



Annual Financial Statements 2016

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All company names have been abbreviated throughout the Annual Financial Statements and appear on page 123.

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 2016, 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
24 October 2016

Audit & Risk Committee Report

The report of the Aspen Audit & Risk Committee ("A&R Co") as required in terms of section 94(7)(f) of the Companies Act has been simultaneously issued with these Annual Financial Statements and is included herein by reference. This report can be reviewed online.

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 2016 ("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 auditors, PricewaterhouseCoopers Incorporated, audited the Annual Financial Statements, and their report is presented on page 2.

The Annual Financial Statements were prepared under the supervision of Deputy Group Chief Executive, Gus Attridge CA(SA) and approved by the Board of Directors on 24 October 2016 and are signed on its behalf.



Kuseni Dlamini

Chairman



Gus Attridge

Deputy Group Chief Executive

Johannesburg
24 October 2016

Directors' Report

The directors have pleasure in presenting their report of the Group and the Company for the year ended 30 June 2016.

Nature of business

Aspen is a global supplier and manufacturer of branded and generic pharmaceutical products as well as infant nutritionals and consumer healthcare products in selected territories.

Financial results and review of operations

The financial results of the Group are set out on pages 8 to 90 and of the Company on pages 91 to 115 of the Annual Financial Statements. The segmental analysis is included on pages 15 and 16.

The consolidated earnings attributable to equity holders of the Company amounted to R4,3 billion for the year, compared with R5,2 billion for the previous year, a decrease of 17%. Headline earnings per share ("HEPS") decreased by 23% from 1 149,9 cents to 889,0 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. The following changes to the issued share capital were effected during the year:

	Number of shares (Million)	Share capital (R' billion)
Ordinary shares		
Opening balance	456,3	3,1
Capital distribution	–	(1,0)
Shares issued – share schemes	0,1	–
	456,4	2,1

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 11 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

During the year under review, the following changes took place in the directorate:

Judy Dlamini – Resigned with effect from 7 December 2015

Babalwa Ngonyama – Appointed on 1 April 2016

The names of the directors in office at the date of this report are set out on pages 92 and 93 of the Integrated Report. The Company Secretary & Group Governance Officer is Riaan Verster. His business and postal addresses appear on page 122 of this report.

In terms of the Company's Memorandum of Incorporation, John Buchanan, Maureen Manyama, David Redfern and Sindi Zilwa retire by rotation, and being eligible offer themselves for re-election. Babalwa Ngonyama has been appointed by the Board of Directors during the period and, being eligible, offers herself for 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 107 of the Integrated Report and directors' remuneration details are set out in note 22 of the Group Annual Financial Statements.

No changes have taken place in the interests of the directors in the shares of the Company since 30 June 2016 and the date of this report.

Group share trading policy

It is Group policy that all directors, their associates and employees 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.

Acquisitions

The following notable acquisitions were effected during the 2016 financial year:

Acquisition of Norgine (Pty) Limited

On 21 May 2015, Pharmacare reached an agreement to acquire 100% of the issued share capital of Norgine (Pty) Limited ("Norgine") for a consideration of EUR29 million. Norgine commercialises a portfolio of branded gastro-intestinal products in South Africa and surrounding territories.

The approval of this transaction by the South African competition authorities was obtained on 25 August 2015. This transaction completed on 30 September 2015.

Acquisition of Hydroxyprogesterone Caproate from McGuff Pharmaceuticals Inc.

AGI entered into an agreement with McGuff Pharmaceuticals Inc. for the exclusive supply of the finished dose form ("FDF") of Hydroxyprogesterone Caproate ("HPC"), a product indicated for the treatment of certain female cancers and hormonal imbalances, in the United States ("USA"). AGI acquired the related intellectual property and the approved Abbreviated New Drug Application for an upfront consideration of USD15 million. Milestone payments of between USD21 million and USD28 million are payable over a five-year supply term and are partly contingent on future sales performance.

Disposals

The following material disposals were effected during the year:

Divestment of Australian generics business and certain branded products to Strides entities

On 20 May 2015 certain of Aspen's wholly owned Australian subsidiaries (collectively "Aspen Australia") entered into an agreement with Strides (Australia) Pharma Proprietary Limited ("Strides") in terms of which Aspen Australia divested a portfolio of approximately 130 products for a consideration of AUD217 million.

The portfolio of products in this transaction comprised a generic pharmaceutical business together with certain branded pharmaceutical assets.

In a separate transaction, AGI entered into an agreement with Strides Pharma Global Private Limited in terms of which AGI divested a portfolio of six branded prescription products for a consideration of USD79 million.

Both of the above transactions completed on 31 August 2015.

Divestment of a portfolio of products in South Africa to Litha Pharma (Pty) Limited

On 9 May 2015, Pharmacare, the Company and Brimpharm, concluded a set of agreements with Litha Pharma (Pty) Limited ("Litha") (a wholly owned South African subsidiary of Endo International Plc) in terms of which Pharmacare divested a portfolio of products from its pharmaceutical division for a consideration of R1,7 billion. The portfolio of products comprises injectables and established brands. This transaction completed on 1 October 2015.

Dividend to shareholders

Taking into account the earnings and cash flow performance for the year ended 30 June 2016, existing debt service commitments, future proposed investments and funding options, notice was given that the Board declared a dividend of 248 cents per ordinary share to shareholders recorded in the share register of the Company at the close of business on 7 October 2016 (2015: capital distribution of 216 cents per share).

Directors' Report *continued*

A dividend withholding tax is applicable to shareholders who are not exempt. The Company income tax number is 9325178714. The issued share capital of the Company is 456 351 337 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.

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 2017.

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

Last day to trade <i>cum</i> dividend	Tuesday, 4 October 2016
Shares commence trading <i>ex</i> dividend	Wednesday, 5 October 2016
Record date	Friday, 7 October 2016
Payment date	Monday, 10 October 2016

Going concern

These Annual Financial Statements have been prepared on the going concern basis. Based on the Group's positive cash flows and cash balances, the availability of unutilised funding facilities and the budgets for the period to June 2017, 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 2015, the following special resolutions were passed by the Company:

- approval of remuneration for non-executive directors for the year ended 30 June 2016 and for the period 1 July 2016 to the date of the 2016 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.

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

- a general authority was granted to Pharmacare to provide direct or indirect financial assistance to a related or inter-related company to Pharmacare. This authority is valid until Pharmacare's next annual general meeting, or until revoked at a special general meeting of shareholders;
- a general authority was granted to 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 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;
- the memorandum of incorporation of Aspen Finance was amended to create an additional 99 999 900 ordinary shares in this company and thereby increase its ordinary shares to 100 000 000;
- the allotment and issue of subscription shares in Aspen Finance to the Company in accordance with the provisions of a subscription agreement concluded between Aspen Finance and the Company was approved;
- it was approved that the allotment and issue of shares by Aspen Finance to the Company result in the Company holding more than 30% of the voting power of all the shares in Aspen Finance; and
- the remuneration payable to the non-executive directors of Aspen Finance was approved.

Auditors

The Audit and Risk Committee and Board have recommended that PricewaterhouseCoopers Inc. be reappointed as auditors 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 resolution at the annual general meeting. Further details and activities of the A&R Co are contained within the A&R Co Report available online.

Investments in subsidiaries and structured entities

The financial information in respect of the Group's and the Company's interests in its material operating subsidiaries and structured entities is set out in note 24 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 29 of the Group Annual Financial Statements and note 21 of the Company Annual Financial Statements.

Borrowings

Borrowings at year end (net of cash and cash equivalents) amounted to R32,7 billion (2015: R30,0 billion) is made up as follows:

	Notes	2016 R' billion	2015 R' billion
Non-current borrowings	13	32,7	25,5
Current borrowings	13	10,9	13,2
Cash and cash equivalents	9	(10,9)	(8,7)
		32,7	30,0

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 13 of the Group Annual Financial Statements and note 12 of the Company Annual Financial Statements.

Subsequent events

Acquisition of rights to commercialise AstraZeneca's global anaesthetics portfolio

In August 2016, AGI signed an agreement with AstraZeneca AB and AstraZeneca UK ("AstraZeneca") whereby AGI agreed to acquire the exclusive rights to commercialise AstraZeneca's global (excluding the USA) anaesthetics portfolio ("the AZ Transaction"). AstraZeneca's anaesthetics portfolio comprises seven established medicines, namely Diprivan (general anaesthesia), EMLA (topical anaesthetic) and five local anaesthetics (Xylocaine/Xylocard/Xyloproct, Marcaine, Naropin, Carbocaine and Citanest) ("the AZ Portfolio"). The products in the AZ Portfolio are sold in more than 100 countries worldwide including China, Japan, Australia and Brazil. These products generated revenue of USD592 million in the year ended 31 December 2015. In terms of the concluded agreement, as consideration for the commercialisation rights, AGI will pay USD520 million and double-digit percentage royalties on sales of the AZ Portfolio. Additionally, AGI will make sales-related payments of up to USD250 million based on sales in the 24 months following completion. AGI and AstraZeneca have also signed a supply agreement whereby AstraZeneca will supply the AZ Portfolio to AGI. This supply agreement has an initial period of 10 years. This transaction became effective on 1 September 2016. Based on the terms of the agreements and Aspen's current cost of funding, Aspen's interest in the AZ Portfolio would have generated a contribution to profit before tax of approximately US\$100 million in the year ended 31 December 2015.

Acquisition from GlaxoSmithKline

On 12 September 2016 Aspen announced that various Group subsidiaries had concluded three separate transactions with GlaxoSmithKline ("GSK") companies as follows:

Directors' Report *continued*

Acquisitions of a portfolio of anaesthetic products

AGI signed an agreement with GSK whereby AGI will acquire a portfolio of anaesthetic products globally (with the exception of certain territories, primarily North America) ("the Anaesthetics Transaction"). GSK's anaesthetics portfolio comprises five established medicines, namely Ultiva (general anaesthesia) and four muscle relaxants (Nimbex, Mivacron, Tracrium and Anectine) ("the GSK Portfolio"). The products in the GSK Portfolio are sold in more than 100 countries worldwide including Japan, Brazil, Korea, Germany and Italy. In terms of the concluded agreement, as consideration for the GSK Portfolio, AGI will pay an initial amount of GBP180 million and milestone payments of up to GBP100 million based on the results of the Portfolio in the 36 months following completion. AGI and GSK have also signed a supply agreement whereby GSK will supply the products to AGI for four years. The GSK Portfolio is expected to generate revenue of approximately GBP70 million in the year ended 31 December 2016. The Anaesthetics Transaction is subject to customary closing conditions and is anticipated to complete during the third quarter of Aspen's 2017 financial year.

Exercise of option to acquire Fraxiparine and Arixtra in countries retained by GSK

As part of its acquisition of the thrombosis products Fraxiparine and Arixtra from GSK in 2014, AGI also acquired an option to acquire the same products in certain countries to which GSK retained the rights, most notably China. AGI has exercised its option to acquire Fraxiparine and Arixtra in these countries for a consideration of GBP45 million. Approximately GBP30 million of revenue is generated by the thrombosis products in China. The completion of the acquisition of the thrombosis products in the relevant territories is subject to customary closing conditions and is expected to occur during the third quarter of Aspen's 2017 financial year.

Cancellation of the collaboration with GSK in sub-Saharan Africa

Pharmacare and GSK have agreed to cancel the rights of Pharmacare to collaborate in the sub-Saharan Africa ("SSA") business of GSK ("the SSA Collaboration"). These rights were acquired as part of a basket of transactions with GSK in 2009. GSK will pay Pharmacare GBP45 million as consideration for the cancellation. The SSA Collaboration generated approximately R2,6 billion of gross revenue in the 2016 financial year. The cancellation of the SSA Collaboration is expected to become effective in the third quarter of Aspen's 2017 financial year.

If the GSK Portfolio was owned for the entire 2017 financial year, it would be expected to add approximately 75 cents per share to the normalised headline earnings per share ("NHEPS") of the Group. The net impact on NHEPS of the acquisition of the thrombosis products and the cancellation of the SSA Collaboration should not be material.

Amendment to Memorandum of Incorporation

At a general meeting of the Company held on 15 August 2016 shareholders approved a resolution to amend clauses 17 (Fraction of Shares) and 24 (Proxy Representation) of the Company's Memorandum of Incorporation – further details regarding these changes can be obtained from the Company Secretary & Group Governance Officer at rverster@aspenpharma.com.

Independent auditors' report to the shareholders of Aspen Pharmacare Holdings Limited

Report on the Annual Financial Statements

We have audited the Group and Company Annual Financial Statements of Aspen Pharmacare Holdings Limited set out on pages 8 to 115, which comprise the statements of financial position as at 30 June 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the Annual Financial Statements

The Company's directors are responsible for the preparation and fair presentation of these Group and Company Annual 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 Group and Company Annual Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these Group and Company Annual Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Group and Company Annual Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Financial Statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Annual Financial Statements.

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

Opinion

In our opinion, the Group and Company Annual Financial Statements present fairly, in all material respects, the Group and Company financial position of Aspen Pharmacare Holdings Limited as at 30 June 2016, and its Group and Company financial performance and its Group and Company cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the Group and Company financial statements for the year ended 30 June 2016, we have read the Directors' Report, the Audit & Risk Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited Group and Company financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited Group and Company financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

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 19 years.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.

Director: Tanya Rae

Registered Auditor

Johannesburg

24 October 2016

Group statement of financial position

at 30 June 2016

	Notes	2016 R'-billion	2015 R'-billion
Assets			
Non-current assets			
Intangible assets	1	49,1	40,5
Property, plant and equipment	2	9,7	7,9
Goodwill	3	6,0	5,0
Deferred tax assets	4	1,1	1,1
Contingent environmental indemnification assets	5	0,8	0,7
Other non-current assets	6	0,4	0,5
Total non-current assets		67,1	55,7
Current assets			
Inventories	7	14,4	10,8
Receivables and other current assets	8	11,8	10,3
Cash and cash equivalents	9	10,9	8,7
Total operating current assets		37,1	29,8
Assets classified as held-for-sale	10	0,1	2,9
Total current assets		37,2	32,7
Total assets		104,3	88,4
Shareholders' equity			
Retained income		28,4	24,5
Non-distributable reserves		12,1	6,6
Share capital (net of treasury shares)	11	1,9	3,0
Share-based compensation reserve		0,1	–
Total shareholders' equity		42,5	34,1
Liabilities			
Non-current liabilities			
Borrowings	13	32,7	25,5
Other non-current liabilities	14	2,5	2,1
Unfavourable and onerous contracts	15	2,2	2,1
Deferred tax liabilities	4	1,8	1,7
Contingent environmental liabilities	5	0,8	0,7
Retirement and other employee benefit obligations	16	0,7	0,4
Total non-current liabilities		40,7	32,5
Current liabilities			
Borrowings	13	10,9	13,2
Trade and other payables	17	8,3	6,8
Other current liabilities	18	1,5	1,5
Unfavourable and onerous contracts	15	0,4	0,3
Total current liabilities		21,1	21,8
Total liabilities		61,8	54,3
Total equity and liabilities		104,3	88,4

Group statement of comprehensive income

for the year ended 30 June 2016

	Notes	2016 R'-billion	2015 R'-billion
Revenue	19	35,6	36,1
Cost of sales	21	(17,7)	(18,8)
Gross profit		17,9	17,3
Selling and distribution expenses	21	(6,0)	(5,6)
Administrative expenses	21	(2,6)	(2,9)
Other operating income		1,9	0,5
Other operating expenses	21	(2,2)	(0,9)
Operating profit	20	9,0	8,4
Investment income	23	0,3	0,4
Financing costs	24	(3,2)	(2,3)
Profit before tax		6,1	6,5
Tax	25	(1,8)	(1,3)
Profit for the year		4,3	5,2
Other comprehensive income, net of tax*			
Currency translation gains		5,2	0,9
Remeasurement of retirement and other employee benefit obligations		(0,1)	–
Total comprehensive income#		9,4	6,1
Earnings per share			
Basic earnings per share (cents)		945,4	1 139,8
Diluted earnings per share (cents)		945,2	1 139,5

* 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.

Total comprehensive income is disclosed net of income from non-controlling interests which are not material.

Group statement of changes in equity

for the year ended 30 June 2016

	Non-distributable reserves					Total* R'billion
	Share capital (net of treasury shares) R'billion	Hedging reserve R'billion	Foreign currency translation reserve R'billion	Share- based compensation reserve R'billion	Retained income R'billion	
Balance at 1 July 2014	3,9	0,3	5,6	–	19,1	28,9
Total comprehensive income	–	–	0,7	–	5,4	6,1
Profit for the year	–	–	–	–	5,2	5,2
Other comprehensive income	–	–	0,7	–	0,2	0,9
Capital distribution and dividends paid	(0,9)	–	–	–	–	(0,9)
Balance at 30 June 2015	3,0	0,3	6,3	–	24,5	34,1
Total comprehensive income	–	–	5,5	–	3,9	9,4
Profit for the year	–	–	–	–	4,3	4,3
Other comprehensive income	–	–	5,5	–	(0,4)	5,1
Capital distribution and dividends paid	(1,0)	–	–	–	–	(1,0)
Treasury shares purchased	(0,1)	–	–	–	–	(0,1)
Share-based payment expenses	–	–	–	0,1	–	0,1
Balance at 30 June 2016	1,9	0,3	11,8	0,1	28,4	42,5

* Total shareholders' equity is disclosed net of income from non-controlling interests which are not material.

Group statement of cash flows

for the year ended 30 June 2016

	Notes	2016 R'-billion	2015 R'-billion
Cash flows from operating activities			
Cash generated from operations	A	6,4	8,0
Financing costs paid	B	(2,0)	(2,4)
Investment income received	C	0,3	0,4
Tax paid	D	(1,5)	(1,2)
Cash generated from operating activities		3,2	4,8
Cash flows from investing activities			
Capital expenditure – property, plant and equipment		(1,7)	(1,6)
Proceeds on the sale of property, plant and equipment		–	0,2
Capital expenditure – intangible assets		(1,1)	(0,8)
Proceeds on the sale of intangible assets		0,2	0,4
Acquisition of subsidiaries and businesses	E	(0,7)	(2,2)
Acquisition of joint venture		–	(0,1)
Acquisition of available-for-sale financial assets		–	(0,1)
Payment of deferred consideration relating to prior year business acquisitions		(0,7)	(0,5)
Proceeds on the sale of assets classified as held-for sale		5,1	3,1
Proceeds receivable on the sale of assets classified as held-for-sale		5,2	3,1
Outstanding proceeds on the sale of assets classified as held-for-sale		(0,1)	–
Cash generated from/(used in) investing activities		1,1	(1,6)
Cash flows from financing activities			
Proceeds from borrowings		46,7	12,9
Repayment of borrowings		(48,7)	(14,2)
Capital distribution and dividends paid		(1,0)	(0,9)
Treasury shares purchased		(0,1)	–
Cash used in financing activities		(3,1)	(2,2)
Cash and cash equivalents			
Movement in cash and cash equivalents before currency translation movements		1,2	1,0
Currency translation movements		(0,2)	(0,3)
Movement in cash and cash equivalents		1,0	0,7
Cash and cash equivalents at the beginning of the year		6,9	6,2
Cash and cash equivalents at the end of the year	F	7,9	6,9

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

Notes to the Group statement of cash flows

for the year ended 30 June 2016

	2016 R'-billion	2015 R'-billion
A. Cash generated from operations		
Operating profit	9,0	8,4
Amortisation of intangible assets	0,6	0,5
Depreciation of property, plant and equipment	0,6	0,5
Net impairment charges	1,6	0,5
Profit on the sale of property, plant and equipment	–	(0,1)
Profit on the sale of intangible assets	–	(0,1)
Profit on the sale of assets classified as held-for-sale	(1,6)	–
Share-based payment expense – employees	0,1	0,1
Withholding taxes	(0,1)	(0,1)
Unfavourable and onerous contracts	(0,4)	(0,3)
Other non-cash items	–	0,1
Cash operating profit	9,8	9,5
Working capital movements	(3,4)	(1,5)
Increase in inventories	(3,6)	(1,2)
Increase in trade and other receivables	–	(0,4)
Increase in trade and other payables	0,2	0,1
	6,4	8,0
B. Financing costs paid		
Interest paid	(1,8)	(1,8)
Net foreign exchange losses	–	(0,5)
Borrowing costs capitalised to property, plant and equipment	(0,2)	(0,1)
	(2,0)	(2,4)
C. Investment income received		
Interest received	0,3	0,4
	0,3	0,4
D. Tax paid		
Amounts payable at the beginning of the year	(0,6)	(0,3)
Tax charged to the statement of comprehensive income	(1,8)	(1,5)
Currency translation movements	0,2	–
Amounts owing at the end of the year	0,9	0,6
Amounts receivable at the end of the year	(0,2)	–
	(1,5)	(1,2)

E. Acquisition of subsidiaries and businesses

2016

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

Norgine

On 21 May 2015, Pharmicare reached an agreement to acquire 100% of the issued share capital of Norgine for a consideration of EUR29 million. Norgine commercialises a portfolio of branded gastro-intestinal products in South Africa and surrounding territories. The approval of this transaction by the South African Competition Authorities was obtained on 25 August 2015. This transaction completed on 30 September 2015.

Post-acquisition revenue included in the statement of comprehensive income is R0,1 billion. 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.

HPC business

AGI entered into an agreement with McGuff Pharmaceuticals Inc. for the exclusive supply of the FDF of HPC in the USA. AGI acquired the related intellectual property and the approved Abbreviated New Drug Application for an upfront consideration of USD15 million. Milestone payments are payable over the five-year supply term of between USD21 million and USD28 million and are partly contingent on future sales performance.

Post-acquisition revenue included in the statement of comprehensive income is R29,9 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.

	Norgine R'billion	HPC business R'billion	Total R'billion
Fair value of assets and liabilities acquired			
Intangible assets	0,5	0,6	1,1
Trade and other receivables	0,1	–	0,1
Trade and other payables	(0,1)	–	(0,1)
Purchase consideration paid	0,5	0,6	1,1
Deferred consideration	–	(0,4)	(0,4)
Cash outflow on acquisition	0,5	0,2	0,7

Notes to the Group statement of cash flows *continued*

for the year ended 30 June 2016

2015

Set out below is the final accounting for the following June 2015 business combinations:

Kama

On 1 May 2015, the Company acquired 65% of the issued share capital of Kama, a privately owned company incorporated in Ghana for a purchase consideration of USD4,5 million.

Florinef and Omcilon business

AGI and Aspen Brazil entered into an agreement with Bristol Myers Squibb Company for the acquisition of the rights to two corticosteroids. Florinef, in certain countries (primarily Japan, the United Kingdom and Brazil) and Omcilon in Brazil, for a consideration of USD41 million. A further contingent consideration of USD4 million was paid to Bristol Myers Squibb Company. Additional consideration of up to USD2 million is payable in the event of certain regulatory approvals being obtained but it is not possible to ascertain the likelihood of these occurring at this time. The transaction became effective on 1 November 2014.

Mono-Embolex business

AGI acquired the rights to Mono-Embolex, an injectable anticoagulant, from Novartis AG for a consideration of USD142 million effective 20 February 2015.

The goodwill arising on the acquisition of the Mono-Embolex business recognises:

- the benefit to the products of Aspen's additional promotional focus;
- the synergies from the consolidation of the acquired business with Aspen's existing anticoagulant business in Germany; and
- the synergies from the vertical integration with Aspen's existing heparin production capabilities.

The total amount of goodwill recognised is not tax deductible.

	Kama R'billion	Florinef and Omcilon business R'billion	Mono- Embolex business R'billion	Total R'billion
Fair value of assets and liabilities acquired				
Property, plant and equipment	0,1	–	–	0,1
Intangible assets	–	0,4	1,7	2,1
Deferred tax liabilities	–	–	(0,1)	(0,1)
Fair value of net assets acquired	0,1	0,4	1,6	2,1
Goodwill acquired	–	–	0,1	0,1
Cash outflow on acquisition	0,1	0,4	1,7	2,2

The initial accounting for these acquisitions, which were classified as business combinations in the prior year, were reported on a provisional basis and was finalised in the June 2016 financial year.

	2016 R'billion	2015 R'billion
F. Cash and cash equivalents		
Bank balances	7,9	7,2
Short-term bank deposits	3,0	1,5
Cash and cash equivalents per the statement of financial position	10,9	8,7
Less: bank overdrafts [^]	(3,0)	(1,8)
Cash and cash equivalents per the statement of cash flows	7,9	6,9

[^] Bank overdrafts are included within current borrowings in the statement of financial position.

Group segmental analysis

for the year ended 30 June 2016

	2016		2015		Change
	R'billion	% of total	R'billion	% of total	
Revenue					
International [®]	18,9	50	18,5	49	2%
South Africa [^]	8,1	21	8,6	23	(5)%
Asia Pacific	7,6	20	8,1	21	(6)%
SSA	3,3	9	2,8	7	18%
Total gross revenue	37,9	100	38,0	100	–
Adjustment [*]	(2,3)		(1,9)		
Total revenue	35,6		36,1		(2)%
Operating profit before amortisation					
<i>Adjusted for specific non-trading items ("EBITA")</i>					
International	5,9	62	5,2	56	14%
Operating profit [†]	4,3		4,6		(7)%
Amortisation of intangible assets	0,4		0,3		
Transaction costs	0,3		0,1		
Restructuring costs	0,3		0,1		
Profit on the sale of assets	(0,2)		(0,1)		
Impairment of assets	0,8		0,2		
South Africa	1,5	16	2,0	21	(23)%
Operating profit [†]	2,8		1,8		51%
Amortisation of intangible assets	–		0,1		
Profit on the sale of assets	(1,4)		–		
Net impairment of assets	0,1		0,1		
Asia Pacific	1,7	18	1,7	19	(6)%
Operating profit [†]	1,5		1,7		(13)%
Amortisation of intangible assets	0,2		0,1		
Profit on the sale of assets	–		(0,1)		
SSA	0,4	4	0,3	4	31%
Operating profit [†]	0,4		0,3		31%
Total EBITA	9,5	100	9,2	100	3%

[®] Excludes intersegment revenue of R2,6 billion (2015: R1,8 billion).

[^] Excludes intersegment revenue of R0,3 billion (2015: R0,1 billion).

^{*} The profit share from the SSA Collaboration has been disclosed as revenue in the statement of comprehensive income. For segmental purposes the total revenue for the SSA Collaboration has been included to provide enhanced revenue visibility in this territory.

[†] The aggregate segmental operating profit is R9,0 billion (2015: R8,4 billion).

Refer to Annexure 1 on page 116 for the comparable group segmental analysis.

Group segmental analysis continued

for the year ended 30 June 2016

	2016		2015		Change
	R'billion	% of total	R'billion	% of total	
Entity-wide disclosure – revenue⁺					
Commercial revenue by customer geography					
Commercial – Pharmaceutical	27,9	74	28,0	74	(1)%
Europe CIS	8,4	23	7,0	18	22%
Asia Pacific	6,3	17	7,0	19	(11)%
South Africa	6,2	16	7,0	18	(12)%
SSA	3,2	9	2,8	7	15%
Spanish Latin America (excluding hyperinflationary economy)	2,0	5	2,1	6	(5)%
Middle East and North Africa	0,9	2	0,6	2	51%
USA and Canada	0,9	2	0,6	2	42%
Hyperinflationary economy	–	–	0,9	2	(100)%
Commercial – Infant nutritionals	3,5	9	4,9	13	(28)%
Spanish Latin America (excluding hyperinflationary economy)	1,5	4	1,3	3	18%
Asia Pacific	1,0	3	1,0	3	6%
South Africa	0,9	2	0,7	2	11%
SSA	0,1	–	0,1	–	51%
Hyperinflationary economy	–	–	1,8	5	(100)%
Total commercial revenue	31,4	83	32,9	87	(5)%
Manufacturing revenue by geography of manufacturer					
Manufacturing revenue – FDF	2,1	5	1,5	4	37%
South Africa	0,9	2	0,5	1	69%
Europe CIS	0,7	2	0,5	2	39%
Asia Pacific	0,5	1	0,5	1	–
Manufacturing revenue – active pharmaceutical ingredients (“API”)	4,4	12	3,6	9	22%
Europe CIS	4,0	11	3,3	9	19%
South Africa	0,4	1	0,3	–	52%
Total manufacturing revenue	6,5	17	5,1	13	26%
Total gross revenue	37,9	100	38,0	100	–
Adjustment*	(2,3)		(1,9)		
Total revenue	35,6		36,1		(2)%
Summary of regions					
International	18,4	49	18,1	48	2%
South Africa	8,4	21	8,5	21	(3)%
Asia Pacific	7,8	21	8,5	23	(8)%
SSA	3,3	9	2,9	8	16%
Total gross revenue	37,9	100	38,0	100	–
Adjustment*	(2,3)		(1,9)		
Total revenue	35,6		36,1		(2)%

⁺ The entity-wide revenue disclosure format has been restated to reflect Aspen's current operating model. Refer to the accounting policies for detailed information.

* The profit share from the SSA Collaboration has been disclosed as revenue in the statement of comprehensive income. For segmental purposes the total revenue for the SSA Collaboration has been included to provide enhanced revenue visibility in this territory.

Notes to the Group Annual Financial Statements

for the year ended 30 June 2016

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

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 approximate 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.

Rights acquired to co-market or manufacture certain third-party products are capitalised to intangible assets.

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 programmes 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.

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 inflows for the Group.

Accumulated amortisation

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 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 other contractual rights are amortised on a straight-line basis over the financial years of the agreements.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

1. Intangible assets continued

Accounting policy continued

Impairment

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

The recoverable amount 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 10 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 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.

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.

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:

- the ability to use the asset efficiently. 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 will be taken into account;
- the strategy (2017 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 very 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;
- expected actions by competitors and potential competitors;
- 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.

Indefinite useful life intangible assets constitutes 82% of total intangible assets (2015: 81% of total intangible assets).

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 life cycles and maintenance programmes.

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

The estimated remaining useful life information for 2016 was as follows:

Intellectual property	Up to 17 years
Product participation and other contractual rights	Up to 43 years
Computer software	Up to 10 years

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

1. Intangible assets continued

Reconciliation of balance

	Intellectual property R'-billion	Development costs R'-billion	Product participation and other contractual rights R'-billion	Computer software R'-billion	Total R'-billion
2016					
Carrying value					
Cost	48,9	1,3	2,6	1,2	54,0
Accumulated amortisation	(2,7)	(0,2)	(0,3)	(0,4)	(3,6)
Accumulated impairment losses	(1,3)	–	–	–	(1,3)
	44,9	1,1	2,3	0,8	49,1
Movement in intangible assets					
Carrying value at the beginning of the year	36,6	1,0	2,4	0,5	40,5
Acquisition of subsidiaries and businesses	1,1	–	–	–	1,1
Additions	0,2	0,4	0,2	0,3	1,1
Disposals	(0,1)	(0,1)	–	–	(0,2)
Amortisation	(0,4)	(0,1)	–	(0,1)	(0,6)
Reclassification between categories	0,5	(0,1)	(0,4)	–	–
Impairment losses	(0,8)	(0,1)	–	–	(0,9)
Currency translation movements	7,8	0,1	0,1	0,1	8,1
	44,9	1,1	2,3	0,8	49,1
2015					
Carrying value					
Cost	39,0	1,2	2,7	0,8	43,7
Accumulated amortisation	(1,8)	(0,1)	(0,3)	(0,3)	(2,5)
Accumulated impairment losses	(0,6)	(0,1)	–	–	(0,7)
	36,6	1,0	2,4	0,5	40,5
Movement in intangible assets					
Carrying value at the beginning of the year	31,8	1,0	2,5	0,4	35,7
Acquisition of subsidiaries and businesses	2,1	–	–	–	2,1
Additions	0,2	0,4	–	0,2	0,8
Disposals	(0,1)	–	(0,1)	–	(0,2)
Amortisation	(0,3)	(0,1)	–	(0,1)	(0,5)
Reclassification between categories	0,2	(0,2)	–	–	–
Reclassification to assets classified as held-for-sale	(1,3)	–	(0,1)	–	(1,4)
Impairment losses	(0,1)	(0,1)	–	–	(0,2)
Currency translation movements	4,1	–	0,1	–	4,2
	36,6	1,0	2,4	0,5	40,5

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

	Intellectual property R'billion	Development costs R'billion	Product participation and other contractual rights R'billion	Computer software R'billion	Total R'billion
2014					
Carrying value					
Cost	33,9	1,1	2,7	0,6	38,3
Accumulated amortisation	(1,7)	(0,1)	(0,2)	(0,2)	(2,2)
Accumulated impairment losses	(0,4)	–	–	–	(0,4)
	31,8	1,0	2,5	0,4	35,7

All intangible assets were acquired from third parties, except for development costs that are both internally generated and outsourced to third-party development companies.

Indefinite useful life intangible assets

Split of balance	2016 R'billion	2015 R'billion
(1) ELIZ products	5,3	4,3
(2) Specialist global brands	4,5	3,5
(3) GSK over-the-counter ("OTC") brands	3,6	3,0
(4) GSK classic brands	2,5	2,2
(5) Novartis pharmaceutical products	0,6	0,7
(6) Merck Sharpe & Dohme ("MSD") business	8,8	7,2
(7) API business	0,6	0,5
(8) GSK Thrombosis business	10,6	8,7
Mono-Embolex business	2,1	1,7
Florinef and Omcilon business	0,7	0,5
HPC business [#]	0,6	–
Other brands	0,4	0,5
	40,3	32,8

[#] The HPC business was acquired in the current financial year. An initial review identified no impairment and a full impairment test will be performed in the financial year ending 30 June 2017.

The key brands for the above mentioned 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) Enablex and Tofranil.
- (6) Deca Durabolin, Desogestrel, Dexmethasone, Meticorten, Metrigen, Organan, Ovestin, Testosterone and Thyrax.
- (7) Heparin, Etonogestrel, Rocuronium Bromide, Desogestrel.
- (8) Arixtra and Fraxiparine.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

1. Intangible assets continued

Impairment of intangible assets

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

	Carrying value of intangible assets R' billion	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	5,3	10 years	Ranging between (3) and 3	Average of 73	0	Ranging between 9 and 11
Specialist global brands	4,5	10 years	Ranging between 1 and 7	Average of 84	0	Ranging between 8 and 10
GSK OTC brands	3,6	10 years	Ranging between 2 and 10	Average of 72	1	Ranging between 9 and 24
GSK classic brands	2,5	10 years	Ranging between 0 and 8	Average of 68	Ranging between (5) and 1	9
MSD business	8,8	10 years	Ranging between (13) and 14	Average of 67	1	12
GSK Thrombosis business	10,6	10 years	Ranging between (1) and 10	Average of 47	1	12
Mono-Embolex business	2,1	10 years	Ranging between 1 and 3	Average of 41	0	7
Florinef and Omcilon business	0,7	10 years	Ranging between (1) and 20	Average of 76	Ranging between (3) and 1	Ranging between 8 and 13

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

Management has used a forecast period greater than five years to better reflect the impact of a gradual slowing in growth over the medium term. Based on the calculations the appropriate 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.

	2016 R' billion	2015 R' billion
Impairment of intangible assets (included in other operating expenses)		
Impairment of intangible assets can be split as follows		
International segment		
(1) Brands in AGI	0,5	0,2
(2) Brands in Brazil	0,4	–
	0,9	0,2

- (1) This related to certain brands in the Specialist global brands, GSK OTC brands and GSK classic brands categories in AGI for which the outlook on revenue evolution and profitability has declined. The carrying value of intangible assets was determined based on value-in-use calculations. The key assumptions detailed above were used.
- (2) The impairment relates primarily to certain OTC products for which the outlook on profitability and revenue evolution has declined and this resulted in a write-down of the net book value of these brands.

1. Intangible assets continued

Commitments

	2016 R'-billion	2015 R'-billion
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	0,4	0,1
Authorised but not yet contracted for	0,5	0,2
	0,9	0,3

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.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

2. Property, plant and equipment continued

Accounting policy continued

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.

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 life cycles 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. In the event of contractual obligations in terms of which a termination consideration is payable to the Group, management will apply a residual value to the asset. 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 2016 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'-billion	Plant and equipment R'-billion	Other tangible assets [®] R'-billion	Capital work-in-progress R'-billion	Total R'-billion
2016					
Carrying value					
Cost	4,1	4,8	0,9	3,3	13,1
Accumulated depreciation	(0,8)	(2,0)	(0,5)	–	(3,3)
Accumulated impairment losses	(0,1)	–	–	–	(0,1)
	3,2	2,8	0,4	3,3	9,7
Movement in property, plant and equipment					
Carrying value at the beginning of the year	3,0	2,0	0,4	2,5	7,9
Additions	0,1	0,6	0,1	0,9	1,7
Borrowing costs capitalised	–	–	–	0,2	0,2*
Depreciation	(0,2)	(0,3)	(0,1)	–	(0,6)
Reclassification between categories	–	0,3	–	(0,3)	–
Currency translation movements	0,3	0,2	–	–	0,5
	3,2	2,8	0,4	3,3	9,7[#]

[®] 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 7,7% (2015: 7,1%).

[#] Included in the total are leased assets amounting to R52,2 million (2015: R28,8 million).

2. Property, plant and equipment continued

Reconciliation of balance continued

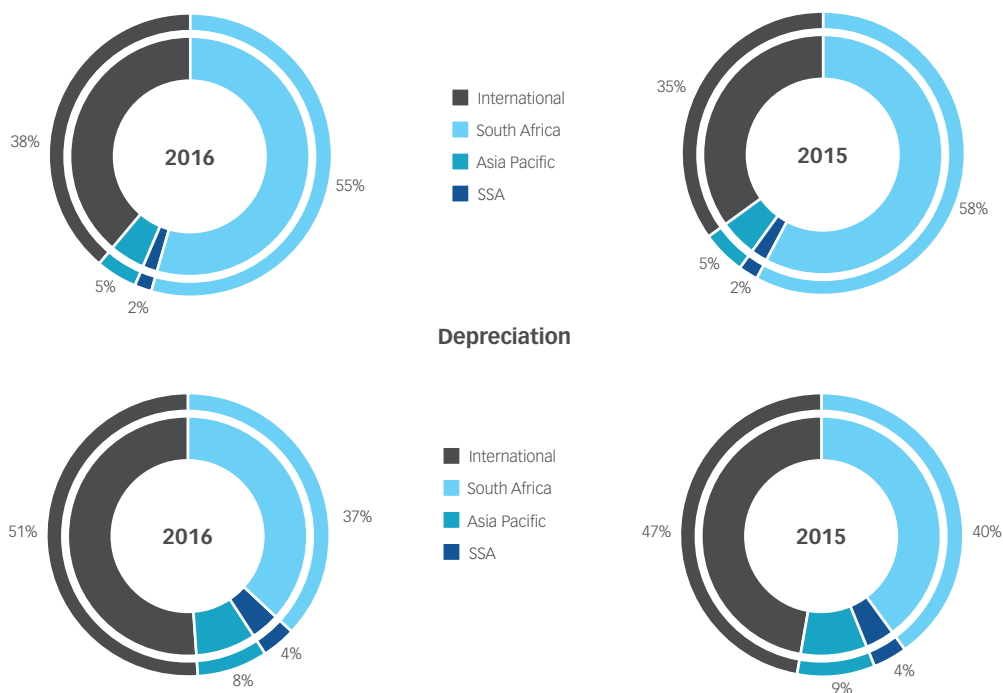
	Land and buildings R'billion	Plant and equipment R'billion	Other tangible assets® R'billion	Capital work-in-progress R'billion	Total R'billion
2015					
Carrying value					
Cost	3,7	3,7	0,7	2,5	10,6
Accumulated depreciation	(0,6)	(1,7)	(0,3)	–	(2,6)
Accumulated impairment losses	(0,1)	–	–	–	(0,1)
	3,0	2,0	0,4	2,5	7,9
Movement in property, plant and equipment					
Carrying value at the beginning of the year	3,1	2,2	0,3	1,5	7,1
Acquisition of subsidiaries and businesses	0,1	–	–	–	0,1
Additions	0,1	0,1	0,1	1,3	1,6
Borrowing costs capitalised	–	–	–	0,1	0,1*
Disposals	(0,1)	–	–	–	(0,1)
Depreciation	(0,1)	(0,3)	(0,1)	–	(0,5)
Reclassification between categories	0,1	0,2	–	(0,3)	–
Reclassification to assets classified as held-for-sale	–	(0,1)	–	–	(0,1)
Currency translation movements	(0,2)	(0,1)	0,1	(0,1)	(0,3)
	3,0	2,0	0,4	2,5	7,9#
2014					
Carrying value					
Cost	3,7	3,6	0,5	1,5	9,3
Accumulated depreciation	(0,5)	(1,4)	(0,2)	–	(2,1)
Accumulated impairment losses	(0,1)	–	–	–	(0,1)
	3,1	2,2	0,3	1,5	7,1

® 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 7,7% (2015: 7,1%).

Included in the total are leased assets amounting to R52,2 million (2015: R28,8 million).

Property, plant and equipment (carrying values)



Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

2. Property, plant and equipment continued

Commitments

	2016 R'-billion	2015 R'-billion
Capital commitments		
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	0,8	0,6
Authorised but not yet contracted for	2,1	2,4
	2,9	3,0
Operating lease commitments		
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 one year	0,1	0,1
Between one and five years	0,2	0,2
	0,3	0,3
Operating leases comprise a number of individually insignificant leases. These leasing arrangements do not impose any significant restrictions on the Group.		
Other disclosure		
Summary of land and buildings		
Land	0,8	0,7
Buildings	2,4	2,3
	3,2	3,0
The depreciation charge was classified as follows in the statement of comprehensive income		
Cost of sales	0,5	0,4
Administrative expenses	0,1	0,1
	0,6	0,5

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 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 four and 10 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.

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.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

3. Goodwill continued

Reconciliation of balance

	2016 R'-billion	2015 R'-billion
Carrying value at the beginning of the year	5,0	6,6
Acquisition of subsidiaries and businesses	–	0,2
Reclassification to assets classified as held-for-sale	–	(1,4)*
Currency translation movements	1,0	(0,4)
	6,0	5,0
<p><i>* On 20 May 2015 Aspen Australia entered into an agreement with Strides in terms of which Aspen Australia divested a portfolio of approximately 130 products for a consideration of AUD217 million. The portfolio of products in this transaction comprised a generic pharmaceutical business together with certain branded pharmaceutical assets. Goodwill amounting to AUD146 million related to the divested portfolio was reclassified to assets classified as held-for-sale.</i></p>		
Split of balance		
South African segment		
FCC	0,2	0,2
GSK transactions	0,1	0,1
South African infant nutritionals business	0,2	0,2
Asia Pacific segment		
Sigma business	4,5	3,8
Australian infant nutritionals business	0,1	0,1
International segment		
MSD business	0,3	0,3
GSK thrombosis business	0,2	0,1
Latin American infant nutritionals business	0,1	0,1
Other	0,2	–
SSA segment		
Shelys Africa Limited	0,1	0,1
	6,0	5,0

3. Goodwill continued

Impairment of goodwill

Key assumptions on the impairment tests for the goodwill balances below were as follows

	Carrying value of goodwill (R' billion)	Period covered by forecasts and budgets	Growth in turnover (% per annum)	Gross profit (% per annum)	Capital expenditure (per annum)	Growth rate (% per annum)*	Pre-tax discount rate applied to cash flows (% per annum)
Sigma business	4,5	5 years	Ranging between (2) and (5)	54	Ranging between AUD3 million and AUD12 million	3	10
MSD business	0,3	10 years	Ranging between (13) and 14	Average of 67	Nil	1	12
GSK thrombosis business	0,2	10 years	Ranging between (1) and 10	Average of 47	Nil	1	12
South African infant nutritionals business	0,2	4 years	Ranging between 12 and 18	Ranging between 55 and 58	Nil	5	17
FCC	0,2	5 years	Ranging between 3 and 57	Ranging between 38 and 53	Ranging between R57 million and R330 million	5	16

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

Management has used a forecast period greater than five years to better reflect the impact of a gradual slowing in growth over the medium term. Based on the calculations no impairments were recognised. There are no reasonable possible changes in any key assumptions which would cause the carrying value of goodwill to exceed its value-in-use.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

4. Deferred tax

Accounting policy

Recognition and measurement

Deferred tax is provided in full, using the liability method, at currently enacted or substantively enacted tax rates in operation at year end, that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Full provision is made for all temporary differences between the tax base of an asset or liability and its statement of financial position carrying value.

No deferred tax asset or liability is recognised in those circumstances, other than a business combination, where the initial recognition of an asset or liability has no impact on accounting profit or taxable income.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is charged or credited to other comprehensive income or directly to equity if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income or directly to equity respectively.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except 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 offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred tax is calculated in full on temporary differences under the liability method using a principal tax rate of 28% (2015: 28%).

4. Deferred tax continued
Reconciliation of balance

	2016 R'-billion	2015 R'-billion
Deferred tax liabilities – opening balance	1,7	1,4
Deferred tax assets – opening balance	(1,1)	(0,8)
Net deferred tax liabilities – opening balance	0,6	0,6
Statement of comprehensive income credit – included in tax	–	(0,2)
Acquisition of subsidiaries and businesses	–	0,1
Currency translation movements	0,1	0,1
	0,7	0,6
Split of balance		
Deferred tax liabilities	1,8	1,7
Deferred tax assets	(1,1)	(1,1)
	0,7	0,6
Deferred tax balance comprises		
Property, plant and equipment	0,4	0,3
Intangible assets	0,7	0,6
Investments in joint venture and subsidiaries	0,8	0,7
Inventories	(0,2)	(0,3)
Trade and other receivables	(0,1)	–
Net deferred tax assets not able to be recognised	0,2	0,1
Unfavourable and onerous contracts	(0,5)	(0,4)
Retirement and other employee benefit obligations	(0,1)	(0,2)
Trade and other payables	(0,4)	(0,3)
Tax losses	(0,4)	(0,3)
Other	0,3	0,4
	0,7	0,6
The statement of comprehensive income credit comprises		
Property, plant and equipment	0,1	0,1
Intangible assets	0,1	–
Inventories	–	(0,2)
Trade and other receivables	(0,1)	–
Net deferred tax assets not able to be recognised	0,2	–
Retirement and other employee benefit obligations	0,1	(0,1)
Tax losses	(0,1)	–
Other	(0,3)	–
	–	(0,2)

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

5. Contingent environmental liabilities and indemnification assets

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

	2016 R'billion	2015 R'billion
Carrying value at the beginning of the year	0,7	0,7
Currency translation movements	0,1	–
	0,8	0,7

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 venture

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 an interest in a joint venture which is accounted for using the equity method, after initially being recognised at cost in the statement of financial position.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the statement of financial position date. Available-for-sale financial assets are carried at fair value and changes in the fair value are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit and loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Group has transferred substantially all risks and rewards of ownership.

6. Other non-current assets *continued*

Accounting policy *continued*

At each statement of financial position date the Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. The impairment loss, being the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss, is removed from equity and recognised in the statement of comprehensive income. Impairment losses on available-for-sale financial assets recognised in the statement of comprehensive income are not reversed in subsequent financial years.

Financial assets

Enterprise development loans 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.

Split of balance

	Notes	2016 R'billion	2015 R'billion
Other non-current receivables	6.1	0,2	0,3
Investment in joint venture	6.2	0,1	0,1
Available-for-sale financial assets	6.3	0,1	0,1
		0,4	0,5
6.1 Other non-current receivables			
Summary of balance			
Employee benefits – reimbursive rights		0,2	0,2
Enterprise development loans		–	0,1
		0,2	0,3
Split of balance			
Financial instruments		–	0,1
Non-financial instruments		0,2	0,2
		0,2	0,3

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.

Enterprise development loans

Various agreements have been entered into with several Broad-Based Black Economic Empowerment 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% (2015: 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.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

6. Other non-current assets continued

6.2 Investment in joint venture

Reconciliation of balance

	2016 R' billion	2015 R' billion
Carrying value at the beginning of the year	0,1	–
Acquisition of joint venture	–	0,1
	0,1	0,1

On 31 October 2014, the Company acquired a 50% shareholding in NZNM, a producer of infant nutritionals incorporated in Auckland, New Zealand. NZNM is a private company and no quoted market price is available for its shares. In terms of a supply agreement concluded between AGI and NZNM, long-term supply of infant nutritionals for distribution by Aspen in Australia is secured. Equity accounted earnings have been recognised in the statement of comprehensive income.

6.3 Available-for-sale financial assets

Summary of balance

Unlisted equity securities	0,1	0,1
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Unlisted equity securities

AGI entered into a licence agreement with TesoRx Pharma LLC ("TesoRx"), a specialty pharmaceutical company, in terms whereof TesoRx licensed the rights to TSX-002, an innovative unmodified oral-Testosterone replacement therapy in selected international territories for a staggered consideration based upon the achievement of future milestones. Aspen USA (now Aspen Pharmacare Investments Inc.) acquired a minor shareholding in TesoRx. This asset is carried at fair value. This available-for-sale financial asset is classified as a "level 3" asset in the fair value measurement hierarchy.

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, except for raw materials of R0,6 billion in the prior year which 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.

Summary of balance

	2016 R' billion	2015 R' billion
Raw materials	3,3	2,0
Work-in-progress	5,3	4,5
Finished goods	5,5	4,0
Consumables	0,3	0,3
	14,4	10,8

Inventories



Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

7. Inventories continued Impairment of inventories

	2016 R'billion	2015 R'billion
The impairment charge (included in cost of sales) is made up as follows		
Write-down of inventories recognised as an expense	0,6	0,4
Movement in the provision for impairment	0,1	(0,1)
	0,7	0,3
Write-down of inventories by segment		
International	0,3	0,2
South Africa	0,3	0,2
	0,6	0,4
<p>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.</p>		
Reconciliation of provision for impairment		
Balance at the beginning of the year	0,7	0,7
Raised during the year	0,7	0,3
Utilised during the year	(0,6)	(0,4)
Currency translation movements	–	0,1
	0,8	0,7

Other disclosures

Inventories to the value of R1,9 billion (2015: R1,4 billion) have been pledged as security for the 10-year interest free loan from MSD. Refer to note 14.

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.

Split of balance

	Notes	2016 R'-billion	2015 R'-billion
Trade and other receivables	8.1	11,6	10,3
Current tax assets		0,2	–
		11,8	10,3

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

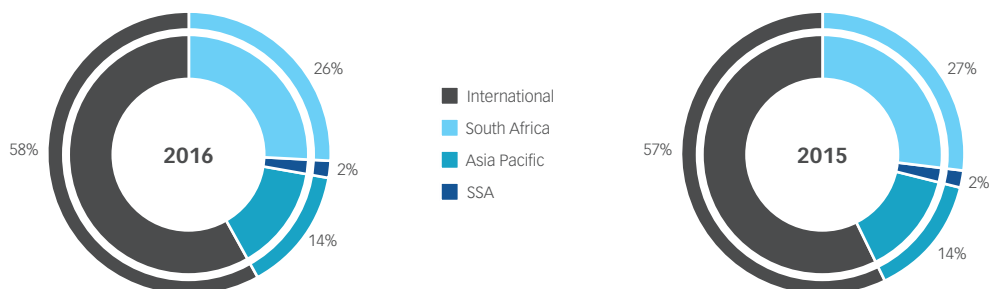
8. Receivables and other current assets continued

8.1 Trade and other receivables

Summary of balance

	2016 R'-billion	2015 R'-billion
Trade receivables	9,0	8,1
Allowance account for losses	(0,2)	(0,2)
Net trade receivables	8,8	7,9
Indirect taxes	0,8	0,7
Prepayments	0,5	0,5
Other	1,5	1,2
	11,6	10,3
Split of balance		
Financial assets	9,2	8,6
Non-financial assets	2,4	1,7
	11,6	10,3

Net trade receivables



Other disclosures

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

	2016		2015	
	Gross R'-billion	Allowance account for losses R'-billion	Gross R'-billion	Allowance account for losses R'-billion
Fully performing	6,9	–	6,8	–
Past due by 1 to 60 days	1,6	–	1,4	–
Past due by 61 to 90 days	0,2	–	0,2	–
Past due by 91 to 120 days	0,3	–	0,2	–
Past due by more than 120 days	0,4	(0,2)	0,2	(0,2)
	9,4	(0,2)	8,8	(0,2)

8. Receivables and other current assets *continued*

Other disclosures *continued*

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 R1,6 billion (2015: R1,1 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 (2015: one debtors balance) constitutes a significant concentration of credit risk to an amount of R1,6 billion (2015: R1,6 billion). This balance constitutes 17,3% (2015: 19,8%) of the total gross trade receivables, relates to a customer with a long-standing relationship with the Group where there have been no default on payments. There were no other single customers representing more than 10% of total gross trade receivables for the years ended 30 June 2016 and 2015.

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 long-standing insurable history with the Group and there have 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.

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

	2016 R'-billion	2015 R'-billion
Australian Dollar	0,8	0,9
Brazilian Real	0,2	0,2
Canadian Dollar	0,2	–
Euro	2,4	2,2
Mexican Peso	0,3	0,3
Pound Sterling	0,3	0,5
Rand	2,3	2,1
Russian Ruble	0,3	0,2
US Dollar	1,4	1,4
Other currencies	1,0	0,8
	9,2	8,6

General

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

Trade and other receivables are predominantly non-interest bearing.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

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.

Summary of balance

	2016 R'billion	2015 R'billion
Bank balances	7,9	7,2
Short-term bank deposits	3,0	1,5
	10,9	8,7

Other disclosures

Credit risk

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. All cash and cash equivalents are held with highly reputable banks.

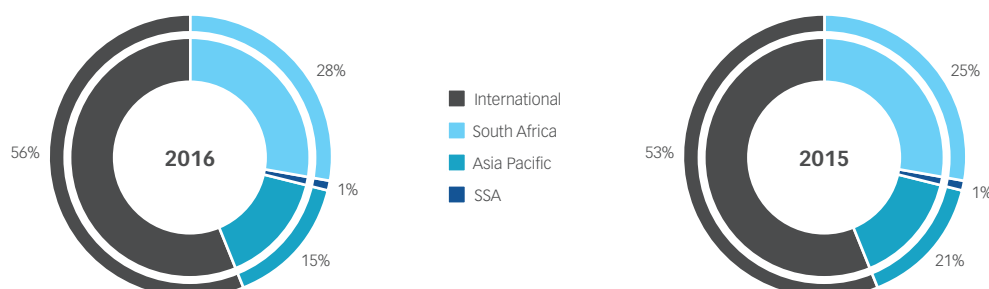
	2016 R'billion	2015 R'billion
Currency analysis of cash and cash equivalents		
Australian Dollar	1,3	1,5
Euro	2,2	1,6
Rand	3,1	2,2
US Dollar	3,5	2,0
Venezuelan Bolivares Fuertes	–	0,8
Other currencies	0,8	0,6
	10,9	8,7

General

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

The average weighted effective interest rate on interest-bearing cash and cash equivalents is 4,0% (2015: 2,3%).

Cash and cash equivalents



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.

Reconciliation of balance

	2016 R' billion	2015 R' billion
Balance at the beginning of the year	2,9	3,1
Disposals	(3,6)	(3,1)
Reclassification from assets	0,4	2,9
Property, plant and equipment	–	0,1
Goodwill	–	1,4
Intangible assets	–	1,4
Inventories	0,3	–
Trade and other receivables	0,1	–
Currency translation movements	0,4	–
	0,1	2,9
Split of balance		
Divestment of generics business and certain branded products to Strides entities	–	2,7
Divestment of a portfolio of products in South Africa to Litha	0,1	0,2
	0,1	2,9

No gains or losses on remeasurement were recognised in the statement of comprehensive income in the current financial year.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

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.

Split of balance

	Notes	2016 R'-billion	2015 R'-billion
Share capital	11.1	2,1	3,1
Treasury shares	11.2	(0,2)	(0,1)
		1,9	3,0

11.1 Share capital

Authorised

717 600 000 (2015: 717 600 000) ordinary shares of no par value

Issued

456 351 337 (2015: 456 348 537) ordinary shares of no par value

		–	–
		2,1	3,1

The movement in the balance relates to the capital distribution of R1,0 billion paid during the current financial year.

Reconciliation of shares

	Million	Million
Shares in issue at the beginning of the year	456,3	456,3
Shares issued – share schemes	0,1	–
Shares in issue at the end of the year	456,4	456,3

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.

	2016 R'-billion	2015 R'-billion
11.2 Treasury shares		
Treasury shares held		
499 746 (2015: 293 156) ordinary shares of no par value	(0,2)	(0,1)

Reconciliation of shares

	Million	Million
Number of shares at the beginning of the year	0,3	0,4
Shares purchased	0,3	0,1
Deferred incentive bonus shares exercised	(0,1)	(0,2)
Number of shares at the end of the year	0,5	0,3

12. 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) allow 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.

Notes to the Group Annual Financial Statements *continued*

for the year ended 30 June 2016

12. 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 since year end 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 vest 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.

Aspen South African Workers' Share Plan

The Workers' Share Plan was adopted by shareholders in October 2005. In terms of the plan, all South African employees employed by the Company for a full year on a permanent basis were issued shares in the Company to the value of R9 000 each over a period of three years. The shares vested immediately but were subject to a lock-up period of one year. The last tranche of this plan was issued in July 2009.

General

The maximum number of shares that can be issued in terms of these legacy schemes is limited to 45 477 945 shares or 10% of the Company's issued share capital (down from 64 741 611 shares or 14% of the Company's issued share capital), and the maximum number of shares issued to any single employee is limited to 4 800 000 shares (down from 6 474 161 shares). To date, only 1 577 134 shares have been issued in terms of these legacy schemes, representing 0,35% of the Company's issued share capital. From the date of inception of these schemes in 2001, 39 078 329 shares have been issued under the schemes comprising 8,56% of issued share capital. This constitutes an average dilution rate of less than 1% per year. In view of the fact that only a single employee still holds share appreciation rights, it is estimated that an accumulated amount over the 18-year duration of the legacy share schemes of no more than 9% of the Company's issued share capital will be issued in terms of these legacy schemes when all of these schemes terminate in the 2017 financial year.

12. Share-based compensation reserve continued

Summary of schemes continued

The Aspen South African Management Deferred Incentive Bonus Scheme

	Nature and purpose of the scheme	Determination of value awards	Vesting
Medium-term component of the scheme	<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 (2016: 97%, 2015: 99% and 2014: 98%).</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 the Share Incentive Scheme Trust 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. While the Aspen share incentive scheme trust has historically bought shares on the open market to enable Aspen to settle its future obligation to participating employees upon vesting, future share awards will be acquired and held by an unrelated intermediary for this purpose.</p>
Long-term component of the scheme	<p>During the year under review 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 ad hoc basis and at the discretion of the Remuneration & 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 & 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 2016

12. 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
Medium-term component of the scheme	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. 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 rewards 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.	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.	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.
Long-term component of the scheme	During the year under review a long-term component to the Aspen International Phantom Share Scheme has been introduced to ensure the retention of a limited number of key offshore senior executives.	The value of the awards granted to employees in terms of this component of the scheme is on an ad hoc basis and are determined at the discretion of the Remuneration & Nomination Committee.	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 Remuneration & 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.

12. 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 2015 '000 [#]	Awarded during the year '000	Released during the year '000	Lapsed/cancelled during the year '000*	Shares outstanding on 30 June 2016 '000 [#]	Fair value at award date (R)	Share price at award date (R)
156,00	Oct 2015	119	–	119	–	–	125,89	144,94
264,13	Oct 2016	93	–	3	2	88	224,50	262,50
338,44	Oct 2017	75	–	1	2	72	290,90	336,50
300,62	Oct 2018	–	117	1	2	114	365,00	286,51
326,70	May 2026	–	214	–	–	214	365,00	317,50
		287	331 [^]	124	6	488		

[#] The total number of shares were not vested at 30 June 2016 and 30 June 2015.

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

[^] During the year the Group bought 331 348 shares (2015: 64 144 shares) that will be held in the Aspen Share Incentive Scheme Trust until vesting date. These shares are accounted for as treasury shares in the Group Annual Financial Statements.

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

Aspen International Phantom Share Scheme

Award price (R)	Expiry date	Shares outstanding on 30 June 2015 '000 [#]	Awarded during the year '000	Exercised during the year '000	Lapsed/cancelled during the year '000	Shares outstanding on 30 June 2016 '000 [#]
142,20	Oct 2015	38	–	38	–	–
236,67	Oct 2016	49	–	4	–	45
326,84	Oct 2017	72	–	3	4	65
299,44	Oct 2018	–	96	–	–	96
326,70	May 2026	–	48	–	–	48
		159	144	45	4	254

[#] The total number of shares were not vested at 30 June 2016 or 30 June 2015.

The fair value was determined by reference to the share price on the grant date. The closing share price on measurement date was R362,28 (2015: R360,00).

The liability included in trade and other payables on the statement of financial position relating to the Aspen International Phantom Share Scheme is R79,6 million (2015: R34,8 million).

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

13. 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.

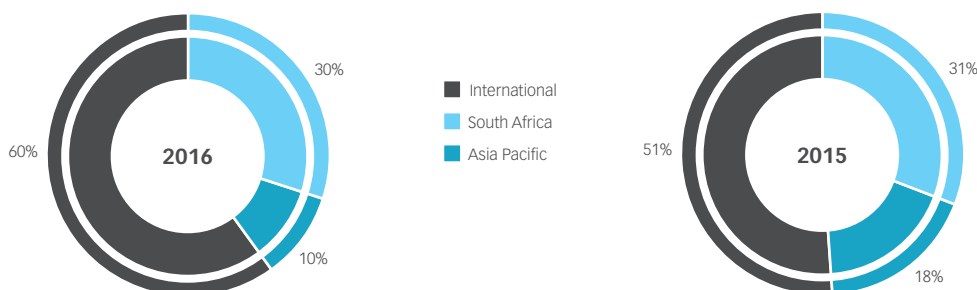
The Group presents separately current and non-current borrowings on the face of the statement of financial position. A liability is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after year end.

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.

Total borrowings



13. Borrowings continued

Currency analysis and maturity profile of total borrowings

		2016			2015		
		Within 1 year R'billion	Between 1 – 5 years R'billion	Total R'billion	Within 1 year R'billion	Between 1 – 5 years R'billion	Total R'billion
Bank overdrafts							
Rand		3,0	–	3,0	1,8	–	1,8
		3,0	–	3,0	1,8	–	1,8
Unsecured loans							
(1)	Euro syndicated term loan [#]	–	23,5	23,5	–	–	–
	Euro – other	0,2	–	0,2	–	–	–
	Euro – capital raising fees	–	(0,3)	(0,3)	–	–	–
	US Dollar syndicated term loan [#]	–	–	–	2,7	17,5	20,2
(2)	US Dollar – other	2,6	–	2,6	–	3,0	3,0
	US Dollar – capital raising fees	–	–	–	(0,1)	(0,1)	(0,2)
(3)	Australian syndicated revolving loan	–	4,5	4,5	2,8	1,0	3,8
(4)	Rand syndicated term loan [#]	–	5,0	5,0	0,3	4,1	4,4
(5)	Rand – other	5,1	–	5,1	5,7	–	5,7
		7,9	32,7	40,6	11,4	25,5	36,9
Total borrowings		10,9	32,7	43,6	13,2	25,5	38,7

[#] During the current financial year these loans were refinanced as part of a Group-wide debt raising and restructuring exercise. Local and international debt syndication processes were concluded during the last quarter of the current financial year. Most of the US Dollar debt facilities were replaced with Euro debt facilities in order for the Group's financing to be better aligned with its operating cash flows.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

13. Borrowings continued

Currency analysis and maturity profile of total borrowings continued

(1) Euro syndicated term loan

The loan comprises	Amount EUR' billion	Date obtained	Term	Interest terms
Facility A1 loan	0,8	June 2016	Two years repayable June 2018	Three-month EURIBOR + margin of 2,0% repayable quarterly
Facility B1 loan	0,3	June 2016	Three years repayable June 2019	Three-month EURIBOR + margin of 2,2% repayable quarterly
Facility C1 loan	0,3	June 2016	Four years repayable June 2020	Three-month EURIBOR + margin of 2,4% repayable quarterly

The repayment profile is set out below

	Facility A1 loan EUR' billion	Facility B1 loan EUR' billion	Facility C1 loan EUR' billion	Total EUR' billion
Year ending 30 June 2018	0,8	–	–	0,8
Year ending 30 June 2019	–	0,3	–	0,3
Year ending 30 June 2020	–	–	0,3	0,3
	0,8	0,3	0,3	1,4

(2) US Dollar – other

The loan comprises	Amount USD' billion	Date obtained	Term	Interest terms
Various loans	0,2	Various	Ranging between 1 and 3 months	Three-months LIBOR + margins ranging between +1,0% and 1,7%

(3) Australian Dollar – syndicated revolving loan

The loan comprises	Amount AUD' billion	Date obtained	Term	Interest terms
Facility G loan	0,4	June 2016	Four years repayable June 2020	Three-month BBSY + margin of 2,0% repayable quarterly

(4) Rand syndicated term loan

The loan comprises	Amount R' billion	Date obtained	Term	Interest terms
Facility D loan – Pharmicare	3,0	June 2016	Three years repayable June 2019	Three-month JIBAR + margin of 1,9% repayable quarterly
Facility F loan – Pharmicare	1,8	June 2016	Five years repayable June 2021	Three-month JIBAR + margin of 2,2% repayable quarterly
Facility F loan – Aspen Holdings	0,2	June 2016	Five years repayable June 2021	Three-month JIBAR + margin of 2,2% repayable quarterly

13. Borrowings continued

Currency analysis and maturity profile of total borrowings continued

(4) Rand syndicated term loan continued

The repayment profile is set out below

	Facility D loan Pharmacare R'-billion	Facility F loan Pharmacare R'-billion	Facility F loan Aspen Holdings R'-billion	Total R'-billion
Year ending 30 June 2019	3,0	–	–	3,0
Year ending 30 June 2021	–	1,8	0,2	2,0
	3,0	1,8	0,2	5,0

(5) Rand – other

The loan comprises	Amount R'-billion	Date obtained	Term	Interest terms
Various term loans	1,4	Various	Ranging between 3 and 6 months	SAFEX + margins ranging between 1,1% and 1,4%
Various term loans	1,7	Various	Ranging between 3 and 6 months	Three-month JIBAR + margins ranging between 1,0% and 2,2% repayable quarterly
Various overnight loans	1,5	Various	On demand	Overnight call rates ranging between 7,7% and 9,0%
Overnight loans	0,5	Various	On demand	South African prime overdraft rate less rates ranging between 1,0% and 2,7%

Definitions

JIBAR – Johannesburg Inter-bank Acceptance Rate

LIBOR – London Inter-bank Offer Rate

SAFEX – South African futures exchange

BBSY – Bank Bill Swap Yield

EURIBOR – Euro Inter-bank Offer Rate

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

13. Borrowings continued

Interest rate profile of total borrowings

	2016			2015		
	Total R' billion	Interest rate %	Average effective interest rate %	Total R' billion	Interest rate %	Average effective interest rate %
Bank overdrafts – floating rate (linked to South African prime overdraft rate)	3,0	Rates ranging between prime and prime less 3,0%	6,9	1,8	Rates ranging between prime and prime less 1,0%	6,2
Unsecured loans – floating rate	40,6			36,9		
Linked to three-month LIBOR	2,6	+ margins ranging between 1,0% and 1,7%	2,1	23,2	+ margins ranging between 2,2% and 2,5%	2,7
Linked to three-month BBSY	4,5	+ margin of 2,0%	4,8	3,8	+ margins ranging between 2,0% and 2,5%	4,8
Linked to SAFEX	1,4	+ margins ranging between 1,1% and 1,4%	7,6	1,5	+ margin of 1,4%	6,9
Linked to three-month JIBAR	6,7	+ margins ranging between 1,0% and 2,2%	8,4	5,6	+ margins ranging between 1,3% and 2,1%	7,8
Linked to South African prime overdraft rate	0,5	Less margins ranging between 1,0% and 2,7%	7,0	0,7	Less margins ranging between 3,0% and 3,1%	6,2
Linked to overnight call rate	1,5	Overnight call rates ranging between 7,7% and 9,0%	7,4	2,3	Overnight call	6,6
Linked to three-month EURIBOR	23,7	+ margins ranging between 1,0% and 2,4%	2,1	–	–	–
Capital raising fees [#]	(0,3)	–	–	(0,2)	–	–
Total borrowings	43,6			38,7		

[#] Capital raising fees relate to the unsecured loans above but have been shown separately as they are non-interest bearing.

Other disclosures

Default and breaches

There were no defaults or breaches of the contractual terms of the borrowings during the year.

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

- South African facilities of R3,4 billion;
- a Euro denominated facility of EUR0,9 billion; and
- an Australian Dollar denominated facility of AUD45,0 million.

These facilities may only be drawn to the extent that any banking covenants are not likely to be breached for the ensuing 12-month period. All facilities negotiated are reviewed annually.

14. 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 deferred revenue for specific capital expenditure projects as well as the rights for the commercialisation of selected Aspen products to GSK. Deferred revenue is recognised at the fair value of the consideration received in advance. Deferred revenue from each completed capital expenditure project will be released to the statement of comprehensive income in line with the average amortisation of that project so as to approximately match the useful life of the underlying assets. The commercialisation rights will be released to the statement of comprehensive income over the term of the contract. 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 resource 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	2016 R' billion	2015 R' billion
Other non-current financial liabilities	14.1	2,3	1,9
Deferred revenue	14.2	0,1	0,1
Environmental liabilities	14.3	0,1	0,1
		2,5	2,1

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

14. Other non-current liabilities continued

14.1 Other non-current financial liabilities

Reconciliation of balance

	2016 R'-billion	2015 R'-billion
Balance at the beginning of the year	2,1	2,0
Acquisition of HPC business	0,2	–
Repayments	(0,2)	(0,2)
Notional interest	0,2	0,2
Currency translation movements	0,2	0,1
	2,5	2,1
Split of balance		
Non-current	2,3	1,9
Current	0,2	0,2
	2,5	2,1
Split of balance		
(1) 10-year interest free loan	1,7	1,4
(2) Deferred consideration payable to MSD	0,6	0,7
(3) Deferred consideration payable to McGuff Pharmaceuticals Inc.	0,2	–
	2,5	2,1

(1) 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.

(2) 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 R0,2 billion (2015: R0,2 billion) has been repaid.

The repayment profile is set out below

	2016 USD'million	2015 USD'million
Year ended 30 June 2016	–	13,5
Year ending 30 June 2017	13,5	13,5
Year ending 30 June 2018	13,5	13,5
Year ending 30 June 2019	13,5	13,5
	40,5	54,0

(3) As part of the HPC business combination in the current year, AGI concluded a transaction with McGuff Pharmaceuticals Inc. in terms of which they agreed to pay milestone payments for the HPC business. The amount is partially dependent on future sales performance. The discount rate used in valuing the deferred consideration was 3%.

The repayment profile is set out below

	2016 USD'million	2015 USD'million
Year ending 30 June 2017	4,0	–
Year ending 30 June 2018	5,0	–
Year ending 30 June 2019	3,0	–
Year ending 30 June 2020	3,0	–
Year ending 30 June 2021	1,0	–
	16,0	–

14. Other non-current liabilities *continued*

14.2 Deferred revenue

Reconciliation of balance

	2016 R' billion	2015 R' billion
Balance at the beginning of the year	0,4	0,1
Amounts receivable for capital expenditure projects	–	0,3
Currency translation movements	0,1	–
	0,5	0,4
Split of balance		
Non-current	0,1	0,1
Current	0,4	0,3
	0,5	0,4
Split of balance		
Capital expenditure projects – Aspen Oss	0,4	0,3
Rights for the commercialisation of selected Aspen products payable to GSK	0,1	0,1
	0,5	0,4

14.3 Environmental liabilities

Reconciliation of balance

	2016 R' billion	2015 R' billion
Balance at the beginning and end of the year	0,1	0,1

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

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

15. 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 ANDB have been classified as either unfavourable or onerous. These liabilities will be released to revenue over the term of the contracts in terms of *IAS 18 – Revenue*.

Reconciliation of balance

	2016 R'billion	2015 R'billion
Balance at the beginning of the year	2,4	3,0
Release to the statement of comprehensive income	(0,4)	(0,3)
Currency translation movements	0,6	(0,3)
	2,6	2,4
Split of balance		
Non-current	2,2	2,1
Current	0,4	0,3
	2,6	2,4

	Carrying value (R'billion)	Period covered	Market operating margin (%)	Related capital expenditure per annum	Discount rate (%)
Key assumptions					
Onerous and unfavourable contracts Aspen Oss	2,4	10 years	11%	Between EUR4 million and EUR45 million	10%
Unfavourable contracts ANDB	0,2	5 years	11%	–	10%

16. 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 – pension

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.

Defined benefit plans – pension

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.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

16. Retirement and other employee benefits 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 R0,3 billion for the current financial year (2015: R0,3 billion). 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 to funds set up in South Africa, Germany, the Philippines, Mexico, France, Tanzania and Kenya while no contributions are made to 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 dependent 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 2016	Full	Projected unit credit	1,4% (2015: 2,3%)	N/A	2,0% (2015: 2,5%)
Germany	June 2016	Full	Projected unit credit	1,8% (2015: 2,6%)	N/A	3,0% (2015: 3,0%)
Kenya	June 2016	Full	Projected unit credit	14,3% (2015: 13,2%)	N/A	12,0% (2015: 12,0%)
Mexico	June 2016	Full	Projected unit credit	6,6% (2015: 7,4%)	N/A	5,0% (2015: 5,0%)
The Philippines	June 2016	Full	Projected unit credit	4,8% (2015: 5,6%)	N/A	7,0% (2015: 6,0%)
South Africa	June 2016	Full	Projected unit credit	9,9% (2015: 9,5%)	8,8% (2015: 8,4%)	N/A
Tanzania	June 2016	Full	Projected unit credit	18,9% (2015: 16,7%)	N/A	9,0% (2015: 7,1%)

These plans have been assessed by independent 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.

16. Retirement and other employee benefits continued

	2016 R'-billion	2015 R'-billion
Amounts recognised in the statement of financial position		
Present value of retirement and other employee benefit obligations	0,7*	0,4*
Deferred tax	(0,1)	(0,1)
	0,6	0,3
Retirement and other employee benefit obligations comprise		
Unfunded present value of retirement and other employee benefit obligations	0,8	0,5
Fair value of plan assets	(0,1)	(0,1)
	0,7	0,4
The movement in the liability recognised in the statement of financial position is as follows		
At the beginning of the year	0,4	0,6
Current service costs (included in staff costs – cost of sales)	0,1	–
Remeasurements recognised in other comprehensive income – actuarial losses from changes in financial assumptions	0,1	–
Currency translation movements	0,2	(0,1)
	0,8	0,5

* Included in this amount is an obligation of R0,2 billion (2015: R0,2 billion) for which the Group has a reimbursive right. Refer to note 6.1 for more detail.

Fair value of plan assets

The fair value of plan assets of R0,1 billion (2015: R0,1 billion) are invested in European government bonds.

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.

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.

	2016 R'-billion	2015 R'-billion	2014 R'-billion	2013 R'-billion	2012 R'-billion
Five-year summary					
At 30 June					
Present value of retirement and other employee benefit obligations	0,8	0,5	0,6	0,2	0,2
Fair value of plan assets	(0,1)	(0,1)	(0,1)	(0,1)	(0,1)
Deficit	0,7	0,4	0,5	0,1	0,1

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.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

17. 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.

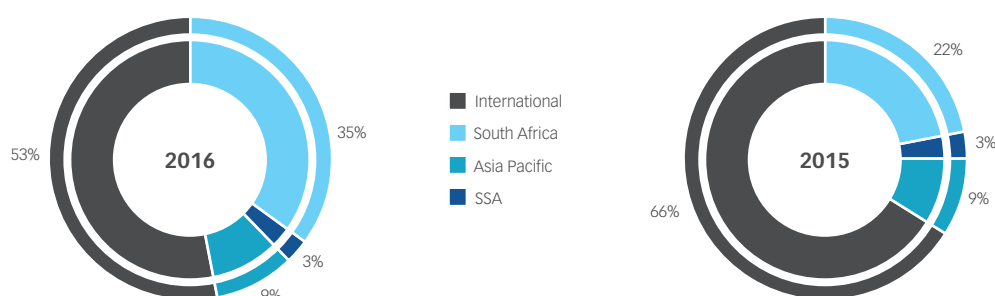
Financial liabilities

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

	2016 R'-billion	2015 R'-billion
Trade payables	3,5	3,4
Accrued expenses	1,7	1,1
Indirect taxes	0,3	0,3
Leave pay	0,4	0,3
Bonuses	0,2	0,2
HPC business	0,2	–
Other	2,0	1,5
	8,3	6,8
Split of balance		
Financial liabilities	6,2	5,1
Non-financial liabilities	2,1	1,7
	8,3	6,8

Trade payables



Other disclosures

	2016 R'-billion	2015 R'-billion
Currency analysis of trade and other payables (financial instruments only)		
Australian Dollar	0,6	0,6
Euro	2,1	1,3
Mexican Peso	0,1	0,3
Pound Sterling	0,2	0,1
Rand	1,4	0,9
US Dollar	1,4	1,6
Other currencies	0,4	0,3
	6,2	5,1

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

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

18. 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.

Split of balance

	Notes	2016 R' billion	2015 R' billion
Current tax liabilities		0,9	0,6
Deferred revenue	14.2	0,4	0,3
Other current financial liabilities	14.1	0,2	0,2
Deferred payables	18.1	–	0,4
		1,5	1,5

18.1 Deferred payables

Reconciliation of balance

	2016 R' billion	2015 R' billion
Balance at the beginning of the year	0,4	0,7
Repayments	(0,5)	(0,4)
Currency translation movements	0,1	0,1
	–	0,4

As part of the GSK thrombosis business combination in the prior year, AGI concluded a transaction with MSD by which they agreed to pay a deferred consideration for Arixtra. The total amount was repaid in the current year.

Notes to the Group Annual Financial Statements continued

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19. 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, royalties and licensing fees. 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

	2016 R' billion	2015 R' billion
Sale of goods	35,0	35,5
Royalties	–	0,1
Co-marketing fees	0,2	0,2
Unfavourable and onerous contracts release	0,4	0,3
	35,6	36,1

20. Operating profit

Operating profit has been arrived at after crediting

Profit on the sale of intangible assets	–	0,1
Profit on the sale of property, plant and equipment	–	0,1
Profit on the sale of assets classified as held-for-sale	1,6	–

After charging

Auditors' remuneration	0,1	0,1
Net impairment charges	1,6	0,5
Impairment of intangible assets (included in other operating expenses)	0,9	0,2
Impairment charge – inventories (included in cost of sales)	0,7	0,3
Repairs and maintenance expenditure on property, plant and equipment	0,5	0,5
Operating lease rentals – land and buildings	0,1	0,1
Restructuring costs	0,3	0,1
Transaction costs	0,3	0,1

21. Expenses by nature

	2016 R'billion	2015 R'billion
Cost of material and production related variances	10,4	12,8
Personnel costs and other staff related costs	7,6	6,6
Depreciation and amortisation	1,2	1,0
Advertising and marketing expenses	1,2	1,0
Transport and warehousing costs	1,1	1,4
Impairment charges	1,6	0,5
Legal and consulting fees	0,9	0,8
Property costs	0,5	0,2
Repairs and maintenance expenditure on property, plant and equipment	0,5	0,5
Transaction costs	0,3	0,1
Restructuring costs	0,3	0,1
Regulatory expenses	0,3	0,2
Other	2,6	3,0
	28,5	28,2
Classified as		
Cost of sales	17,7	18,8
Selling and distribution expenses	6,0	5,6
Administrative expenses	2,6	2,9
Other operating expenses	2,2	0,9
	28,5	28,2

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

22. Directors and employees

Accounting policy

Directors' and prescribed officers' emoluments

The directors' and prescribed officers' emoluments represent the emoluments 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.

	2016 R'billion	2015 R'billion
Staff costs		
Wages and salaries	6,3	5,2
Defined contribution plan expenses	0,3	0,3
Defined benefit plan expenses	0,1	–
Share-based payment expense	0,1	0,1
Other company contributions	0,5	0,3
	7,3	5,9
Amount included in cost of sales	4,0	3,6
Wages and salaries	3,5	3,2
Benefits	0,5	0,4
Amount included in selling and distribution expenses	2,1	1,3
Wages and salaries	1,8	1,1
Benefits	0,3	0,2
Amount included in administrative expenses	1,2	1,0
Wages and salaries	1,0	0,9
Benefits	0,2	0,1
Total number of employees at year end	10 513	10 331
Full-time employees	9 184	9 089
Part-time employees	1 329	1 242

22. Directors and employees continued

	2016 R'million	2015 R'million
Directors' emoluments		
Non-executive directors – fees		
Roy Andersen	0,6	0,6
Rafique Bagus	–	0,2
John Buchanan	0,8	0,7
Judy Dlamini*	0,4	0,9
Kuseni Dlamini	0,7	0,3
Abbas Hussain	–	0,1
Maureen Manyama	0,5	0,3
Chris Mortimer	0,3	0,3
Babalwa Ngonyama#	0,1	–
David Redfern	0,3	0,1
Sindi Zilwa	0,5	0,5
Total (A)	4,2	4,0
Executive directors		
Gus Attridge	14,1	13,4
Remuneration	5,2	5,2
Retirement and medical aid benefits	0,9	0,6
Performance bonus	5,8	5,7
Share-based payment expense	2,2	1,9
Stephen Saad	17,5	16,4
Remuneration	6,4	6,3
Retirement and medical aid benefits	1,1	0,7
Performance bonus	7,4	7,0
Share-based payment expense	2,6	2,4
Total (B)	31,6	29,8
Total emoluments (A+B)	35,8	33,8
Less: paid by subsidiary companies (C)	–	(6,9)
Total emoluments paid by the Company (A+B+C)	35,8	26,9

*Judy Dlamini resigned from the Board with effect from 7 December 2015.

Babalwa Ngonyama was appointed to the Board with effect from 1 April 2016.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

23. 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.

	2016 R'billion	2015 R'billion
Interest on bank balances and short-term deposits	0,3	0,4

24. 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.

	2016 R'billion	2015 R'billion
Interest paid	1,8	1,8
Non-current borrowings	0,8	0,8
Bank overdrafts and current borrowings	1,0	1,0
Capital raising fees released – transactions	0,3	0,1
Notional interest on financial instruments	0,2	0,2
Net foreign exchange losses	–	0,5
Monetary adjustments and currency devaluations relating to hyperinflationary economies	0,9	(0,3)
	3,2	2,3

Financing costs above exclude financing costs of R0,2 billion which have been capitalised during 2016 to capital work-in-progress (2015: R0,1 billion). Refer to note 2 for detail.

25. Tax

Accounting policy

The current and deferred tax charge is computed on the basis of reported income before tax for the year under the laws and regulations of the countries in which the respective Group companies are registered, using substantively enacted tax rates in the countries where the Group companies operate and generate taxable income. Tax comprises current tax, deferred tax, capital gains tax and dividend and withholding taxes.

Current tax

The current tax charge is the expected tax payable on taxable income for the year and any adjustments to tax payable in respect of prior years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Current tax is charged or credited to other comprehensive income or directly to equity if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income or directly to equity respectively.

Dividend and withholding taxes

Dividend withholding tax is payable by Aspen Holdings' shareholders on any dividend that is paid by the Company, at the applicable rate. The amount is not attributable to the Company and is therefore not reflected in taxes paid by the Company. If a withholding tax is payable by any Company in the Group, the withholding tax is recognised as part of the tax charge in the statement of comprehensive income.

Significant judgements and estimates

Recognition of deferred tax assets in respect of assessed losses

Deferred tax assets have been recognised for the carry forward amount of unused tax losses relating to the Group's operations where, among other things, tax losses can be carried forward indefinitely and there is evidence that it is probable that sufficient taxable profits will be available in the future to utilise all tax losses carried forward. In determining whether a business will have future taxable profits to utilise against assessed losses, management will take into account budgets as well as updated forecasts for future periods. Deferred tax assets are not recognised for carry forward of unused tax losses when it cannot be demonstrated that it is probable that taxable profits will be available against which the deductible temporary difference can be utilised.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

25. Tax continued

Summary of balance

	2016 R'-billion	2015 R'-billion
South African tax	0,9	0,4
Foreign tax	0,9	1,1
Deferred tax	–	(0,2)
Total tax charge	1,8	1,3

The Group submits its tax returns and advance payments as they fall due and, other than a few returns that only become due for submission in December 2016, all of the 2015 tax returns have been submitted by the relevant Group company.

Disputed income tax matter

The Aspen Group has been subject to an international tax audit by the South African Revenue Service and Aspen Pharmicare Holdings Limited has received a revised assessment in relation to the 2011 fiscal year as a consequence of this audit. Aspen has disputed the assessment and there has been no change in the status thereof. Aspen believes it has appropriately dealt with its related party transactions and that this position is supported by Aspen's legal and tax advisers.

	%	%
Reconciliation of effective tax rate		
South African current tax rate	28,0	28,0
Increase in rate due to		
Disallowed expenditure	9,7	1,4
Tax losses not recognised	2,6	0,5
Withholding and other taxes	1,5	1,1
Other	0,4	1,3
Decrease in rate due to		
Prior year adjustments	(0,5)	(0,8)
Different rates of tax	(10,2)	(10,7)
Exempt income	(2,2)	(0,3)
Effective tax rate	29,3	20,5

The Group has tax losses which mainly arose in Argentina, Brazil, Costa Rica and Mexico of R0,6 billion (2015: R0,2 billion) 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.

26. 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 has 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 2 of 2013.

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.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

26. Earnings per share continued

	2016 R' billion	Restated 2015 R' billion
Reconciliation of earnings		
Profit attributable to equity holders of the parent	4,3	5,2
Profit on the sale of property, plant and equipment	–	(0,1)
Impairment of intangible assets	0,9	0,2
Profit on the sale of intangible assets	–	(0,1)
Profit on the sale of assets classified as held-for-sale	(1,2)	–
Headline earnings	4,0	5,2
Restructuring costs	0,3	0,1
Transaction costs	0,6	0,2
Net monetary adjustments and currency devaluations relating to hyperinflationary economies	0,9	(0,3)
Normalised headline earnings*	5,8	5,2

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

	Million	Million
Weighted average number of shares in issue	456,4	456,3
Adjustment for share options and share appreciation rights	0,1	0,2
Weighted average number of shares for diluted earnings per share	456,5	456,5

	Cents	Restated Cents
Performance per share		
Basic earnings per share	945,4	1 139,8
Headline earnings per share	889,0	1 149,9
Normalised headline earnings per share*	1 263,7	1 145,8
Diluted earnings per share	945,2	1 139,5
Diluted headline earnings per share	888,8	1 149,7
Diluted normalised headline earnings per share*	1 263,4	1 145,6

* The definition of normalised headline earnings was amended in terms of a change in accounting policy, refer to the accounting policy on page 86 for detail. Normalised headline earnings per share and diluted normalised earnings per share for the year ended 30 June 2015 have been restated from the previously reported values of 1 219,1 cents and 1 218,9 cents respectively.

Refer to Annexure 1 on page 116 for comparable earnings.

27. Cash dividend and capital distribution

Accounting policy

Capital distributions to ordinary shareholders and ordinary dividends are only accounted for in the Annual Financial Statements in the year in which the capital distributions or dividends are approved by the Aspen Board of Directors.

A dividend of 248 cents per share was declared after year end (2015: capital distribution of 216 cents per share).

The dividend will be accounted for in the statement of changes in equity for the year ending 30 June 2017, in accordance with IAS 10 – Events after Balance Sheet Date. The capital distribution of 216 cents was declared after the year ended 30 June 2015. This capital distribution has been accounted for in the statement of changes in equity for the year ended 30 June 2016 in accordance with IAS 10 – Events after Balance Sheet Date.

28. Financial risk management

28.1 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 A&R Co 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 identifying, 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 Aspen Finance.

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.

28.2 Financial instruments by category

The carrying value of financial instruments by category is as follows

	Loans and receivables R'billion	At fair value through other com- prehensive income R'billion	At amortised cost R'billion	Total R'billion
June 2016				
Financial assets				
Available-for-sale financial assets	–	0,1	–	0,1
Trade and other receivables	9,2	–	–	9,2
Cash and cash equivalents	10,9	–	–	10,9
Total financial assets	20,1	0,1	–	20,2
Financial liabilities				
Unsecured loans	–	–	40,6	40,6
Bank overdrafts	–	–	3,0	3,0
Other financial liabilities	–	–	2,5	2,5
Trade and other payables	–	–	6,2	6,2
Total financial liabilities	–	–	52,3	52,3

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

28. Financial risk management continued

28.2 Financial instruments by category continued

	Loans and receivables R'-billion	At fair value through other com- prehensive income R'-billion	At amortised cost R'-billion	Total R'-billion
June 2015				
Financial assets				
Available-for-sale financial assets	–	0,1	–	0,1
Other non-current receivables	0,1	–	–	0,1
Trade and other receivables	8,6	–	–	8,6
Cash and cash equivalents	8,7	–	–	8,7
Total financial assets	17,4	0,1	–	17,5
Financial liabilities				
Unsecured loans	–	–	36,9	36,9
Bank overdrafts	–	–	1,8	1,8
Deferred payables	–	–	0,4	0,4
Other financial liabilities	–	–	2,1	2,1
Trade and other payables	–	–	5,1	5,1
Total financial liabilities	–	–	46,3	46,3

28.3 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.

28.4 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 hedging instruments.

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 2016 and 2015 the Group had forward exchange contracts denominated in various currencies in respect of firm commitments and no hedge accounting was applied.

28. Financial risk management continued

28.4 Foreign currency risk continued

The tables below reflect the fair values of outstanding forward exchange contracts at year end

	Foreign amount billion	Forward cover value R'billion	Marked to market value R'billion
June 2016			
Imports*			
Australian Dollar	–#	0,4	0,4
Euro	–#	0,6	0,6
US Dollar	0,1	1,8	1,8
		2,8	2,8
Exports*			
Pound Sterling	–#	(0,2)	(0,2)
Russian Ruble	(0,6)	(0,1)	(0,1)
		(0,3)	(0,3)
June 2015			
Imports*			
Euro	0,1	2,4	2,4
Pound Sterling	–#	0,1	0,1
Russian Ruble	0,4	0,1	0,1
US Dollar	–#	0,6	0,6
Other	–#	0,1	0,1
		3,3	3,3
Exports*			
Australian Dollar	–#	(0,2)	(0,2)
Other	–#	(0,1)	(0,1)
		(0,3)	(0,3)

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

Foreign amounts are less than 0,1 billion.

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 2016

28. Financial risk management continued

28.4 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	
	2016 R' billion	2015 R' billion
Within three months	1,7	2,5
Between three and six months	0,7	0,4
Between six and 12 months	0,1	0,1
	2,5	3,0

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, Kenyan Shilling, Pound Sterling, Australian Dollar and Tanzanian Shilling. 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 R52 billion at 30 June 2016 (2015: R0,9 billion).

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 2015.

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	
		2016 R' billion	2015 R' billion
Denominated: Functional currency			
Rand:US Dollar	10	0,2	0,1
Rand:Euro	10	0,1	0,1
US Dollar:Euro	10	0,1	(0,2)
Mexican Peso:US Dollar	10	-	0,1
Venezuelan Bolivares Fuertes:US Dollar	10	-	(0,1)
Other exposures	10	(0,2)	0,1
		0,2	0,1

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.

28. Financial risk management continued

28.4 Foreign currency risk continued

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

	Spot rate		Average rate	
	2016	2015	2016	2015
Australian Dollar	11,00	9,38	10,61	9,48
Euro	16,36	13,54	16,11	13,61
Mexican Peso	0,80	0,78	0,84	0,80
Pound Sterling	19,58	19,08	21,38	18,01
Russian Ruble	0,23	0,22	0,22	0,23
US Dollar	14,77	12,15	14,58	11,47
Venezuelan Bolivar Fuertes	0,02	1,93	0,02	1,93

28.5 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	
	2016 R' billion	2015 R' billion
Variable rate instruments		
Other non-current receivables	–	(0,1)
Cash and cash equivalents	(7,8)	(5,8)
Borrowings	43,9	23,8
Variable rate exposure	36,1	17,9
Fixed rate instruments		
Cash and cash equivalents	(0,1)	(0,4)
Borrowings	–	15,2
Fixed rate exposure	(0,1)	14,8

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

28. Financial risk management continued

28.5 Interest rate risk continued

Interest rate swaps

The following pay fixed rate, receive floating rate interest rate derivative contracts were in place

	Outstanding contract amount R' billion	Fixed interest rate %	Expiry date
Rand syndicated term loan – Facility C loan – Pharmicare	0,8	6,3% (three-month JIBAR)	29 September 2017
Rand syndicated term loan – Facility B loan – Aspen Holdings	0,3	6,3% (three-month JIBAR)	29 September 2017

The interest rate swaps were designated in a cash flow hedge relationship up to 30 June 2016 when the loans were refinanced. The nature of the risks that were hedged (interest rate risk) was the variability of the quarterly interest payments on the hedged loan, attributable to movements in the three-month JIBAR rate. Gains and losses recognised in the hedging reserve in equity at 30 June 2016 were released to the statement of comprehensive income as interest (finance costs) as the hedged item was 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 2016 are between one and five years.

Sensitivity analysis

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

	2016 R' billion	2015 R' billion
Three-month LIBOR	0,2	0,1
Three-month JIBAR, SAFEX and South African prime overdraft rate	0,1	0,1
	0,3	0,2

A decrease of 100 basis points will have an equal and opposite effect on profit before tax.

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 yield curve at 30 June 2016 would result in a decrease of R10,8 million (2015: R31,4 million) in the fair value of the derivative liabilities in the statement of comprehensive income. A decrease of 1% in the yield curve will have an equal and opposite effect on the derivative liabilities in the statement of comprehensive income.

28. Financial risk management *continued*

28.6 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 effectively managing its working capital, capital expenditure and cash flows. 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 13 for detail.

The Group 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				
	On demand R'billion	< One year R'billion	One – five years R'billion	> Five years R'billion	Total R'billion
June 2016					
Financial assets					
Available-for-sale financial assets	–	–	–	0,1	0,1
Trade and other receivables (financial instruments only)	–	9,2	–	–	9,2
Forward exchange contracts (gross settled)*	–	–	–	–	–
Gross cash inflows	–	2,8	–	–	2,8
Gross cash outflows	–	(2,8)	–	–	(2,8)
Cash and cash equivalents	7,9	3,0	–	–	10,9
Total financial assets	7,9	12,2	–	0,1	20,2
Financial liabilities					
Unsecured loans	(2,2)	(7,0)	(35,7)	–	(44,9)
Bank overdrafts	(3,0)	–	–	–	(3,0)
Other non-current and current liabilities	–	(0,2)	(0,4)	–	(0,6)
Trade and other payables (financial instruments only)	–	(6,2)	–	–	(6,2)
Forward exchange contracts (gross settled)*	–	–	–	–	–
Gross cash inflows	–	(0,3)	–	–	(0,3)
Gross cash outflows	–	0,3	–	–	0,3
Total financial liabilities	(5,2)	(13,4)	(36,1)	–	(54,7)
Net exposure	2,7	(1,2)	(36,1)	0,1	(34,5)

*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 2016

28. Financial risk management continued

28.6 Liquidity risk continued

	Undiscounted cash flows				
	On demand R'billion	< One year R'billion	One – five years R'billion	> Five years R'billion	Total R'billion
June 2015					
Financial assets					
Available-for-sale financial assets	–	–	–	0,1	0,1
Other non-current receivables (financial instruments only)	–	–	0,1	–	0,1
Trade and other receivables (financial instruments only)	–	8,6	–	–	8,6
Forward exchange contracts (gross settled)*	–	–	–	–	–
Gross cash inflows	–	3,3	–	–	3,3
Gross cash outflows	–	(3,3)	–	–	(3,3)
Cash and cash equivalents	7,2	1,5	–	–	8,7
Total financial assets	7,2	10,1	0,1	0,1	17,5
Financial liabilities					
Unsecured loans	(3,0)	(6,7)	(26,2)	–	(35,9)
Bank overdrafts	(1,8)	–	–	–	(1,8)
Deferred payables	–	(0,4)	–	–	(0,4)
Other non-current and current liabilities	–	(0,2)	(0,5)	–	(0,7)
Trade and other payables (financial instruments only)	–	(5,1)	–	–	(5,1)
Forward exchange contracts (gross settled)*	–	–	–	–	–
Gross cash inflows	–	(0,3)	–	–	(0,3)
Gross cash outflows	–	0,3	–	–	0,3
Total financial liabilities	(4,8)	(12,4)	(26,7)	–	(43,9)
Net exposure	2,4	(2,3)	(26,6)	0,1	(26,4)

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

28. Financial risk management continued

28.7 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.

28.8 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 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 by the Board, the Group 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 Group's approach to capital management during the year. The gearing ratio has decreased since the prior year from 47% to 43%.

The Group's long-term debt funding was restructured during the current year, resulting in regional covenants no longer being applicable.

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) is restricted to 3,5 times Group earnings before interest, tax, depreciation, non-recurring items and amortisation. This restriction may be increased to 4,0 times under certain circumstances at the option of the Group.
- 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 3,5 times.
- Although these covenants are applicable to all term loans in the Group outstanding at 30 June 2016, measurement against these covenants will only commence for the year ending 31 December 2016.

All debt funding related covenants applicable to the Group for the year ended 30 June 2016 have been complied with.

Notes to the Group Annual Financial Statements continued

for the year ended 30 June 2016

29. 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 in the Directors' Report and note 22.

Intra-group transactions and balances

During the year, certain companies in the Group entered into arm's length transactions with other companies in the Group. These intra-group transactions have been eliminated on consolidation. Refer to note 24 of the Company Annual Financial Statements for a list of material operating subsidiaries and structured entities and their balances. 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 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 expensed in the statement of comprehensive income was R4,2 million (2015: R7,1 million). There was R1,3 million outstanding at year end (2015: Nil).

Directors' and prescribed officers' remuneration are addressed in note 22.

Transactions with key management personnel

Key management personnel consist of directors of key Group companies.

The key management personnel compensation consists of

	2016 R'million	2015 R'million
Short-term employee benefits	111,0	113,3
Post-employment benefits	7,4	7,4
Share-based payment expense	25,6	16,4
Total key management remuneration paid	144,0	137,1
Number of employees included above	26	32

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

30. Contingent liabilities

Guarantees to financial institutions

The Group has several guarantees for indebtedness of subsidiaries to financial institutions which amount to R40,6 billion (2015: R13,4 billion). 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 obligors have a joint and several liability for all outstanding commitments from the obligors to lenders under the syndicated term loan agreement. The obligors referred to above comprise:

- Aspen Pharmacare Holdings Limited;
- Pharmacare Limited;
- Aspen Finance (Pty) Limited;
- Aspen Global Incorporated; and
- Aspen Asia Pacific Pty Limited.

Other contingent liabilities

The Group has a number of individually insignificant contingent liabilities amounting to R0,1 billion (2015: R0,1 billion).

Residual accounting policies

for the year ended 30 June 2016

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 out 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 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, 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 24 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 those 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.

Residual accounting policies *continued*

for the year ended 30 June 2016

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 re-measured 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 are 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.

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.

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.

Hyperinflationary economies

The results and financial position of a subsidiary of the Group which is accounted for as an entity operating in a hyperinflationary economy and has a functional currency different from the presentation currency of the Group are translated into the presentation currency at rates ruling at the reporting date. As the presentation currency of the Group is that of a non-hyperinflationary economy, comparative amounts have not been adjusted for changes in the price level or exchange rates in the current year.

The financial statements of an entity whose functional currency is the currency of a hyperinflationary economy is adjusted in terms of the measuring unit current at the end of the reporting period.

Items in the statement of financial position not already expressed in terms of the measuring unit current at the reporting period, such as non-monetary items carried at cost or cost less depreciation, are restated by applying a general price index. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period. The restated amount of a non-monetary item is reduced when it exceeds its recoverable amount.

Residual accounting policies continued

for the year ended 30 June 2016

Corresponding figures for the previous reporting period are restated by applying a general price index and the current closing rate so that financial statements are presented in terms of the measuring unit current at the end of the reporting period. This hyperinflation foreign currency translation adjustment is recognised directly in other comprehensive income as a currency translation movement.

All items recognised in the statement of comprehensive income are restated by applying the change in the general price from the dates when the items of income and expenses were initially recognised. Gains or losses on the net monetary position are recognised in the statement of comprehensive income as a monetary adjustment.

The Venezuelan economy is regarded as a hyperinflationary economy in terms of IFRS.

Effective March 2016 two regulated exchange rates were applicable to Aspen's business:

- The DIPRO rate (previously the official CENCOEX rate) for the importation of high priority goods including infant nutritionals and pharmaceutical medicines. This rate increased to VEF10,0 per USD from VEF6,30 per USD in March 2016.
- The DICOM rate (previously the SIMADI rate) which is a floating rate published daily by the Venezuelan central bank. The DICOM rate opened in March 2016 at an initial rate of VEF206,8 per USD and the closing rate at 30 June was VEF628,34 per USD. The previous SIMADI rate was VEF200 per USD as at 31 December 2015.

Due to the continuing political and economic uncertainty in Venezuela, the Group concluded in December 2015 that it would be more appropriate to apply the DICOM rate (previously the SIMADI rate) to report the Venezuelan business financial position, results of operations and cash flows for the 12 months ended 30 June 2016. The economic situation in Venezuela has further deteriorated since December 2015 and the Venezuelan authorities have only approved payments for imports to the value of USD3 million at the DIPRO rate (previously the official CENCOEX rate) which ranged between VEF6,30 and 10,0 per USD during the second six-month period to 30 June 2016. (For the six-month period to 31 December 2015 imports to the value of USD9 million were approved at the DIPRO rate).

This has resulted in a devaluation loss on foreign denominated liabilities of R870 million. For the 12 months ended 30 June 2015, the Group applied the DIPRO rate (previously the official CENCOEX rate) of 6,30 per USD as circumstances at that time supported this rate. Aspen will continue to monitor the development of payments received and the exchange rate mechanism. Should the receipt of payments from Venezuela improve or if it can no longer be assumed that the DICOM exchange rate is the relevant exchange rate for the translation this could lead to an amended estimate, which in turn could trigger an amended currency translation. No significant trading activity was undertaken during the six-month period to 30 June 2016 and the business has accordingly been downscaled pending a future change in the economic conditions.

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 and 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.

Segmental reporting

The Group has four main reportable segments that comprise the structure used by the chief operating decision-maker (Group Chief Executive) to make key operating decisions and assess performance. The Group's reportable segments are operating segments that are differentiated by geographical areas with each segment having different market dynamics and market strategies.

The Group evaluates the performance of its reportable segments based on operating profit before amortisation adjusted for specific non-trading items. The Group accounts for inter-segment revenue and transfers as if the revenue and the transfers were entered into under the same terms and conditions as would have been entered into in a market-related transaction.

Residual accounting policies continued

for the year ended 30 June 2016

The financial information of the Group's reportable segments is reported to the chief operating decision-maker for purposes of allocating resources to the segment and assessing its performance.

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

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.

Restatements

Aspen has amended its accounting policy relating to the definition of normalised headline earnings to exclude net monetary adjustments and currency devaluations relating to hyperinflationary economies. The normalised headline earnings and normalised headline earnings per share for the year ended 30 June 2015 have been restated to retrospectively reflect the change in accounting policy.

The entity wide revenue disclosure within the Group segmental analysis has been revised to reflect the Group's current operating model and all comparative numbers have been restated accordingly. The updated segmental analysis is aligned to the way the business is managed and reported on by the chief operating decision-maker. The regional split has been expanded to reflect the "USA and Canada" and "Middle East and North Africa" as separate regions. Revenue has been categorised between commercial and manufacturing revenue.

- Commercial revenue includes the commercial sale of all Aspen-owned or licensed finished products. Commercial revenue has been further categorised between pharmaceutical and infant nutritional products and has been allocated by region based upon end-customer geography.
- Manufacturing revenue includes the sale of Aspen-owned and manufactured APIs and revenue generated from the manufacture of third party owned FDFs. Manufacturing revenue has been allocated by region based upon point of manufacturing geography.

Reclassifications and presentation

The Group Annual Financial Statements have been rounded and disclosed in R'billions to assist financial analysis. 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.

All percentage change variances have been calculated using unrounded numbers to record accurate variance trends.

Illustrative comparable earnings

To provide meaningful comparability of the financial performance of Aspen's ongoing underlying business, a measure described as comparable normalised earnings has been determined which excludes the contribution from the Divestments and includes the results of Aspen's Venezuelan business translated at the DICOM rate of VEF628,34 per USD for the prior reporting period. Refer to pages 116 to 119.

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 and administration fees received from subsidiaries which is included in revenue. Following a reassessment of the income earning activities of the Company, it was concluded that dividends received from subsidiaries (previously recorded in investment income) and administration fees received from subsidiaries (previously recorded in other operating income) should be recorded as revenue to better reflect the operations of the Company. As a result, revenue, other operating income and investment income for the year ended 30 June 2015 has been restated. The total amount reclassified from other operating income and investment income to revenue amounts to R3 119,3 million and R351,9 respectively. The restatement has no impact on the reported profit for 2015.

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.

New standards, amendments and interpretations

No standards, amendments and interpretations were effective for the first time in the year ended 30 June 2016.

The following accounting standards, amendments and interpretations are not mandatory for the year ended 30 June 2016 and have been published prior to the date of signature of this report:

Standards, amendments and interpretations	Description	Effective date	Effect on the Group
<p><i>IFRS 9 – Financial Instruments (2009 & 2010)</i></p> <ul style="list-style-type: none"> • <i>Financial liabilities</i> • <i>Derecognition of financial instruments</i> • <i>Financial assets</i> • <i>General hedge accounting</i> 	<p>This IFRS is part of the IASB’s project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.</p> <p>The IASB has updated IFRS 9, to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from <i>IAS 39 – Financial instruments: Recognition and measurement</i>, without change, except for financial liabilities that are designated at fair value through profit or loss.</p>	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.
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>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>	Financial years beginning on or after 1 January 2016 (postponed).	The Group will apply this amendment when it becomes effective. No material impact expected.
Amendments to <i>IFRS 10 – Consolidated financial statements</i> and <i>IAS 28 – Investments in associates and joint ventures</i> on applying the consolidation exemption	The amendments clarify the application of the consolidation exemption for investment entities and their subsidiaries.	Financial years beginning on or after 1 January 2016.	The Group will apply this amendment from the financial year ending 30 June 2017. No material impact expected.
Amendment to <i>IFRS 11 – Joint arrangements</i> on acquisition of an interest in a joint operation	This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.	Financial years beginning on or after 1 January 2016.	The Group will apply this amendment from the financial year ending 30 June 2017. No material impact expected.

Residual accounting policies continued

for the year ended 30 June 2016

Standards, amendments and interpretations	Description	Effective date	Effect on the Group
Amendments to IAS 1 – Presentation of financial statements disclosure initiative	In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.	Financial years beginning on or after 1 January 2016.	The Group will apply this amendment from the financial year ending 30 June 2017. No material impact expected.
Amendment to IAS 16 – Property, plant and equipment and IAS 38 – Intangible assets, on depreciation and amortisation	In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.	Financial years beginning on or after 1 January 2016.	Not applicable to the Group's Annual Financial Statements.
IFRS 14 – Regulatory deferral accounts	The IASB has issued IFRS 14, an interim standard on the accounting for certain balances that arise from rate-regulated activities. Rate regulation is a framework where the price that an entity charges to its customers for goods and services is subject to oversight and/or approval by an authorised body.	Financial years beginning on or after 1 January 2016.	Not applicable to the Group's Annual Financial Statements.
Amendments to IAS 16 – Property, plant and equipment and IAS 41 – Agriculture on bearer plants	In this amendment to IAS 16 the IASB has scoped in bearer plants, but not the produce on bearer plants and explained that a bearer plant not yet in the location and condition necessary to bear produce is treated as a self-constructed asset. In this amendment to IAS 41, the IASB has adjusted the definition of a bearer plant to include examples of non-bearer plants and remove current examples of bearer plants from IAS 41.	Financial years beginning on or after 1 January 2016.	Not applicable to the Group's Annual Financial Statements.
IFRS 15 – Revenue from contracts with customers	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 goods or service transfers to a customer.	Financial years beginning on or after 1 January 2018.	The Group will apply this standard from the financial year ending 30 June 2019. No material impact expected.
Amendments to IAS 27 – Separate financial statements on equity accounting	In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.	Financial years beginning on or after 1 January 2016.	The Group will apply this amendment from the financial year ending 30 June 2017. No material impact expected.

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.</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"> • The own credit risk requirements for financial liabilities. • Classification and measurement requirements for financial assets. • Classification and measurement requirements for financial assets and financial liabilities. • The full current version of IFRS 9 (that is, classification and measurement requirements for financial assets and financial liabilities and hedge accounting). <p>The transitional provisions described above are likely to change once the IASB completes all phases of IFRS 9.</p>	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.
Amendment to IAS 12 – <i>Income taxes</i>	<p>The amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets.</p> <p>The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets.</p>	Financial years beginning on or after 1 January 2017.	The Group will apply this amendment from the financial year ending 30 June 2018. No material impact expected.
Amendment to IAS 7 – <i>Cash flow statements</i>	<p>In January 2016, the 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.</p> <p>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.</p>	Financial years beginning on or after 1 January 2017.	The Group will apply this amendment from the financial year ending 30 June 2018. No material impact expected.

Residual accounting policies continued

for the year ended 30 June 2016

Standards, amendments and interpretations	Description	Effective date	Effect on the Group
IFRS 16 – Leases	<p>After 10 years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the statement of financial position. Lessor accounting has not substantially changed in the new standard.</p> <p>The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).</p> <p>A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.</p> <p>One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).</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.

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 are effective for financial years beginning on or after 1 January 2016:

- 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.

Company Annual Financial Statements

for the year ended 30 June 2016

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Company statement of financial position

at 30 June 2016

	Notes	2016 R'million	2015 R'million
Assets			
Non-current assets			
Investments in subsidiaries	1	17 569,2	17 188,7
Intangible assets	2	437,8	476,6
Property, plant and equipment	3	177,8	138,1
Investment in joint venture	4	61,5	61,5
Other non-current receivables	5	–	25,0
Deferred tax assets	6	–	48,6
Total non-current assets		18 246,3	17 938,5
Current assets			
Amounts due by Group companies	1	383,3	297,3
Cash and cash equivalents	7	320,3	160,4
Receivables and prepayments	8	43,7	9,4
Derivative financial instruments	9	3,5	4,2
Total current assets		750,8	471,3
Total assets		18 997,1	18 409,8
Shareholders' equity			
Retained income		13 834,7	11 961,2
Share capital	11	3 205,1	4 190,5
Hedging reserve		146,5	150,7
Share-based compensation reserve		69,1	48,2
Total shareholders' equity		17 255,4	16 350,6
Liabilities			
Non-current liabilities			
Borrowings	12	249,1	248,8
Deferred tax liabilities	6	0,3	–
Total non-current liabilities		249,4	248,8
Current liabilities			
Borrowings	12	1 046,7	675,0
Amounts due to Group companies	1	357,0	794,6
Other payables	13	82,4	219,8
Current tax liabilities		6,2	121,0
Total current liabilities		1 492,3	1 810,4
Total liabilities		1 741,7	2 059,2
Total equity and liabilities		18 997,1	18 409,8

Company statement of comprehensive income

for the year ended 30 June 2016

	Notes	2016 R'million	Restated 2015 R'million
Revenue	14	2 470,8	3 735,0
Administrative expenses		(451,7)	(472,3)
Other operating income		11,5	2,7
Other operating expenses		(31,4)	(399,4)
Operating profit	15	1 999,2	2 866,0
Investment income	18	54,7	18,9
Financing costs	19	(105,1)	(136,1)
Profit before tax		1 948,8	2 748,8
Tax	20	(75,3)	(89,1)
Profit for the year		1 873,5	2 659,7
Other comprehensive income, net of tax*			
Cash flow hedges realised	9	(4,2)	4,2
Total comprehensive income		1 869,3	2 663,9

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

Company statement of changes in equity

for the year ended 30 June 2016

	Share capital R'million	Hedging reserve R'million	Share-based compensa- tion reserve R'million	Retained income R'million	Total R'million
Balance at 30 June 2014	5 045,3	146,5	46,1	9 297,7	14 535,6
Total comprehensive income	–	4,2	–	2 659,7	2 663,9
Profit for the year	–	–	–	2 659,7	2 659,7
Other comprehensive income	–	4,2	–	–	4,2
Issue of ordinary share capital – share schemes	2,6	–	–	–	2,6
Capital distribution	(857,4)	–	–	–	(857,4)
Share-based payment expenses	–	–	15,3	–	15,3
Transfer from share-based compensation reserve	–	–	(3,8)	3,8	–
Deferred incentive bonus shares exercised	–	–	(9,4)	–	(9,4)
Balance at 30 June 2015	4 190,5	150,7	48,2	11 961,2	16 350,6
Total comprehensive income	–	(4,2)	–	1 873,5	1 869,3
Profit for the year	–	–	–	1 873,5	1 873,5
Other comprehensive income	–	(4,2)	–	–	(4,2)
Issue of ordinary share capital – share schemes	0,9	–	–	–	0,9
Capital distribution	(986,3)	–	–	–	(986,3)
Share-based payment expenses	–	–	31,1	–	31,1
Deferred incentive bonus shares exercised	–	–	(10,2)	–	(10,2)
Balance at 30 June 2016	3 205,1	146,5	69,1	13 834,7	17 255,4

Company statement of cash flows

for the year ended 30 June 2016

	Notes	2016 R'million	2015 R'million
Cash flows from operating activities			
Cash generated from operations	A	1 883,2	3 226,3
Financing costs paid	B	(107,4)	(127,9)
Interest received		54,7	18,9
Tax paid	C	(135,1)	(69,2)
Cash generated from operating activities		1 695,4	3 048,1
Cash flows from investing activities			
Capital expenditure – property, plant and equipment		(53,2)	(134,9)
Proceeds from the sale of property, plant and equipment		1,0	–
Capital expenditure – intangible assets		(3,4)	(2,6)
Transfer of intangible assets from Group companies		(4,4)	(52,4)
Transfer of property, plant and equipment to Group companies		0,2	–
Proceeds on the sale of assets classified as held-for-sale		33,9	–
Acquisition of subsidiaries and businesses		(371,4)	(1 508,3)
Acquisition of joint venture		–	(61,5)
Movement in amounts due by Group companies		(86,0)	87,0
Cash used in investing activities		(483,3)	(1 672,7)
Cash flows from financing activities			
Proceeds from borrowings		250,0	–
Repayments of borrowings		(250,9)	(1 000,3)
Proceeds from issue of ordinary share capital		0,9	2,6
Capital distribution paid		(986,3)	(857,4)
Movement in amounts due to Group companies		(437,6)	135,5
Cash used in financing activities		(1 423,9)	(1 719,6)
Cash and cash equivalents			
Movement in cash and cash equivalents		(211,8)	(344,2)
Cash and cash equivalents at the beginning of the year		(474,6)	(130,4)
Cash and cash equivalents at the end of the year	D	(686,4)	(474,6)

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

Notes to the Company statement of cash flows

for the year ended 30 June 2016

	2016 R'million	2015 R'million
A. Cash generated from operations		
Operating profit	1 999,2	2 866,0
Amortisation of intangible assets	18,2	19,1
Depreciation of property, plant and equipment	11,7	1,0
Impairment of intangible assets	5,9	1,3
Profit on the sale of assets classified as held-for-sale	(11,4)	–
Loss on sale of property, plant and equipment	0,6	–
Impairment of investment in subsidiary	–	375,2
Deferred incentive bonus shares exercised	(10,2)	(9,4)
Share-based payment expense – employees	23,1	14,4
Withholding taxes	(6,1)	(3,5)
Cash operating profit	2 031,0	3 264,1
Working capital movements	(147,8)	(37,8)
(Increase)/decrease in receivables and prepayments	(9,3)	6,9
Decrease in other payables	(138,5)	(44,7)
	1 883,2	3 226,3
B. Financing costs paid		
Interest paid	(108,1)	(127,4)
Net foreign exchange gains/(losses)	0,7	(0,5)
	(107,4)	(127,9)
C. Tax paid		
Amounts payable at the beginning of the year	(121,0)	(63,5)
Tax charged to the statement of comprehensive income (excluding deferred and withholding taxes)	(20,3)	(126,7)
Amounts owing at the end of the year	6,2	121,0
	(135,1)	(69,2)
D. Cash and cash equivalents		
Bank balances	320,3	160,4
Less: bank overdrafts*	(1 006,7)	(635,0)
Cash and cash equivalents per the statement of cash flows	(686,4)	(474,6)

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

Notes to the Company Annual Financial Statements

for the year ended 30 June 2016

1. Investments in subsidiaries

Summary of balance

	2016 R'million	2015 R'million
Reflected as non-current assets		
Investments at cost less accumulated impairment losses	17 569,2	17 188,7
Reflected as current assets		
Amounts due by Group companies*	383,3	297,3
Reflected as current liabilities		
Amounts due to Group companies*	(357,0)	(794,6)
	17 595,5	16 691,4

*These amounts are unsecured, predominantly non-interest bearing and repayable on demand. Interest is charged on these balances.

For further details of interests in material operating subsidiaries please refer to note 24.

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
2016				
Carrying value				
Cost	1 146,6	57,8	58,0	1 262,4
Accumulated amortisation	(730,7)	(57,8)	(19,7)	(808,2)
Accumulated impairment losses	(16,4)	–	–	(16,4)
	399,5	–	38,3	437,8
Movement in intangible assets				
Carrying value at the beginning of the year	430,7	–	45,9	476,6
Additions	1,4	–	2,0	3,4
Transfer from Group companies	–	–	4,4	4,4
Amortisation	(8,9)	–	(9,3)	(18,2)
Impairment losses	(1,2)	–	(4,7)	(5,9)
Reclassification to assets classified as held-for-sale	(22,5)	–	–	(22,5)
	399,5	–	38,3	437,8
2015				
Carrying value				
Cost	1 194,4	57,8	56,2	1 308,4
Accumulated amortisation	(747,3)	(57,8)	(10,3)	(815,4)
Accumulated impairment losses	(16,4)	–	–	(16,4)
	430,7	–	45,9	476,6
Movement in intangible assets				
Carrying value at the beginning of the year	440,5	–	1,5	442,0
Additions	1,5	–	1,1	2,6
Transfer from Group companies	–	–	52,4	52,4
Amortisation	(10,0)	–	(9,1)	(19,1)
Impairment losses	(1,3)	–	–	(1,3)
	430,7	–	45,9	476,6
2014				
Carrying value				
Cost	1 192,9	57,8	2,7	1 253,4
Accumulated amortisation	(737,3)	(57,8)	(1,2)	(796,3)
Accumulated impairment losses	(15,1)	–	–	(15,1)
	440,5	–	1,5	442,0

All intangible assets were acquired from third parties.

Notes to the Company Annual Financial Statements

continued

for the year ended 30 June 2016

2. Intangible assets continued

Indefinite useful life intangible assets

	2016 R'million	2015 R'million
Split of balance		
GSK OTC brands	269,2	269,2
Other	109,5	128,8
	378,7	398,0

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 10 years;
- growth in revenue per annum of between 2% and 10%;
- gross profit percentage per annum of 72%;
- growth rate to extrapolate cash flows beyond period covered by mentioned forecasts and budgets of 1%; and
- annual pre-tax discount rate applied to cash flows of between 9% and 24%.

Management has used a forecast period greater than five years to better reflect the impact of a gradual slowing in growth over the medium term.

Based on the above calculations no impairments were recognised for the indefinite useful life intangible assets. There are no reasonable possible change 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

	2016 R'million	2015 R'million
Authorised and contracted for	33,4	–
Authorised but not yet contracted for	10,6	5,7
	44,0	5,7

Other disclosure

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

3. Property, plant and equipment

Reconciliation of balance

	Buildings R'million	Plant and equipment R'million	Other tangible assets [®] R'million	Total R'million
2016				
Carrying value				
Cost	151,0	0,3	39,0	190,3
Accumulated depreciation	(3,0)	(0,2)	(9,3)	(12,5)
	148,0	0,1	29,7	177,8
Movement in property, plant and equipment				
Carrying value at the beginning of the year	126,9	0,1	11,1	138,1
Additions	24,1	–	29,1	53,2
Disposals	–	–	(1,6)	(1,6)
Depreciation	(3,0)	–	(8,7)	(11,7) [#]
Transfer to Group companies	–	–	(0,2)	(0,2)
	148,0	0,1	29,7	177,8*
2015				
Carrying value				
Cost	128,6	0,3	18,0	146,9
Accumulated depreciation	(1,7)	(0,2)	(6,9)	(8,8)
	126,9	0,1	11,1	138,1
Movement in property, plant and equipment				
Carrying value at the beginning of the year	1,2	0,2	2,8	4,2
Additions	125,7	–	9,2	134,9
Depreciation	–	(0,1)	(0,9)	(1,0) [#]
	126,9	0,1	11,1	138,1*
2014				
Carrying value				
Cost	2,9	0,3	8,8	12,0
Accumulated depreciation	(1,7)	(0,1)	(6,0)	(7,8)
	1,2	0,2	2,8	4,2

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

* Included in the total are leased assets amounting R0,9 million (2015: R0,1 million).

Depreciation charge is included in administrative expenses on the statement of comprehensive income.

Notes to the Company Annual Financial Statements

continued

for the year ended 30 June 2016

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

	2016 R'million	2015 R'million
Authorised and contracted for	10,9	2,0
Authorised but not yet contracted for	7,4	140,3
	18,3	142,3
Operating lease commitments		
The Company rents buildings under non-current, 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.		
Minimum future lease payments – operating leases		
Land and buildings	2,3	–
Office equipment and furniture	0,1	0,7
Operating lease commitments	2,4	0,7
The future minimum operating lease payments are as follows		
Less than one year	0,8	–
Between one and five years	1,6	0,7
	2,4	0,7
These leasing arrangements do not impose any significant restrictions on the Company.		
Other disclosure		
No property, plant and equipment was pledged or committed as security for borrowings.		
4. Investment in joint venture		
Reconciliation of balance		
Carrying value at the beginning of the year	61,5	–
Acquisition of joint venture	–	61,5
	61,5	61,5
On 31 October 2014, the Company acquired a 50% shareholding in NZNM, a producer of infant nutritionals incorporated in Auckland, New Zealand. NZNM is a private company and no quoted market price is available for its shares. In terms of a supply agreement concluded between AGI and NZNM, long-term supply of infant nutritionals for distribution by Aspen in Australia is secured.		

5. Other non-current receivables

Reconciliation of balance

	2016 R'million	2015 R'million
Carrying value at the beginning of the year	25,0	25,0
Current portion moved to other receivables	(25,0)	–
	–	25,0

Agreements were entered into with two Broad-Based Black Economic Empowerment beneficiaries whereby enterprise development loans have been advanced by the Company. The outstanding loans bear interest at the South African prime rate plus margin of 1%.

These loans are due to be repaid at the end of the five-year period.

These loans are secured by a second bond over specified movable assets to a value of R10,0 million as well as a cession of specified book debts. Management considers the credit risk associated with these receivables to be low. These balances are denominated in Rand.

6. Deferred tax

Reconciliation of balance

Deferred tax assets – opening balance	(48,6)	(7,5)
Statement of comprehensive income charge/(credit) – included in tax	30,1	(9,0)
Statement of comprehensive income charge/(credit) – prior year adjustment	18,8	(32,1)
	0,3	(48,6)

Split of balance

Deferred tax liabilities	0,3	–
Deferred tax assets	–	(48,6)
	0,3	(48,6)

Deferred tax balance comprises

Property, plant and equipment	6,8	0,1
Intangible assets	6,4	(2,9)
Receivables and prepayments	1,8	0,1
Other payables	(14,7)	(45,9)
	0,3	(48,6)

The statement of comprehensive income charge/(credit) comprises

Property, plant and equipment	6,7	–
Intangible assets	9,3	(33,9)
Receivables and prepayments	1,7	(0,6)
Tax claims in respect of share schemes	–	(2,8)
Other payables	31,2	(17,5)
Other	–	13,7
	48,9	(41,1)

Notes to the Company Annual Financial Statements

continued

for the year ended 30 June 2016

7. Cash and cash equivalents

	2016 R'million	2015 R'million
Summary of balance		
Bank balances	320,3	160,4

Other disclosure

The average effective interest rate on cash and cash equivalents is 6,9% (2015: 6,2%).

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

Enterprise development loans	25,0	–
Prepayments	15,9	7,4
Other	2,8	2,0
	43,7	9,4

Split of balance

Financial assets	27,8	2,0
Non-financial assets	15,9	7,4
	43,7	9,4

Other disclosure

The company holds no collateral over any receivables and prepayments.

Receivables and prepayments are non-interest bearing, except for enterprise development loans which bear interest at the South African prime overdraft rate plus a margin of 1%.

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	4,2	–
Fair value gains on interest rates swaps (included in finance costs)	3,5	–
Fair value (losses)/gains on interest rate swaps (included in other comprehensive income)	(4,2)	4,2
	3,5	4,2

Derivatives consist of interest rate swaps.

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

10. Assets classified as held-for-sale

Reconciliation of balance

	2016 R'million	2015 R'million
Reclassification from intangible assets	22,5	–
Disposals	(22,5)	–
	–	–

On 9 May 2015, the Company, Pharmacare and Brimpharm (Pty) Limited concluded a set of agreements with Litha in terms of which these companies divested a portfolio of products for a consideration of R1,7 billion. The portfolio of products comprised injectables and established brands. The approval of this transaction by the South African competition authorities was obtained on 4 August 2015. This transaction completed on 1 October 2015.

11. Share capital

Summary of balance

Authorised

717 600 000 (2015: 717 600 000) ordinary shares with no par value

Issued

456 351 337 (2015: 456 348 537) ordinary shares with no par value

	2016 Million	2015 Million
Shares in issue at the beginning of the year	456,3	456,3
Shares issued – share schemes	0,1	–
Shares in issue at the end of the year	456,4	456,3

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.

Notes to the Company Annual Financial Statements

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for the year ended 30 June 2016

12. Borrowings

Currency analysis and maturity profile of total borrowings

	2016			2015		
	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
Bank overdrafts						
Rand	1 006,7	–	1 006,7	635,0	–	635,0
Unsecured loans						
Rand syndicated term loan – Facility F	–	250,0	250,0	–	250,0	250,0
Rand other	40,0	–	40,0	40,0	–	40,0
Capital raising fees	–	(0,9)	(0,9)	–	(1,2)	(1,2)
Total borrowings	1 046,7	249,1	1 295,8	675,0	248,8	923,8

Interest rate profile of total borrowings

	Total R'million	Interest rate %	Average effective interest rate %	Total R'million	Interest rate %	Average effective interest rate %
Bank overdrafts – linked to South African prime overdraft rate	1 006,7	less margin of 3,0%	6,9	635,0	less margin of 3,0%	6,2
Unsecured loans – linked to three-month JIBAR	250,0	+ margin of 2,2%	9,5	250,0	+ margin of 2,1%	8,2
Unsecured loans – linked to overnight call rate	40,0	Overnight call	7,8	40,0	Overnight call	6,6
Capital raising fee*	(0,9)			(1,2)		
Total borrowings	1 295,8			923,8		

* 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.

13. Other payables

Summary of balance

	2016 R'million	2015 R'million
Accrued expenses	10,6	29,1
Leave pay	7,9	7,0
Bonuses	39,7	32,7
Royalties received in advance	–	111,7
Other	24,2	39,3
	82,4	219,8
Split of balance		
Financial liabilities	30,4	51,8
Non-financial liabilities	52,0	168,0
	82,4	219,8
Other disclosures		
Currency analysis of trade and other payables (financial instruments only)		
Euro	0,7	–
Rand	29,7	51,8
	30,4	51,8

All other payables (financial instruments only) are predominantly non-interest bearing.

14. Revenue

Summary of balance

Royalties	278,0	263,8
Dividends received from subsidiaries	1 861,4	3 119,3
Administration fees received from subsidiaries	331,4	351,9
	2 470,8	3 735,0

15. Operating profit

Operating profit has been arrived at after crediting

Profit on the sale of assets classified as held-for-sale	(11,4)	–
After charging		
Auditors' remuneration	7,1	7,4
Audit fees	6,9	6,9
Current year	4,9	5,6
Prior year under provision	2,0	1,3
Other services	0,2	0,5
Impairment of intangible assets (included in other operating expenses)	5,9	1,3
Impairment of investment in subsidiaries (included in other operating expenses)	–	375,2
Transaction costs	1,4	3,7
Operating lease rentals – land and buildings	0,7	4,6
Operating lease rentals – office equipment and furniture	0,1	0,7
Loss on the sale of property, plant and equipment	0,6	–

Notes to the Company Annual Financial Statements

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for the year ended 30 June 2016

16. Expenses by nature

	2016 R'million	2015 R'million
Depreciation of property, plant and equipment	11,7	1,0
Amortisation of intangible assets	18,2	19,1
Impairment of intangible assets	5,9	1,3
Impairment of investment in subsidiaries	–	375,2
Personnel costs and other staff-related costs	274,4	251,8
Property costs	3,7	6,4
Transaction costs	1,4	3,7
Legal and consulting fees	24,1	45,7
Insurance	16,6	58,3
Information technology costs	74,5	45,8
Other	52,6	63,4
	483,1	871,7
Classified as		
Administrative expenses	451,7	472,3
Other operating expenses	31,4	399,4
	483,1	871,7
17. Directors and employees		
Staff costs		
Wages and salaries	201,4	174,0
Defined contribution plans	19,7	16,1
Share-based payment expense – options and appreciation rights	–	0,1
Share-based payment expense – deferred incentive bonus	23,1	14,3
Cash portion	1,1	13,6
Equity portion	22,0	0,7
Other employee contributions	4,4	2,6
	248,6	207,1
18. Investment income		
Summary of balance		
Interest received	54,7	18,9
Bank balances	48,6	14,6
Group companies	2,7	2,3
Other	3,4	2,0
	54,7	18,9
19. Financing costs		
Summary of balance		
Interest paid on borrowings	108,1	127,4
Capital raising fees released	1,2	8,1
Net foreign exchange (gains)/losses	(0,7)	0,5
Fair value gain on derivative financial instruments	(3,5)	–
Notional interest on financial instruments	–	0,1
	105,1	136,1

20. Tax

Summary of balance

	2016 R'million	2015 R'million
South African tax	20,3	126,7
Foreign tax	6,1	3,5
Deferred tax	48,9	(41,1)
Total tax charge	75,3	89,1

The Company submits its tax returns and advance payments as they fall due and the 2015 tax returns have been submitted by the Company.

Reconciliation of effective tax rate

	%	%
South African current tax rate	28,0	28,0
Increase in rate due to		
Disallowed expenditure	1,6	1,6
Withholding and other taxes	0,3	0,1
Prior year adjustments	1,0	0,7
Other	-	0,4
Decrease in rate due to		
Exempt income	(27,0)	(28,0)
Effective tax rate	3,9	2,8

Notes to the Company Annual Financial Statements

continued

for the year ended 30 June 2016

21. 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 in the Directors' Report and note 22 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 24 for a list of the material operating subsidiaries and structured entities.

None of the balances are secured.

	2016 R'million	2015 R'million
The following intra-group transactions took place between Aspen Holdings and Group companies during the current year		
Royalties received	278,0	263,8
Pharmacare Limited	277,5	263,8
Other subsidiaries	0,5	–
Administration fees received	331,4	351,9
Aspen Global Incorporated	81,2	71,8
Aspen Europe GmbH	10,2	14,4
Aspen Healthcare FZ LLC	15,9	12,2
Aspen Notre Dame de Bondeville SAS	18,5	32,9
Aspen Oss B.V.	26,5	25,0
Aspen Pharma Ireland Limited	7,5	14,7
Pharmacare Limited	71,9	95,3
Other subsidiaries	99,7	85,6
Interest received on shareholders' loans – Beta Healthcare International Limited	2,7	2,3
Dividends received (and paid to the Company)	1 861,4	3 119,3
Aspen Global Incorporated	818,1	2 150,0
Brimpharm SA (Pty) Limited	131,0	3,9
Aspen Pharmacare Nigeria Limited	4,9	5,6
Pharmacare Limited	900,0	959,8
Other subsidiaries	7,4	–
The following intra-group balances were outstanding between Aspen Holdings and Group companies at year end		
Amounts reflected as current assets	383,3	297,3
Aspen Global Incorporated	48,5	30,6
The Aspen Share Incentive Scheme Trust	101,5	36,2
Shelys Pharmaceuticals International Limited	112,0	112,0
Other subsidiaries	121,3	118,5
Amounts reflected as current liabilities	357,0	794,6
Pharmacare Limited	280,6	717,1
Aspen Port Elizabeth (Pty) Limited	27,1	27,1
Aspen International Distribution (Pty) Limited	29,1	29,1
Other subsidiaries	20,2	21,3

21. 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.

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 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 expensed in the statement of comprehensive income was R0,4 million (2015: R0,4 million) and no balance was outstanding at year end (2015: nil).

Transactions with key management personnel

Key management personnel consist of directors (including executive directors).

Key management personnel compensation consists of

	2016 R'million	2015 R'million
Short-term employee benefits	45,8	36,9
Post-employment benefits	4,0	3,4
Share-based payment expense	14,6	7,6
Total key management remuneration paid	64,4	47,9
Number of employees included above	14	17

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

Notes to the Company Annual Financial Statements

continued

for the year ended 30 June 2016

22. Financial risk management

22.1 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 A&R Co 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 A&R Co.

Risk management and measurement relating to each of these risks is discussed under the headings below.

22.2 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
June 2016				
Financial assets				
Receivables and prepayments	27,8	–	–	27,8
Cash and cash equivalents	320,3	–	–	320,3
Amounts due by Group companies	383,3	–	–	383,3
Interest rate swaps (net settled)	–	3,5	–	3,5
Total financial assets	731,4	3,5	–	734,9
Financial liabilities				
Unsecured loans	–	–	289,1	289,1
Bank overdrafts	–	–	1 006,7	1 006,7
Other payables	–	–	30,4	30,4
Amounts due to Group companies	–	–	357,0	357,0
Total financial liabilities	–	–	1 683,2	1 683,2
June 2015				
Financial assets				
Other non-current receivables	25,0	–	–	25,0
Receivables and prepayments	2,0	–	–	2,0
Cash and cash equivalents	160,4	–	–	160,4
Amounts due by Group companies	297,3	–	–	297,3
Interest rate swaps (net settled)	–	4,2	–	4,2
Total financial assets	484,7	4,2	–	488,9
Financial liabilities				
Unsecured loans	–	–	288,8	288,8
Bank overdrafts	–	–	635,0	635,0
Other payables	–	–	51,8	51,8
Amounts due to Group companies	–	–	794,6	794,6
Total financial liabilities	–	–	1 770,2	1 770,2

22. Financial risk management *continued*

22.3 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.

22.4 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 2016 and 30 June 2015 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 prior 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 2015.

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 R0,1 million (2015: nil).

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.

22.5 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	
	2016 R'million	2015 R'million
Variable rate instruments		
Other non-current receivables	–	(25,0)
Trade and other receivables	(25,0)	–
Cash and cash equivalents	(320,3)	(160,4)
Borrowings	1 296,7	925,0
Variable rate exposure	951,4	739,6

Notes to the Company Annual Financial Statements

continued

for the year ended 30 June 2016

22. Financial risk management continued

22.5 Interest rate risk continued

Interest rate swaps

The following pay fixed rate, receive floating rate interest rate derivative contract was in place

	Outstanding contract amount R'million	Fixed interest rate %	Expiry date
Rand syndicated term loan – facility F	250,0	6,3% (three-month JIBAR)	29 September 2017

The interest rate swap was designated in a cash flow hedge relationship up to 30 June 2016 when the loan was refinanced. The nature of the risks that were hedged (interest rate risk) was the variability of the quarterly interest payments on the hedged loan, attributable to movements in the three-month JIBAR rate. Gains and losses recognised in the hedging reserve in equity at 30 June 2016 was released to the statement of comprehensive income as the interest (finance costs) as the hedged item was no longer in existence. All remeasurements for the remaining term of the swap will be recognised directly in the statement of comprehensive income.

The maturity profile of the gross contract amount at 30 June 2016 is between one and five years.

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 at 30 June would have decreased profit before tax by R3,8 million and R12,4 million in 2016 and 2015 respectively. A decrease of 1% will have an equal and opposite effect on profit before tax.

An increase of 1% in the yield curve at 30 June 2016 would result in a decrease of R2,7 million (2015: R4,4 million) in the fair value of the derivative liabilities in the statement of comprehensive income. A decrease of 1% in the yield curve will have an equal and opposite effect on the derivative liabilities in the statement of comprehensive income.

22. Financial risk management *continued*

22.6 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			
	On demand R'million	< One year R'million	One to five years R'million	Total R'million
June 2016				
Financial assets				
Receivables and prepayments (financial instruments only)	–	27,8	–	27,8
Cash and cash equivalents	320,3	–	–	320,3
Amounts due by Group companies	383,3	–	–	383,3
Interest rate swaps (net settled)	–	3,5	–	3,5
Total financial assets	703,6	31,3	–	734,9
Financial liabilities				
Unsecured loans	–	(61,7)	(345,0)	(406,7)
Bank overdrafts	(1 006,7)	–	–	(1 006,7)
Other payables (financial instruments only)	–	(30,4)	–	(30,4)
Amounts due to Group companies	(357,0)	–	–	(357,0)
Total financial liabilities	(1 363,7)	(92,1)	(345,0)	(1 800,8)
Net exposure	(660,1)	(60,8)	(345,0)	(1 065,9)
June 2015				
Financial assets				
Other non-current receivables	–	–	25,0	25,0
Receivables and prepayments (financial instruments only)	–	2,0	–	2,0
Cash and cash equivalents	160,4	–	–	160,4
Amounts due by Group companies	297,3	–	–	297,3
Interest rate swaps (net settled)	–	4,2	–	4,2
Total financial assets	457,7	6,2	25,0	488,9
Financial liabilities				
Unsecured loans	(40,0)	(19,8)	(262,0)	(321,8)
Bank overdrafts	(635,0)	–	–	(635,0)
Other payables (financial instruments only)	–	(51,8)	–	(51,8)
Amounts due to Group companies	(794,6)	–	–	(794,6)
Total financial liabilities	(1 469,6)	(71,6)	(262,0)	(1 803,2)
Net exposure	(1 011,9)	(65,4)	(237,0)	(1 314,3)

Notes to the Company Annual Financial Statements

continued

for the year ended 30 June 2016

22. Financial risk management continued

22.7 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, other non-current receivables, 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.

22.8 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.

23. Contingent liabilities

Guarantees to financial institutions

The Company has several guarantees for indebtedness of subsidiaries to financial institutions which amount to R40,6 billion (2015: R13,4 billion). 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 obligors have a joint and several liability for all outstanding commitments from the obligors to lenders under the syndicated term loan agreement. The obligors referred to above comprise:

- Aspen Pharmicare Holdings Limited;
 - Pharmicare Limited;
 - Aspen Finance (Pty) Limited;
 - Aspen Global Incorporated; and
 - Aspen Asia Pacific Pty Limited
-

24. Material operating subsidiaries and structured entities

Country of incorporation	Company	Currency	Issued capital	Effective Group holding		Investment	
				2016 %	2015 %	2016 R'million	2015 R'million
			'000				
Direct							
Germany	Aspen Bad Oldesloe GmbH	EUR	50	100	100	685,1	685,1
Mauritius	Aspen Global Incorporated	USD	1 008 881	100	100	8 654,3	8 653,9
France	Aspen Notre Dame de Bondeville SAS	EUR	266 311	100	100	3 780,1	3 780,1
The Netherlands	Aspen Oss B.V.	EUR	53 000	100	100	1 389,4	1 389,4
Kenya	Beta Healthcare International Limited	KES	30 000	100	100	4,8	4,8
South Africa	Fine Chemicals Corporation (Pty) Limited	ZAR	#	100	100	329,7	329,7
South Africa	Pharmacare Limited	ZAR	1 395	100	100	2 057,8	2 023,8
South Africa	Aspen Finance (Pty) Limited	EUR	22 000	100	-	370,0	-
Various	Various	△	△	△	△	298,0	241,9
Indirect							
United Arab Emirates	Aspen Healthcare FZ LLC	USD	82	100	100	-	-
Russia	Aspen Health LLC	RUB	615 400	100	100	-	-
Australia	Aspen Nutritionals Australia Pty Limited	AUD	#	100	100	-	-
Brazil	Aspen Pharma – Indústria Farmacêutica Limitada	BRL	363 690	100	100	-	-
Ireland	Aspen Pharma Ireland Limited	EUR	42 001	100	100	-	-
Australia	Aspen Pharma Pty Limited	AUD	11 862	100	100	-	-
Australia	Aspen Pharmacare Australia Pty Limited	AUD	167 373	100	100	-	-
Tanzania	Shelys Pharmaceuticals Limited	TZS	6 723 843	100	100	-	-
Mexico	Wyeth, S de R. L. de C.V.	MXN	1 944 870	100	100	-	-
Various	Various	△	△	△	△	-	80,0
Trusts (structured entities)^							
South Africa	Aspen Share Appreciation Plan	ZAR	N/A	100	100	-	-
South Africa	Aspen Share Incentive Scheme	ZAR	N/A	100	100	-	-
Total investments in subsidiaries						17 569,2	17 188,7

Less than 1000.

^ These trusts are structured entities which are consolidated into the Group Annual Financial Statements and are not subject to any other risk exposure.

△ These direct and indirect holdings are made up of various subsidiaries incorporated in multiple territories.

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	MXN: Mexican Peso
BRL: Brazilian Real	TZS: Tanzanian Shilling
EUR: Euro	USD: US Dollar
KES: Kenyan Shilling	ZAR: South African Rand
RUB: Russian Ruble	

Illustrative comparable earnings – Annexure 1

The comparability of the reported results for the year ended 30 June 2016 to the prior reporting period has been influenced by the following factors:

- The completion on 31 August 2015 of the divestment of the generics business conducted in Australia as well as certain branded products distributed in Australia to Strides group companies, the related termination of licence arrangements in Australia and the completion on 1 October 2015 of the divestment of a portfolio of products distributed in South Africa to Litha Pharma (collectively “the Divestments”). The contribution to the Aspen results by the Divestments is consequently substantially reduced in the current period. In the period from 1 July 2015 until effective date of divestment, revenue from the Divestments was R0,2 billion whereas revenue from the Divestments for the year ended 30 June 2015 was R1,8 billion.
- The change in translation rate to report the financial position, results of operations and cash flows relating to Aspen’s Venezuelan business for the year ended 30 June 2016 from the official DIPRO rate (previously CENCOEX) which ranged between 6,3 and 10,0 per USD to the DICOM rate (previously SIMADI rate) of VEF628,34 per USD.

To provide meaningful comparability of the financial performance of Aspen’s ongoing underlying business, a measure described as comparable normalised headline earnings, has been determined which excludes the contribution from the Divestments and includes the results of Aspen’s Venezuelan business translated at the DICOM rate of VEF628,34 per USD for the prior reporting period.

Set out below is the comparable information for revenue, operating profit, normalised headline earnings and NHEPS. The comparable group segmental analysis and comparable group statement of comprehensive income are included to enable meaningful analytical review. The comparable information has been derived from the audited Annual Financial Statements and has been reported on by Aspen’s auditors in a limited assurance report which is available for inspection at the Company’s registered office. This information has been prepared for illustrative purposes only and is the responsibility of the Board of Directors of Aspen.

	Change	Illustrative 2016 R’billion	Illustrative 2015 R’billion
Comparable revenue			
Reconciliation of comparable revenue			
Revenue	(2%)	35,6	36,1
Adjusted for:			
– Revenue from the Divestments		(0,2)	(1,8)
– Translation of Aspen Venezuela’s revenue at the DICOM exchange rate		–	(2,7)
Comparable revenue	12%	35,4	31,6
Comparable operating profit			
Reconciliation of comparable operating profit			
EBITA	3%	9,5	9,2
Amortisation		(0,6)	(0,5)
Normalised operating profit		8,9	8,7
Adjusted for:			
– Operating profit from the Divestments		(0,1)	(0,6)
Comparable operating profit	8%	8,8	8,1
Comparable normalised headline earnings+			
Reconciliation of comparable normalised headline earnings			
Normalised headline earnings	10%	5,8	5,2
Adjusted for:			
– Operating profit from the Divestments (net of tax)		–	(0,4)
– Interest savings from proceeds on the Divestments (net of tax)		(0,2)	–
Comparable normalised headline earnings	15%	5,6	4,8
Comparable normalised headline earnings per share			
Comparable normalised headline earnings per share (cents)	15%	1 222,0	1 066,7

+ Comparable headline earnings is disclosed net of income from non-controlling interests which are not material.

COMPARABLE GROUP SEGMENTAL ANALYSIS

for the year ended 30 June 2016

	Illustrative 2016		Illustrative 2015		Change
	R'-billion	% of total	R'-billion	% of total	
Revenue					
International	18,9	50	15,8	48	19%
South Africa	8,1	22	8,2	24	(1%)
Asia Pacific	7,4	20	6,7	20	11%
SSA	3,3	8	2,8	8	18%
Gross revenue	37,7	100	33,5	100	12%
Adjustment*	(2,3)		(1,9)		
Total revenue	35,4		31,6		12%
Normalised operating profit before amortisation					
<i>Adjusted for specific non-trading items ("EBITA")</i>					
International	5,9	63	5,1	59	15%
South Africa	1,5	16	1,8	20	(15%)
Asia Pacific	1,6	17	1,4	17	10%
SSA	0,4	4	0,3	4	31%
Total EBITA	9,4	100	8,6	100	9%

Illustrative comparable earnings – Annexure 1 continued

COMPARABLE GROUP SEGMENTAL ANALYSIS continued

for the year ended 30 June 2016

	Illustrative 2016		Illustrative 2015		Change
	R'-billion	% of total	R'-billion	% of total	
Entity-wide disclosure – revenue					
Commercial revenue by customer geography					
Commercial – Pharmaceutical	27,7	74	25,3	75	10%
Europe CIS	8,5	23	7,0	20	22%
Asia Pacific	6,1	16	5,6	17	8%
South Africa	6,2	17	6,6	20	(6%)
SSA	3,2	9	2,8	8	15%
Latin America (excluding hyperinflationary economy)	2,0	5	2,1	6	(5%)
Middle East and North Africa	0,9	2	0,6	2	51%
USA and Canada	0,8	2	0,6	2	42%
Commercial – Infant nutritionals	3,5	9	3,1	9	13%
Latin America (excluding hyperinflationary economy)	1,5	4	1,3	4	18%
Asia Pacific	1,0	3	1,0	3	6%
South Africa	0,9	2	0,7	2	11%
SSA	0,1	–	0,1	–	51%
Total commercial revenue	31,2	83	28,4	84	10%
Manufacturing revenue by geography of manufacturer					
Manufacturing revenue – FDF	2,1	5	1,5	5	37%
South Africa	0,9	2	0,5	2	69%
Europe CIS	0,7	2	0,5	2	39%
Asia Pacific	0,5	1	0,5	1	–
Manufacturing revenue – APIs	4,4	12	3,6	11	22%
Europe CIS	4,0	11	3,3	10	19%
South Africa	0,4	1	0,3	1	52%
Total manufacturing revenue	6,5	17	5,1	16	26%
Total gross revenue	37,7	100	33,5	100	12%
Adjustment*	(2,3)		(1,9)		
Total revenue	35,4		31,6		12%
Summary of regions					
International	18,4	49	15,4	46	20%
South Africa	8,4	22	8,1	25	2%
Asia Pacific	7,6	20	7,1	21	7%
SSA	3,3	9	2,9	8	16%
Total gross revenue	37,7	100	33,5	100	12%
Adjustment	(2,3)		(1,9)		
Total revenue	35,4		31,6		12%

*The profit share from the SSA Collaboration has been disclosed as revenue in the statement of comprehensive income. For segmental purposes the total revenue from the SSA Collaboration has been included to provide enhanced revenue visibility in this territory.

COMPARABLE GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2016

	Change	Illustrative 2016 R'-billion	Illustrative 2015 R'-billion
Revenue	12%	35,4	31,6
Cost of sales		(17,6)	(16,1)
Gross profit	15%	17,8	15,5
Selling and distribution expenses		(5,9)	(4,8)
Administrative expenses		(2,6)	(2,5)
Net other operating income		0,1	0,4
Normalised operating profit before amortisation	9%	9,4	8,6
Amortisation		(0,6)	(0,5)
Operating profit	8%	8,8	8,1
Net financing costs		(1,9)	(2,0)
Profit before tax	15%	6,9	6,1
Tax		(1,3)	(1,3)
Profit for the year	15%	5,6	4,8

Shareholder statistics (unaudited)

Analysis of shareholders at 30 June 2016

Ordinary shares	Number of shareholders	% of shareholders	Number of shares	% of total shareholding
Size of holding				
1 – 2 500	51 536	93	19 738 120	4,3
2 501 – 12 500	2 910	5	15 213 795	3,3
12 501 – 25 000	415	1	7 357 608	1,6
25 001 – 50 000	260	0	9 169 828	2,0
50 001 and over	423	1	404 871 986	88,8
	55 544	100	456 351 337	100,0

Major shareholders

Institutional shareholders

According to the register of shareholders at 30 June 2016, the following are the top 10 registered institutional shareholders.

Institutional shareholder	Number of shares	% of total shareholding
Public Investment Corporation	45 521 514	10,0
Foord Asset Management	19 384 498	4,2
Government of Singapore Investment Corporation	13 664 491	3,0
Genesis Investment Management	13 501 195	3,0
STANLIB Asset Management	12 436 727	2,7
Vanguard	10 642 698	2,3
BlackRock	10 446 942	2,3
JPMorgan Asset Management	9 346 620	2,1
T. Rowe Price Associates Inc	8 247 990	1,8
Harding Loevner Management	8 232 952	1,8
	151 425 627	33,2

Top 10 beneficial shareholders

According to the register of shareholders at 30 June 2016, the following are the top 10 registered beneficial shareholders. The shareholdings of all directors are disclosed on page 107 of the Remuneration Report in the Integrated Report.

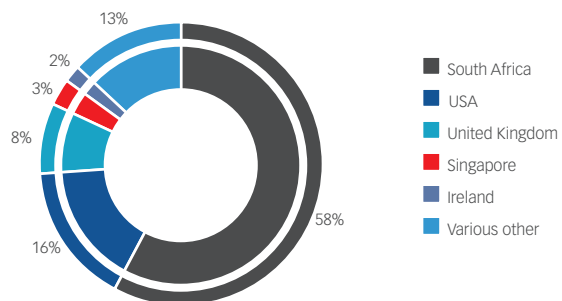
Shareholder	Number of shares	% of total shareholding
Saad, SB	55 349 036	12,1
Government Employees Pension Fund	50 938 348	11,2
Glaxo Group Limited	28 234 379	6,2
Attridge, MG	18 875 422	4,1
Government of Singapore Investment Corporation	10 828 957	2,4
Ceppwawu Investments (Pty) Limited	10 053 368	2,2
Vanguard	9 724 077	2,1
Genesis Investment Management	9 572 831	2,1
Liberty Group	9 404 901	2,1
Foord Asset Management	9 137 082	2,0
	212 118 401	36,5

Shareholders' spread

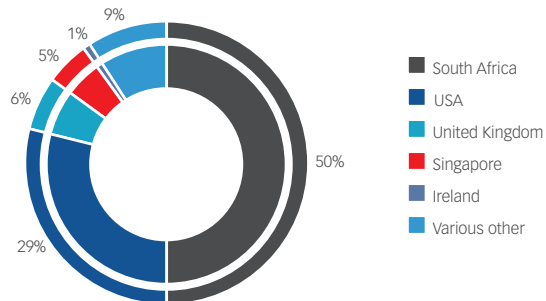
As required by paragraph 8.63 and terms of paragraph of 4.25 of the JSE's Listings Requirements, the spread of the ordinary shareholding at close of business 30 June 2016 was as follows:

	Number of shareholders	Number of shares	% of total shareholding
Non-public shareholders	13	103 134 901	22,6
Directors of the Company and directors of material subsidiaries	11	74 400 776	16,3
Glaxo Group Limited	1	28 234 379	6,2
Employee share trusts – Treasury shares	1	499 746	0,1
Public shareholders	55 531	353 216 436	77,4
Total shareholding	55 544	456 351 337	100

Geographical split of beneficial shareholders

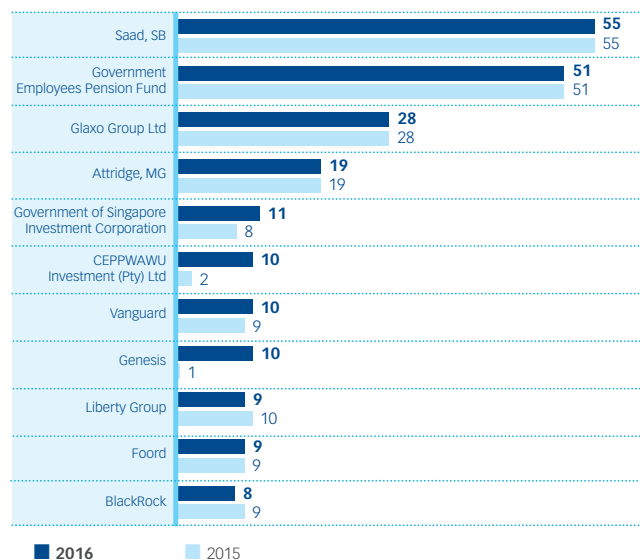


Geographical split of institutional shareholders



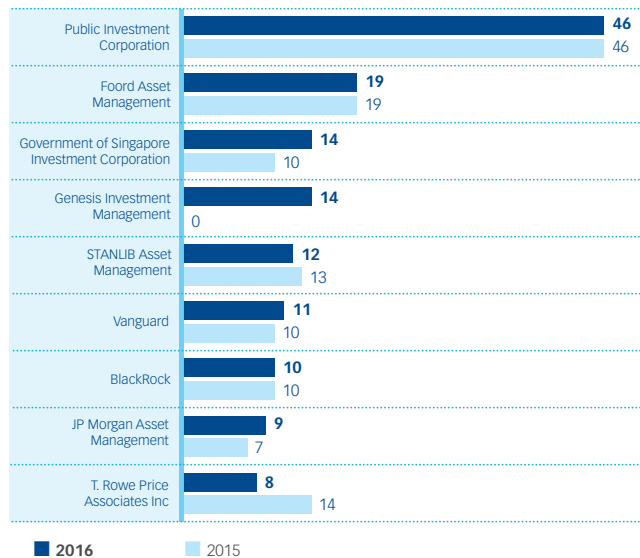
Top 10 beneficial shareholders

(Millions of shares)



Top 10 institutional shareholders

(Millions of shares)



Administration

Company Secretary & Group Compliance Officer

Riaan Verster
B.Proc, LL.B, LL.M (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

Auditors

PricewaterhouseCoopers Inc.

Sponsors

Investec Bank Limited

Transfer secretaries

Trifecta Capital Services (Pty) Limited
31 Beacon Road, Florida North, 1709, Johannesburg
PO Box 61272, Marshalltown, 2107
Telephone 0860 104191
Email aspen@trifectacapital.com

Abbreviations

AGI	Aspen Global Incorporated, a subsidiary incorporated in Mauritius
ANDA	Abbreviated New Drug Application
ANDB	Aspen Notre Dame de Bondeville S.A.S., a wholly owned subsidiary incorporated in France
Annual Financial Statements	The Group and Company Annual Financial Statements for the year ended 30 June 2016
API	Active pharmaceutical ingredient
A&R Co	Audit & Risk Committee
ARV	Anti-retroviral
Aspen and/or Group	Aspen Pharmacare Holdings Limited and/or its subsidiaries as set out in note 24 to the Company financial statements, as the context demands
Aspen Holdings or the Company	Aspen Pharmacare Holdings Limited
Aspen API	Aspen API Incorporated, a wholly owned subsidiary of AGI, incorporated in the USA
Aspen Australia	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
Aspen Bad Oldesloe	Aspen Bad Oldesloe GmbH, a wholly owned subsidiary incorporated in Germany
Aspen Brazil	Aspen Pharma – Indústria Farmacêutica Limitada, a wholly owned subsidiary of PharmaLatina Holdings incorporated in Brazil
Aspen Europe	Aspen Europe GmbH, incorporated in Germany, a wholly owned subsidiary of AGI
Aspen Japan	Aspen Japan KK, incorporated in Japan, a wholly owned subsidiary of AGI
Aspen Mexico	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.
Aspen Oss	Aspen Oss B.V., a subsidiary incorporated in the Netherlands
Aspen Venezuela	Aspen Venezuela C.A. and Aspen Venezuela S.A.
AstraZeneca	AstraZeneca AB and AstraZeneca UK
BBBEE	Broad-Based Black Economic Empowerment
BBBEE Codes	The Department of Trade and Industry's BBBEE Codes of Good Practice
CAGR	Compound annual growth rate
CariCam	Caribbean and Central America
CIS	The Commonwealth of Independent States, comprising Russia and the former Soviet Republics
Classic brands	A portfolio of 25 established prescription- branded products acquired from GSK
DIFR	Disabling incident frequency ratio
EBITA	Operating profit before amortisation adjusted for specific non-trading items as set out in the segmental analysis contained in the Annual Financial Statements
ERM	Environmental Resources Management (Pty) Limited
FCC	Fine Chemicals Corporation (Pty) Limited
FDF	Finished dosage form
Global brands	Branded products owned by Aspen Global and distributed into multiple territories
GMP	Good Manufacturing Practice
GRI	Global Reporting Initiative
GSK	GlaxoSmithKline Plc
HEPS	Headline earnings per share
HR	Human Resources
HPC	Hydroxyprogesterone Caproate
IFRS	International Financial Reporting Standards

Abbreviations continued

IMS	IMS Health (Pty) Limited, a leading provider of healthcare and pharmaceutical market intelligence
Internal Audit	The Aspen Group Internal Audit function
JSE	JSE Limited, licensed as an exchange under the Security Services Act, No 36 of 2004
Kama	Kama Industries Limited, a subsidiary incorporated in Ghana
King III	King Report on Corporate Governance for South Africa 2009
KPIs	Key performance indicators
Litha	Litha Pharma (Pty) Limited
LWDFR	Lost work day frequency ratio
Mandela Day	Nelson Mandela International Day
MENA	Middle East and North Africa
MSD	Merck Sharpe & Dohme
NHEPS	Normalised headline earnings per share
Norgine	Norgine (Pty) Limited
NZNM	New Zealand New Milk Limited
OECD	Organisation for Economic Cooperation and Development
OTC	Over-the-counter
Pharmacare	Pharmacare Limited
PBS	Pharmaceutical Benefits Scheme
PHEF	The South African Public Healthcare Enhancement Fund
PwC	PricewaterhouseCoopers Incorporated
R&N Co	Remuneration & Nomination Committee
S&E Co	Social & Ethics Committee
SED	Socio-economic development
SEP	Single exit pricing
SHE	Safety, health and environment
Shelys	Shelys Pharmaceuticals Limited, incorporated in Tanzania
Shelys Africa	Comprises Shelys Africa Limited, Shelys Pharmaceuticals Limited, Shelys Pharmaceuticals International Limited, Beta Healthcare Kenya Limited and Beta Healthcare (Uganda) Limited
SSA	Sub-Saharan Africa
Supplementary Documents	The Unabridged Corporate Governance Report including the reports of the A&R Co and S&E Co, the Sustainability Data Supplement and the Annual Financial Statements
The SSA Collaboration	The GSK Aspen Healthcare for Africa Collaboration
The Companies Act	The South African Companies Act, No 71 of 2008
UN Global Compact	United Nations Global Compact
USA	United States of America
AUD	Australian Dollar
EUR	Euro
GBP	British Pound
R/ZAR	South African Rand
USD	United States Dollar
VEF	Venezuelan Bolivar

Disclaimer

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