

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS

	Goodwill R'000	Trademarks and market- related intangibles R'000	Customer- related intangibles and licence agreements R'000	Manu- facturing- related intangibles R'000	Total R'000
2016					
Carrying value at beginning of year					
Cost	12 580	756 652	263 572	1 605	1 034 409
Accumulated amortisation	–	(145 553)	(144 095)	(1 605)	(291 253)
Net balance at beginning of year	12 580	611 099	119 477	–	743 156
Current year movements – cost					
Reclassification to assets held-for-sale (note 2.2)	–	(596 734)	(158 414)	(1 605)	(756 753)
Disposals	–	(2 018)	–	–	(2 018)
Exchange rate adjustments	–	77 071	4 746	–	81 817
Cost movement for the year	–	(521 681)	(153 668)	(1 605)	(676 954)
Current year movements – accumulated amortisation					
*Charge for the year	–	(9 167)	6	–	(9 161)
Reclassification to assets held-for-sale (note 2.2)	–	231 561	142 478	1 605	375 644
Disposals	–	330	–	–	330
Impairment of asset transferred to held-for-sale ⁽¹⁾	–	(135 180)	–	–	(135 180)
Impairment ⁽¹⁾	–	(3 149)	–	–	(3 149)
Exchange rate adjustments	–	(12 320)	(6 296)	–	(18 616)
Accumulated amortisation movement for the year	–	72 075	136 188	1 605	209 868
Carrying value at end of year					
Cost	12 580	234 971	109 904	–	357 455
Accumulated amortisation	–	(73 478)	(7 907)	–	(81 385)
Net balance at end of year	12 580	161 493	101 997	–	276 070
⁽¹⁾ Refer to Annexure G on impairments.					
*Amortisation split as follows:	–	9 167	(6)	–	9 161
Continuing operations	–	9 050	–	–	9 050
Discontinued operations	–	117	(6)	–	111

11. INTANGIBLE ASSETS (continued)

	Goodwill R'000	Trademarks and market- related intangibles R'000	Customer- related intangibles and licence agreements R'000	Manu- facturing- related intangibles R'000	Total R'000
2015					
Carrying value at beginning of year					
Cost	12 580	712 861	254 754	1 605	981 800
Accumulated amortisation	–	(93 792)	(50 225)	(1 605)	(145 622)
Net balance at beginning of year	12 580	619 069	204 529	–	836 178
Current year movements – cost					
Disposal of business (note 1.1)	–	–	(226)	–	(226)
Exchange rate adjustments	–	43 791	9 044	–	52 835
Cost movement for the year	–	43 791	8 818	–	52 609
Current year movements – accumulated amortisation					
*Charge for the year	–	(43 654)	(16 718)	–	(60 372)
Impairment ⁽¹⁾	–	–	(74 432)	–	(74 432)
Exchange rate adjustments	–	(8 107)	(2 720)	–	(10 827)
Accumulated amortisation movement for the year	–	(51 761)	(93 870)	–	(145 631)
Carrying value at end of year					
Cost	12 580	756 652	263 572	1 605	1 034 409
Accumulated amortisation	–	(145 553)	(144 095)	(1 605)	(291 253)
Net balance at end of year	12 580	611 099	119 477	–	743 156
⁽¹⁾ Intangible assets have been impaired where the Group does not expect these assets to generate any future economic benefit. Refer to Annexure G.					
*Amortisation split as follows:	–	43 654	16 718	–	60 372
Continuing operations	–	9 811	–	–	9 811
Discontinued operations	–	33 843	16 718	–	50 561

Amortisation is included in fixed and administrative expenses and impairments in non-trading expenses in the statement of comprehensive income.

NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

11. INTANGIBLE ASSETS (continued)

Goodwill acquired through business combinations and other intangible assets have been allocated to the following individual reportable segments for impairment testing. These segments represent the lowest level within the entity at which intangible assets are monitored for internal management purposes.

	OTC R'000	Consumer R'000	Prescription R'000	Hospital R'000	Southern Africa R'000	India and Rest of Africa R'000	Total R'000
2016							
Carrying amount of goodwill				12 580	12 580		12 580
Carrying amount of other Intangibles	85 289	85 262	90 592	–	261 143	2 347	263 490
Indefinite useful lives	78 807		90 592		169 399	2 347	171 746
Finite useful lives	6 482	85 262			91 744		91 744
Total	85 289	85 262	90 592	12 580	273 723	2 347	276 070
2015							
Carrying amount of goodwill				12 580	12 580		12 580
Carrying amount of other intangibles	85 917	93 684	93 741		273 342	457 234	730 576
Indefinite useful lives	78 807		93 741		172 548	2 347	174 895
Finite useful lives	7 110	93 684			100 794	454 887	555 681
Total	85 917	93 684	93 741	12 580	285 922	457 234	743 156

IMPAIRMENT TESTING OF OTHER INTANGIBLE ASSETS

The average remaining useful life for intangible assets with finite useful lives is ten years.

The recoverable amount of the indefinite life intangible assets has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a 10-year period when management believes that products have a value-in-use of 10 years or more and that these projections, based on past experience, are reliable.

The pre-tax discount rate applied to cash flow projections, before adjusting for risk, is 22.6% (2015: 19.2%) for the intangible assets in the continuing operations. The cash flows beyond the 10-year period are discounted using a 0.5% long-term growth rate (2015: 0.5%).

Key assumptions used in value-in-use calculations:

The calculation of value-in-use for all segments is sensitive to the following assumptions:

- gross margin;
- discount rates;
- raw materials price inflation;
- market share during the budget period; and
- growth rate used to extrapolate cash flows beyond the budget period.

Gross margin

Gross margins are based on average values of between 27% and 50% in the three years preceding the start of the budget period. These are changed over the budget period for anticipated efficiency improvements, estimated changes to cost of production and raw materials, and selling prices.

Discount rates

Discount rates reflect management's estimate of the risks. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining appropriate discount rates, regard has been given to the yield on a 10-year government bond at the beginning of the budgeted period.

11. INTANGIBLE ASSETS (continued)

Raw materials price inflation

Estimates are obtained from published indices for the countries from which materials are sourced, as well as data relating to specific commodities. Forecast figures are used if data is publicly available, otherwise past actual raw materials price movements of 5% has been used as an indicator of the future price movements.

Market share assumptions

These assumptions are important because, as well as using industry data for growth rates, management assesses how the Group's position, relative to its competitors, might change over the budget period. Market share is considered separately for each asset to determine the impact on the future cash flows.

Growth rate estimates

The growth rate used beyond the next 10-year period is management's best estimate taking market conditions into account.

Sensitivity to change in assumptions

The implications of the key assumptions for the recoverable amount are discussed below:

Gross margin

A decreased demand and cost input inflation in excess of selling price increases can lead to a decline in the gross margin which could result in a further impairment of intangibles.

Discount rates

A material increase in excess of 4% in the pre-tax discount rate would result in impairment.

Raw materials price inflation

Management has considered the possibility of greater than forecast increases in raw material price inflation. If prices of raw materials increase greater than the forecast price inflation and the Group is unable to pass on, or absorb these increases through efficiency improvements, then the Group will have a further impairment.

Market share assumptions

Although management expects the Group's market share to be stable over the forecast period, a material decline in the market share would result in a further impairment.

Growth rate estimates

Management acknowledges that new entrants into the market could have a significant impact on growth rate assumptions. This is not expected to have a material adverse impact on forecasts, but could yield a reasonably possible alternative to the estimated long-term growth rate which could result in impairment.