

13 Goodwill and intangible assets continued

Trademarks comprise well-established, growing brands. Except for trademarks with a carrying value of R90,6 million (2016: R104,8 million) which are amortised, the brand portfolio is considered to have indefinite useful lives and are therefore not amortised. Refer to the accounting policies for further details on amortisation.

Group

(R'million)	Goodwill		Indefinite useful life intangible assets	
	2017	2016	2017	2016
13.2 The carrying value is allocated to cash-generating units as follows:				
Exports and International	790,1	1 114,5	519,1	519,1
Beverages	580,5	580,5	194,6	194,6
Snacks & Treats	–	–	119,6	119,6
Groceries	72,3	72,3	725,0	729,9
Value Added Meat Products	16,4	16,4	–	–
HPCB	314,9	314,9	173,9	173,9
	1 774,2	2 098,6	1 732,2	1 737,1

14 Impairment testing of non-financial assets

If there is an indication of impairment, or at least annually, all indefinite life intangible assets and goodwill are assessed for impairment unless stated otherwise. Goodwill acquired through business combinations, trademarks, licence agreements, supplier relationships and customer lists have been allocated to cash-generating units to facilitate this assessment.

The key assumptions disclosed below are based on management's experience and expectations. Based on this experience and the well-established brands the group owns, management considers forecast cash flow periods in excess of five years to be appropriate.

14.1 Methods and assumptions

The group applies a discounted cash flow methodology (value in use) to assess goodwill and indefinite life intangible assets for impairment. Where this results in a value lower than the carrying amount, the higher of this value or the fair value less cost to sell is used. For the current year, all recoverable amounts were based on the value in use, being the higher value. This methodology entails a calculation of the present value of future cash flows generated by applicable cash-generating units over a period of five to 10 years, in instances where the longer period can be justified, and incorporates a terminal growth rate.

These cash flows have been based on the approved budget for the 2018 financial year and strategic plans which include assumptions on profit before interest and tax, depreciation, working capital movements, capital maintenance expenditure, an appropriate discount rate and a terminal growth rate. The terminal growth rates applied were between 1% and 6% (2016: 1%), which is dependent on the industry, specific markets and maturity of the cash-generating unit.

14.2 Discount rates

The group has calculated a post-tax weighted average cost of capital (WACC) which is utilised against post-tax cash flows, as a basis for performing the value-in-use calculation. In cases where the CGU is deemed to be of greater risk than the group as a whole, a risk premium has been included within the respective discount rate applied. The post-tax discount rate utilised for the purposes of the impairment testing was between 12,0% and 17,9% (2016: 11,5% and 17,0%). A comparable pre-tax discount rate would be between 16,0% and 21,5% (2016: 15,5% and 20,6%).

14.3 Growth rates

In determining the growth rate, consideration is given to the growth potential of the respective CGU. As part of this assessment, a prudent outlook is adopted that mirrors an inflationary increase in line with the consumer price index and real growth expected within the specific market. Based on these factors, the nominal price growth rates applied for the purposes of the impairment testing ranges between 6% and 9%. Volume growth assumptions are based on management's best estimates of known strategies and future plans to grow the business.

Notes to the financial statements continued

for the year ended 30 September 2017

14 Impairment testing of non-financial assets continued

14.4 Specific impairments in the current year

The table below reflects the detail of the respective impairments for the year, with the comparatives noted.

(R'million)	Group	
	2017	2016
International & Exports – goodwill and indefinite life intangible assets*	(300,0)	–
Consumer Brands – goodwill and indefinite life intangible assets*	(9,9)	–
HPCB – goodwill and indefinite life intangible assets	–	(300,0)
Grains – property, plant and equipment**	–	(22,8)
Consumer Brands – property, plant and equipment**	–	(12,0)
Total	(309,9)	(334,8)

* This impairment was recognised as a result of the annual impairment assessment performed on goodwill and indefinite useful life intangible assets. These assets relate to Exports, Snacks & Treats and Consumer. The specific goodwill and intangible assets were written down to their recoverable amount of R856,6 million, being their value in use. The impairments recognised in relation to the Exports and International segment arose as a result of difficulties experienced throughout the continent as a consequence of deteriorating macro-economic factors, largely linked to commodity prices and exacerbated by currency devaluations in Nigeria and Mozambique. In addition, the lack of foreign exchange liquidity required trade credit to be managed tightly, inhibiting revenue growth.

** In the prior year, these assets were fully impaired down to a recoverable amount of Rnil, being their value in use. This is also representative of the fair value less costs to sell of these assets.

The impairments recognised in the prior year within the HPCB business related to the Personal care category where growth had slowed, reflecting the pressure on consumer income exacerbated by competitors investing aggressively in pricing strategies and brand support. Given this, the specific goodwill and intangible assets were written down to their total recoverable amount of R213,4 million, being their value in use.

14.5 Changes in key assumptions

The determined value in use of each CGUs is most sensitive to the discount rate. No reasonably probable change in any of the above key valuation assumptions would cause the carrying amount of CGUs to materially exceed their recoverable amounts, with the exception of the Exports and International segment, where a 1% further increase in the discount rate applied would result in a further impairment of R150 million.

Company		(R'million)	Group	
2017	2016		2017	2016
		1.5 Investments in associated companies		
		15.1 (For more detail, refer Annexure B)		
967,6	967,6	Listed, at cost	1 472,1	1 472,1
171,1	421,1	Unlisted, at cost less amounts written off*	755,8	1 005,8
		Share of accumulated other comprehensive income	323,2	409,4
		Share of accumulated profits since acquisition	1 992,1	1 845,4
1 138,7	1 388,7		4 543,2	4 732,7
6 443,1	6 598,4	Fair value of listed investments	6 443,1	6 598,4
		The trading results of the associate companies whose results are equity accounted in the consolidated financial statements are as follows:		
		Revenue (100%)	26 356,2	29 573,6
		Profit for the year (100%)	1 577,4	2 425,2

* An impairment has been recognised in the current year of R250 million, in relation to the UAC Foods Investment, which arose mainly as a result of deteriorating macro-economic factors within Nigeria, largely linked to commodity prices, further exacerbated by severe currency devaluations as well as forex liquidity challenges. This specific investment was written down to its recoverable amount, which was determined through the use of a DCF valuation model, taking into consideration 10-year forecasts, a terminal growth rate of 8% and discounted using a post-tax WACC rate of 17,8%. For purposes of translating the Nigerian Naira denominated recoverable amount, given the forex and liquidity challenges and various exchange rates in commercial use in Nigeria, the parallel exchange rate has been used (linked to NAFEX) being more indicative of the exchange rate to which cash flows would ultimately be realised. Based on this, the valuations have been converted at the appropriate parallel rate of NGN:USD385 as compared to an official rate of NGN:USD306. The discount rate applied is deemed to be the most sensitive key assumption, where a 1% further increase in the discount rate applied would result in a further impairment of R35 million.