

Notes to the Group annual financial statements continued

11 INTANGIBLE ASSETS

	Goodwill R'000	Trademarks and market- related intangibles R'000	Customer- related intangibles and licence agreements R'000	Total R'000
2018				
Carrying value at beginning of year				
Cost	18 175	310 100	112 784	441 059
Accumulated amortisation	–	(82 435)	(8 627)	(91 062)
Net balance at beginning of year	18 175	227 665	104 157	349 997
Current year movements – cost				
Additions	–	4 450	–	4 450
Additions through business combination (note 1.1)	163 758	121 385	–	285 143
Exchange rate adjustments	–	2	–	2
Cost movement for the year	163 758	125 837	–	289 595
Current year movements – accumulated amortisation				
Charge for the year	–	(9 567)	(1 080)	(10 647)
Impairment ⁽¹⁾	–	(2 700)	–	(2 700)
Exchange rate adjustments	–	(3)	–	(3)
Accumulated amortisation movement for the year	–	(12 270)	(1 080)	(13 350)
Carrying value at end of year				
Cost	181 933	435 937	112 784	730 654
Accumulated amortisation	–	(94 705)	(9 707)	(104 412)
Net balance at end of year	181 933	341 232	103 077	626 242

⁽¹⁾ Refer to Annexure G on impairments.

Notes to the Group annual financial statements continued

11 INTANGIBLE ASSETS (continued)

	Goodwill R'000	Trademarks and market-related intangibles R'000	Customer-related intangibles and licence agreements R'000	Total R'000
2017				
Carrying value at beginning of year				
Cost	12 580	234 971	109 904	357 455
Accumulated amortisation	–	(73 478)	(7 907)	(81 385)
Net balance at beginning of year	12 580	161 493	101 997	276 070
Current year movements – cost				
Additions*	–	75 135	–	75 135
Additions through business combination (note 1.2)	5 595	–	2 880	8 475
Exchange rate adjustments	–	(6)	–	(6)
Cost movement for the year	5 595	75 129	2 880	83 604
Current year movements – accumulated amortisation				
Charge for the year	–	(8 962)	(720)	(9 682)
Exchange rate adjustments	–	5	–	5
Accumulated amortisation movement for the year	–	(8 957)	(720)	(9 677)
Carrying value at end of year				
Cost	18 175	310 100	112 784	441 059
Accumulated amortisation	–	(82 435)	(8 627)	(91 062)
Net balance at end of year	18 175	227 665	104 157	349 997

*A payment of R4.3 million has been deferred and is included in Other Payables. During the 2018 financial year the deferred amount was paid. (note 23)
Amortisation is included in fixed and administrative expenses and impairments in non-trading expenses in the statement of comprehensive income.

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	Other – Shared Services R'000	Southern Africa R'000	India and Rest of Africa R'000	Total R'000
2018								
Carrying amount of goodwill	–	–	163 758	12 580	5 595	181 933	–	181 933
Carrying amount of other intangibles	128 662	96 326	211 598	4 228	1 080	441 894	2 415	444 309
Indefinite useful lives	123 434	27 700	210 592	–	–	361 726	2 347	364 073
Finite useful lives	5 228	68 626	1 006	4 228	1 080	80 168	68	80 236
Total	128 662	96 326	375 356	16 808	6 675	623 827	2 415	626 242
2017								
Carrying amount of goodwill	–	–	–	12 580	5 595	18 175	–	18 175
Carrying amount of other intangibles	129 290	107 344	90 592	–	2 160	329 386	2 436	331 822
Indefinite useful lives	123 434	30 400	90 592	–	–	244 426	2 347	246 773
Finite useful lives	5 856	76 944	–	–	2 160	84 960	89	85 049
Total	129 290	107 344	90 592	12 580	7 755	347 561	2 436	349 997

Notes to the Group annual financial statements continued

11 INTANGIBLE ASSETS (continued)

IMPAIRMENT TESTING OF INTANGIBLE ASSETS

The average remaining useful life for intangible assets with finite useful lives ranges between 1 to 8 years.

The recoverable amount of the goodwill and 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 discount rate applied to cash flow projections, before adjusting for risk, is 12.25% (2017: 12.36%) for the intangible assets. The cash flows beyond the 10-year period are discounted using a 0.5% long term growth rate (2017: 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% to 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.

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% have 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.

Notes to the Group annual financial statements continued

11 INTANGIBLE ASSETS (continued)

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 an impairment of intangibles.

Discount rates

A material increase in excess of 4% in the 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 an 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 an 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.

12 DEFERRED TAX

	2018 R'000	2017 R'000
Balance at beginning of year	(71 550)	(67 739)
Acquisition of business (refer note 1)	(27 622)	204
Movement through profit or loss	555	2 836
Exchange rate adjustments	(388)	825
Revaluations of foreign currency contracts (cash flow hedges) to fair value	(1 782)	(7 674)
Revaluation of available-for-sale asset to fair value	(7)	(2)
Balance at end of year	(100 794)	(71 550)
Analysis of deferred tax		
This balance comprises the following temporary differences:		
Trademarks	(50 909)	(17 477)
Property, plant and equipment	(137 402)	(142 117)
Pre-payments	(5 189)	(2 782)
Income received in advance	15 468	6 350
Provisions	79 762	77 432
Revaluations of foreign currency contracts (cash flow hedges) to fair value	(4 003)	(2 221)
Tax loss available for future use	1 083	10 514
Other	396	(1 249)
	(100 794)	(71 550)
Disclosed as follows:		
Deferred tax asset	18 120	1 588
Deferred tax liability	(118 914)	(73 138)