thrombosis Brands R'million	High Potency & Cytotoxic Brands R'million	Therapeutic Focused Brands R'million	Regional Brands R'million	
<b>By customer geography</b>						
<b>Commercial Pharmaceuticals</b>						
Sub-saharan Africa	143	9	99	251	7 876	8 127
Developed Europe	2 170	3 471	1 417	7 058	376	7 434
Australasia	713	21	477	1 211	3 605	4 816
Latin America	762	71	790	1 623	1 306	2 929
Developing Europe & CIS	434	1 876	406	2 716	64	2 780
China	1 779	616	20	2 415	—	2 415
Japan	1 213	48	372	1 633	297	1 930
Other Asia	658	151	262	1 071	330	1 401
MENA	156	159	193	508	369	877
USA & Canada	304	8	136	448	113	561
<b>Total Commercial Pharmaceuticals</b>	<b>8 332</b>	<b>6 430</b>	<b>4 172</b>	<b>18 934</b>	<b>14 336</b>	<b>33 270</b>

	Reported June 2017 (At 2017 average rates)					Total R'million
	Anaesthetic's Brands R'million	Thrombosis Brands R'million	High Potency & Cytotoxic Brands R'million	Therapeutic Focused Brands R'million	Regional Brands R'million	
<b>By customer geography</b>						
<b>Commercial Pharmaceuticals</b>						
Sub-saharan Africa	144	7	126	277	7 182	7 459
Developed Europe	1 700	3 168	1 472	6 340	477	6 817
Australasia	639	25	483	1 147	3 652	4 799
Latin America	605	92	838	1 535	1 187	2 722
Developing Europe & CIS	317	1 714	472	2 503	86	2 589
China	1 453	252	48	1 753	—	1 753
Japan	1 293	46	408	1 747	185	1 932
Other Asia	429	176	258	863	343	1 206
MENA	231	169	275	675	442	1 117
USA & Canada	254	16	307	577	466	1 043
<b>Total Commercial Pharmaceuticals</b>	<b>7 065</b>	<b>5 665</b>	<b>4 687</b>	<b>17 417</b>	<b>14 020</b>	<b>31 437</b>

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# Illustrative constant exchange rate report – Annexure 1 continued

Summarised Group segmental analysis continued

Commercial pharmaceuticals therapeutic area analysis continued

Illustrative constant exchange rate June 2017 (June 2017 at 2018 average rates)

	Anaesthetic Brands R'million	Thrombosis Brands R'million	High Potency & Cytotoxic Brands R'million	Therapeutic Focused Brands R'million	Regional Brands R'million	Total R'million
<b>By customer geography</b>						
<b>Commercial Pharmaceuticals</b>						
Sub-saharan Africa	145	7	126	278	7 124	7 402
Developed Europe	1 732	3 204	1 529	6 465	476	6 941
Australasia	621	25	467	1 113	3 545	4 658
Latin America	571	87	803	1 461	1 116	2 577
Developing Europe & CIS	307	1 760	464	2 531	80	2 611
China	1 435	266	47	1 748	–	1 748
Japan	1 204	57	379	1 640	172	1 812
Other Asia	412	166	246	824	324	1 148
MENA	228	166	242	636	413	1 049
USA & Canada	251	15	293	559	442	1 001
<b>Total Commercial Pharmaceuticals</b>	<b>6 906</b>	<b>5 753</b>	<b>4 596</b>	<b>17 255</b>	<b>13 692</b>	<b>30 947</b>

% Change constant exchange rates

	Anaesthetic Brands %	Thrombosis Brands %	High Potency & Cytotoxic Brands %	Therapeutic Focused Brands %	Regional Brands %	Total %
<b>By customer geography</b>						
<b>Commercial Pharmaceuticals</b>						
Sub-saharan Africa	(1)	29	(21)	(10)	11	10
Developed Europe	25	8	(7)	9	(21)	7
Australasia	15	(16)	2	9	2	3
Latin America	33	(18)	(2)	11	17	14
Developing Europe & CIS	41	7	(13)	7	(20)	6
China	24	>100	(57)	38	0	38
Japan	1	(16)	(2)	0	73	7
Other Asia	60	(9)	7	30	2	22
MENA	(32)	(4)	(20)	(20)	(11)	(16)
USA & Canada	21	(47)	(54)	(20)	(74)	(44)
<b>Total Commercial Pharmaceuticals</b>	<b>21</b>	<b>12</b>	<b>(9)</b>	<b>10</b>	<b>5</b>	<b>8</b>

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## Shareholder statistics (unaudited)

### Analysis of shareholders at 30 June 2018

	Number of shareholders	% of shareholders	Number of shares	% of total shareholding
<b>Ordinary shares</b>				
<b>Size of holding</b>				
1 – 2 500	44 066	91,8%	17 140 221	3,8
2 501 – 12 500	2 612	5,4%	13 731 519	3,0
12 501 – 25 000	447	0,9%	8 029 069	1,7
25 001 – 50 000	305	0,7%	10 808 462	2,4
50 001 and over	566	1,2%	406 742 270	89,1
	<b>47 996</b>	<b>100,0%</b>	<b>456 451 541</b>	<b>100,0</b>

### Major shareholders

#### Institutional shareholders

According to the register of shareholders at 30 June 2018, the following are the top 10 registered institutional shareholders:

	Number of shares	% of total shareholding
<b>Institutional shareholder</b>		
Public Investment Corporation	43 561 029	9,5
Coronation Asset Management (Pty) Ltd	24 406 749	5,4
Harding Loevner LLC	22 820 150	5,0
BlackRock Inc	16 879 849	3,7
Foord Asset Management	16 247 596	3,6
The Vanguard Group Inc	15 588 311	3,4
Investec Asset Management	13 444 613	2,9
Sanlam Investment Management	11 829 488	2,6
Investec Securities (Pty) Limited	10 936 708	2,4
GIC Asset Management Pte Ltd	10 820 296	2,4
	<b>186 534 789</b>	<b>40,9</b>

### Top 10 beneficial shareholders

According to the register of shareholders at 30 June 2018, the following are the top 10 registered beneficial shareholders. The shareholdings of all directors are disclosed on pages 117 and 118 of the Remuneration Report.

	Number of shares	% of total shareholding
<b>Shareholder</b>		
Government Employees Pension Fund	55 735 872	12,2
Saad, SB	55 366 536	12,1
Attridge, MG	18 889 890	4,1
Government of Singapore Investment Corporation	10 921 808	2,4
Ceppwawu Investments (Pty) Ltd	10 053 368	2,2
Alexander Forbes Investments	9 773 074	2,2
Harding Loevner International Equity Fund	6 673 552	1,5
Saudi Arabian Monetary Agency	6 426 996	1,4
Vanguard Emerging Markets Stock Index Fund	6 392 372	1,4
Old Mutual Life Assurance Co Ltd	6 306 897	1,4
	<b>186 540 365</b>	<b>40,9</b>

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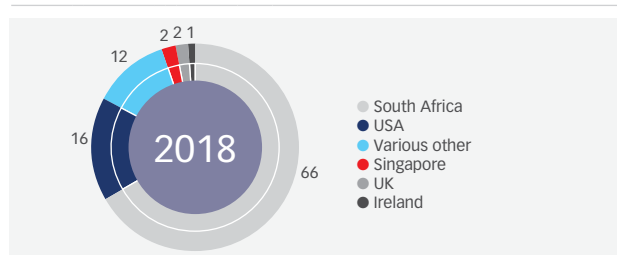
## Shareholder statistics (unaudited) continued

### Shareholders' spread

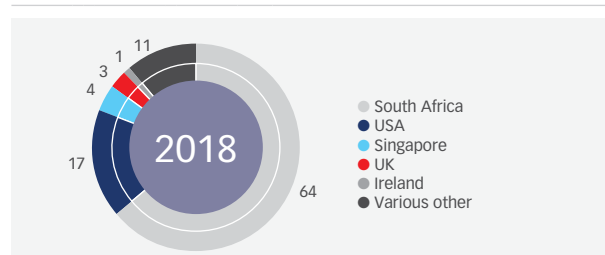
As required by paragraph 8.63 and terms of paragraph of 4.25 of the JSE Listings Requirements, the spread of the ordinary shareholding at close of business 30 June 2018 was as follows:

	Number of shareholders	Number of shares	% of total shareholding
<b>Non-public shareholders</b>	<b>13</b>	<b>130 280 488</b>	<b>28,5</b>
Directors of the Company and directors of material subsidiaries	11	74 432 744	16,3
Government Employees Pension Fund	1	55 366 536	12,1
Employee share trusts – treasury shares	1	481 208	0,1
<b>Public shareholders</b>	<b>47 983</b>	<b>326 171 053</b>	<b>71,5</b>
<b>Total shareholdings</b>	<b>47 996</b>	<b>456 451 541</b>	<b>100,0</b>

### Beneficial shareholders – country (%)

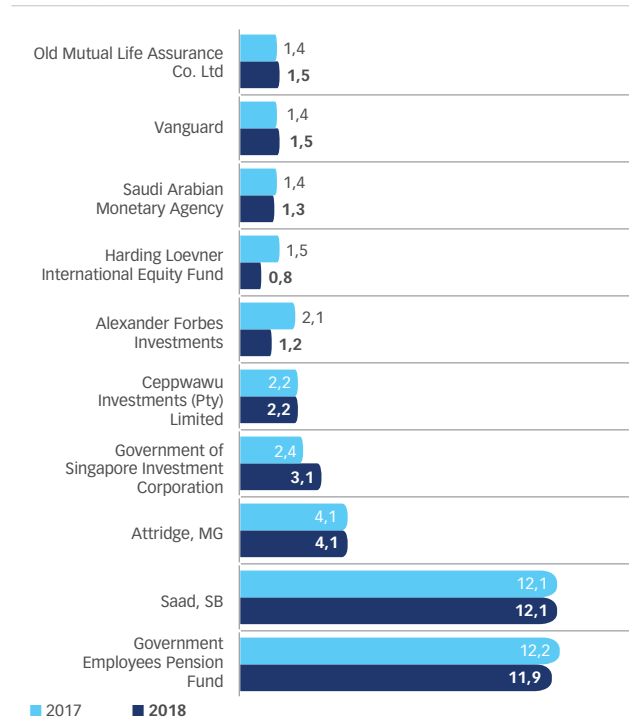


### Institutional shareholders – country (%)

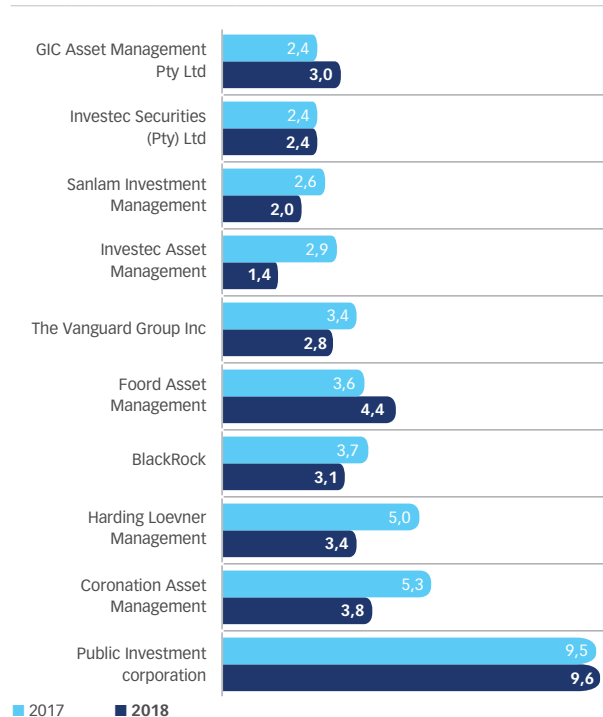


The geographical split of Beneficial and Institutional Shareholders above is based on shareholders who own more than 25 000 Aspen shares.

### Top 10 beneficial shareholders (% shareholding)



### Top 10 institutional shareholders (% shareholding)



Percentages for Top 10 Beneficial Shareholders and Top 10 Institutional Shareholders reflected above are as a percentage of the total issued share capital of the Company.



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**Administration**

**Company Secretary & Group Governance Officer**

Riaan Verster  
BProc, LLB, LLM (Labour Law)

**Registered office and postal address**

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

**Registration number**

1985/002935/06

**Share code**

APN ISIN: ZAE 000066692

**Website address**

[www.aspenpharma.com](http://www.aspenpharma.com)

**Auditors**

PricewaterhouseCoopers Inc.

**Sponsors**

Investec Bank Limited

**Transfer secretaries**

Link Market Services South Africa (Pty) Limited  
13th Floor, 19 Ameshoff Street, Braamfontein, 2001, South Africa  
PO Box 4844, Johannesburg, 2000, South Africa  
Telephone 011 713 0800  
Email [info@linkmarketservices.co.za](mailto:info@linkmarketservices.co.za)

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## Abbreviations

ABBREVIATION	FULL NAME
<b>AGI</b>	Aspen Global Incorporated, a subsidiary incorporated in Mauritius
<b>Alphamed</b>	Alphamed Formulations Private Limited
<b>Annual Financial Statements</b>	The Group and Company Annual Financial Statements for the year ended 30 June 2018
<b>API</b>	Active pharmaceutical ingredient
<b>A&amp;R Co</b>	Audit & Risk Committee
<b>ARV</b>	Anti-retroviral
<b>Aspen and/or Group</b>	Aspen Pharmacare Holdings Limited and/or its subsidiaries as set out in note 25 to the Company financial statements, as the context demands
<b>Aspen Holdings or the Company</b>	Aspen Pharmacare Holdings Limited
<b>Aspen API</b>	Aspen API Incorporated, a wholly owned subsidiary of AGI incorporated in the United States
<b>Aspen Australia</b>	Aspen Australia comprises Aspen Asia Pacific (Pty) Limited (a wholly owned subsidiary of AGI) and its subsidiaries, including Aspen Pharmacare Australia (Pty) Limited, Aspen Pharma (Pty) Limited, Orphan Holdings (Pty) Limited, Orphan Australia (Pty) Limited, Aspen Lennon (Pty) Limited and Aspen Products (Pty) Limited
<b>Aspen Bad Oldesloe</b>	Aspen Bad Oldesloe GmbH, a wholly owned subsidiary incorporated in Germany
<b>Aspen Brazil</b>	Aspen Pharma – Indústria Farmacêutica Limitada, a wholly owned subsidiary of PharmaLatina Holdings incorporated in Brazil
<b>Aspen Finance</b>	Aspen Finance (Pty) Limited
<b>Aspen France</b>	Aspen France SAS
<b>Aspen Healthcare</b>	Aspen Healthcare FZ LLC
<b>Aspen Health</b>	Aspen Health LLC
<b>Aspen Ireland</b>	Aspen Pharma Ireland Limited
<b>Aspen Japan</b>	Aspen Japan KK, a wholly owned subsidiary of AGI incorporated in Japan
<b>Aspen Mexico</b>	Aspen Mexico comprises Aspen Labs S.A. de C.V., Aspen Pharma Mexicana S. de R.L. C.V., Solara S.A. de C.V., Aspen Servicios S. de R.L. de C.V., PN North America S. de R.L. de C.V., Wyeth Ilaclari S. de R.L. de C.V., Wyeth S. de R.L. de C.V., Marcas WN S.A. de C.V.
<b>Aspen Nigeria</b>	Aspen Pharmacare Nigeria Limited, a subsidiary incorporated in Nigeria

<b>Aspen Nutritionals Australia</b>	Aspen Nutritionals Australia Pty Limited
<b>Aspen Oss</b>	Aspen Oss B.V., a subsidiary incorporated in the Netherlands
<b>Aspen Venezuela</b>	Aspen Venezuela C.A. and Aspen Venezuela S.A.
<b>AstraZeneca</b>	AstraZeneca AB and AstraZeneca UK
<b>BBBEE</b>	Broad-Based Black Economic Empowerment
<b>BBBEE Codes</b>	The Department of Trade and Industry's BBBEE Codes of Good Practice
<b>Beta</b>	Beta Healthcare International Limited
<b>CAGR</b>	Compound annual growth rate
<b>CDP</b>	Carbon disclosure project
<b>CER</b>	Constant exchange rate
<b>CHP</b>	Combined heat and power
<b>CIS</b>	The Commonwealth of Independent States, comprising Russia and the former Soviet Republics
<b>Classic brands</b>	A portfolio of 25 established prescription-branded products acquired from GSK
<b>DIFR</b>	Disabling incident frequency ratio
<b>EBITDA</b>	Normalised EBITDA comprises operating profit before depreciation and amortisation adjusted for specific non-trading items defined in accounting policies of the Group's Annual Financial Statements
<b>ERM</b>	Environmental Resources Management (Pty) Limited
<b>ESG</b>	Environmental, social and governance practices
<b>EU</b>	European Union
<b>FCC Cape Town</b>	Fine Chemicals Corporation (Pty) Limited
<b>FDF</b>	Finished dose form
<b>Global brands</b>	Branded products owned by Aspen Global and distributed into multiple territories
<b>GMP</b>	Good Manufacturing Practice
<b>GRI</b>	Global Reporting Initiative
<b>GSK</b>	GlaxoSmithKline Plc
<b>HEPS</b>	Headline earnings per share
<b>HCP</b>	Healthcare professional
<b>HIT</b>	Heparin induced thrombocytopenia
<b>HPC</b>	Hydroxyprogesterone Caproate
<b>IFRS</b>	International Financial Reporting Standards

<b>IMS</b>	IMS Health (Pty) Limited, a leading provider of healthcare and pharmaceutical market intelligence
<b>Internal Audit</b>	The Aspen Group Internal Audit function
<b>IP</b>	Intellectual property
<b>ISO</b>	The International Organisation for Standardisation
<b>ISO 14001</b>	International standard for environmental management systems
<b>JSE</b>	JSE Limited, licensed as an exchange under the Security Services Act, No 36 of 2004
<b>King IV</b>	King Report on Corporate Governance™ for South Africa 2016
<b>KPAs</b>	Key performance areas
<b>KPIs</b>	Key performance indicators
<b>LWDFR</b>	Lost work day frequency ratio
<b>Mandela Day</b>	The Nelson Mandela International Day
<b>MENA</b>	Middle East and North Africa
<b>MSD</b>	Merck Sharpe & Dohme
<b>NCD</b>	Non-communicable diseases
<b>NHEPS</b>	Normalised headline earnings per share
<b>Notre Dame de Bondeville</b>	Aspen Notre Dame de Bondeville S.A.S. a wholly owned subsidiary incorporated in France
<b>NZNM</b>	New Zealand New Milk Limited
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OHSAS 18001</b>	International standard for occupational health and safety management
<b>OTC</b>	Over the counter
<b>Pharmacare</b>	Pharmacare Limited
<b>PHEF</b>	The South African Public Healthcare Enhancement Fund

<b>PPE</b>	Property, plant and equipment
<b>PwC</b>	PricewaterhouseCoopers Incorporated
<b>R&amp;N Co</b>	Remuneration & Nomination Committee
<b>S&amp;E Co</b>	Social & Ethics Committee
<b>SED</b>	Socio-economic development
<b>SEP</b>	Single exit pricing
<b>SHE</b>	Safety, health and environment
<b>Shelys</b>	Shelys Pharmaceuticals International Limited, incorporated in Tanzania
<b>SKU</b>	Stock keeping unit
<b>SSA</b>	Sub-Saharan Africa
<b>Supplementary Documents</b>	The Unabridged Corporate Governance Report including the reports of the A&R and S&E Committees, the Sustainability Data Supplement and the Annual Financial Statements
<b>The SSA Collaboration</b>	The GSK Aspen Healthcare for Africa Collaboration
<b>The Companies Act</b>	The South African Companies Act, No 71 of 2008
<b>UN Global Compact</b>	United Nations Global Compact
<b>US FDA</b>	United States Food and Drug Administration
<b>WHO</b>	World Health Organisation
<b>USA</b>	United States of America
<b>AUD</b>	Australian Dollar
<b>EUR</b>	Euro
<b>GBP</b>	British Pound
<b>R/ZAR</b>	South African Rand
<b>USD</b>	United States Dollar

#### Disclaimer

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



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