4. NON-FINANCIAL INSTRUMENTS continued

4.1 Goodwill continued

The discount rates used are pre-tax and reflect specific risks relating to the relevant companies. The growth rate is used to extrapolate cash flows beyond the budget period. The growth rates were consistent with publicly available information relating to long-term average growth rates for each of the markets in which the cash-generating units operate. The discount rates used for the prior year were adjusted to reflect the Group's target debt to equity ratio. This did not give rise to any impairments in the prior period.

For all goodwill balances, except the goodwill balances mentioned below, if one or more of the inputs were changed to a reasonable possible alternative assumption, there would be no impairments that would have to be recognised.

The discount rate used when calculating the value-in-use calculations would need to be increased by the following amounts before any impairments would need to be recognised:

	Increase in discount rate %	Decrease in terminal growth rate %	Excess over carrying value R'000
3G Mobile Proprietary Limited	0.8	1.4	28 391
Airvantage Proprietary Limited	0.2	0.7	1 199
AV Technology Limited	0.3	0.5	2 015
CEC Proprietary Limited	2.3	5.5	279 202
Glocell Distribution Proprietary Limited	3.1	4.2	40 855

In the event of Cell C being liquidated, the goodwill allocated to the Airvantage cash-generating unit, would be at risk of impairment.

In addition to the value-in-use calculations referred to above, the Group applied an alternative method using the fair value less cost to sell approach in determining the recoverable amount of CEC Proprietary Limited. Based on this method the recoverable amount is sufficient to support the carrying value of the investment as at 31 May 2019.

The goodwill in Reware Proprietary Limited of R1.1 million was fully impaired, and the goodwill in Viamedia Proprietary Limited and Blue Label Connect Proprietary Limited were partially impaired by R74 million and R49.2 million respectively in the current financial year. There were no goodwill impairments in the prior year.

Viamedia impairment

Viamedia's performance has been negatively impacted as a result of a sector-wide decline in the B2C (direct to consumer) WASP industry. Previously this was significantly offset by growth in its Enterprise division. However, over the past six months, the latter division has flat-lined, which together with the continued decline in the B2C channel, has caused a negative impact on operating profits with marginal growth expectations going forward.

Consequently, the decline in the value-in-use of the company has resulted in an impairment to Goodwill of R74 million.

Blue Label Connect

Blue Label Connect's performance has been negatively impacted as a result of challenging economic conditions that have affected one of its major clients. Furthermore, margin compression resulting from reduced incentives from the networks as well as an increase in product costs, has resulted in an impairment of R49.2 million to goodwill.

4.2 Intangible assets

(a) Distribution agreements and customer relationships

Distribution agreements and customer relationships acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3 – *Business Combinations*, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses.

Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (three to 20 years).

Distribution agreements purchased are initially shown at cost, and are subsequently carried at the initial cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (20 years).

4. NON-FINANCIAL INSTRUMENTS continued

4.2 Intangible assets continued

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software has a finite useful life and is subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful life (three to 10 years).

Costs associated with the maintenance of existing computer software program are expensed as incurred.

(c) Internally generated software development

Costs incurred on development projects are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset and that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Research expenditure is recognised as an expense as incurred. Other development expenditures 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. Capitalised internally generated software development costs are recorded as intangible assets and amortised from the point at which the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management) on a straight-line basis over its useful life (five to 10 years). Direct costs include the product development employee costs and an appropriate portion of relevant overheads. Costs associated with the maintenance of existing products are expensed as incurred.

(d) Purchased starter pack bases and postpaid bases

Starter packs capitalised represent customer relationships that the Group has contractually acquired. The purchased starter pack base asset is identifiable as it arises from a contract. The contract provides the Group with control over the customer base. The customer base does not have physical substance and is therefore intangible. This asset provides the Group with the ability to generate future economic benefits if the Group provides connection, upgrade and sales services to the customer base, therefore the asset is non-monetary.

Purchased starter pack bases are initially recognised at the cost to the Group. Starter pack bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (10 years).

Purchased postpaid bases represent the right to earn revenue from the cellular network in respect of contracts forming part of the acquired base. Postpaid bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (10 years).

Critical accounting estimates and assumptions

Purchased starter pack bases and postpaid starter pack bases

The relative size of the Group's purchased starter pack bases and postpaid starter pack bases makes the judgements surrounding the estimated useful lives and residual values critical to the Group's financial position and performance. Useful lives are reviewed on an annual basis with the effects of any changes in estimate accounted for on a prospective basis. The residual values of these assets are assumed to be zero. The current useful life of these bases is estimated to be 10 years, based on management's estimates and taking into account historical experience as well as future events which may impact the useful lives.

4. NON-FINANCIAL INSTRUMENTS continued

4.2 Intangible assets continued

	Distribution agreement R'000	Customer relationships R'000	Computer software R'000	Internally generated software development R'000	Purchased starter pack bases and postpaid bases R'000	Total R'000
Year ended 31 May 2019						
Opening carrying amount	702 603	93 035	74 376	52 134	154 721	1 076 869
Additions	–	17 773	27 706	28 075	2 377	75 931
Acquisition of subsidiaries	–	128 107	2 316	–	–	130 423
Disposals	–	–	109	–	(110)	(1)
Amortisation charge	(80 518)	(35 593)	(37 358)	(19 468)	(30 492)*	(203 429)
Impairments	–	–	–	(5 111)	–	(5 111)**
Translation difference	–	8 597	49	–	–	8 646
Closing carrying amount	622 085	211 919	67 198	55 630	126 496	1 083 328
At 31 May 2019						
Cost	858 698	421 012	180 648	125 398	581 831	2 167 587
Accumulated amortisation	(234 735)	(208 478)	(112 753)	(55 179)	(455 335)	(1 066 480)
Accumulated impairments	(1 878)	(615)	(697)	(14 589)	–	(17 779)
Carrying amount	622 085	211 919	67 198	55 630	126 496	1 083 328
Year ended 31 May 2018						
Opening carrying amount	214 215	979	61 505	46 247	188 218	511 164
Additions	–	–	16 396	14 787	–	31 183
Acquisition of subsidiaries	541 247	97 368	27 732	7 491	–	673 838
Amortisation charge	(52 858)	(5 311)	(30 915)	(16 391)	(33 497)	(138 972)
Impairments	–	–	(338)	–	–	(338)
Translation difference	–	–	(4)	–	–	(4)
Closing carrying amount	702 604	93 036	74 376	52 134	154 721	1 076 871
At 31 May 2018						
Cost	858 698	264 815	183 620	125 884	579 564	2 012 581
Accumulated amortisation	(154 216)	(171 164)	(108 547)	(59 161)	(424 843)	(917 931)
Accumulated impairments	(1 878)	(615)	(697)	(14 589)	–	(17 779)
Carrying amount	702 604	93 036	74 376	52 134	154 721	1 076 871

* *Included in the amortisation charge is an amount of R30.5 million (2018: R33.5 million) in respect of the purchased starter pack bases and postpaid bases, which is charged to the changes in inventories of finished goods line in the income statement.*

** *Included in Depreciation and amortisation on the Group income statement.*