Notes to the Group annual financial statements
continued

for the year ended 31 May 2021

4. Non-financial instruments

Non-financial instruments comprise:
- goodwill;
- intangible assets;
- property, plant and equipment;
- inventories; and
- provisions

Impairment of non-financial assets

The Group evaluates the carrying value of assets with finite useful lives when events and circumstances indicate that the carrying value may not be recoverable and when there are indicators of impairment. These assets are tested annually for impairment and more frequently when events or circumstances indicate that there may be impairment.

An impairment loss is recognised in the income statement when the carrying amount of an asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the fair value less cost of disposal (the amount obtainable from the sale of an asset in an arm's-length transaction between knowledgeable willing parties), or its value-in-use. Value-in-use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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 levels for which there are separately identifiable cash flows.

An impairment loss recognised for an asset, other than goodwill, in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and the recoverable amount exceeds the new carrying amount. The reversal of the impairment is limited to the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. The reversal of such an impairment loss is recognised in the income statement in the same line item as the original impairment charge.

4.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is attributable to synergies that the Group expects to derive from the transaction. If the cost of acquisition is less than the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Goodwill on the acquisition of subsidiaries is included in "Goodwill" in the statement of financial position. Goodwill on acquisition of associates and joint ventures is included in "Investments in and loans to associates and joint ventures".

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment is recognised.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

4. Non-financial instruments continued

4.1 Goodwill continued

Critical accounting estimates and assumptions

Assessment of goodwill for impairment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

	2021 R'000	2020 R'000
Year ended 31 May		
Opening carrying amount	**681 243**	1 234 995
Acquisition of subsidiary	**511**	643
Disposal of subsidiaries	**—**	(295 225)
Impairment of goodwill	**—**	(259 170)
Closing carrying amount	**681 754**	681 243
At 31 May		
Cost	**1 077 452**	1 076 941
Accumulated impairments	**(395 698)**	(395 698)
Carrying amount	**681 754**	681 243

The carrying amount of goodwill and intangible assets is reduced to their recoverable amounts through recognition of an impairment loss when required. 2021: nil (2020: R259.2 million).

The cash-generating units to which goodwill is allocated are presented below:

	2021 R'000	2020 R'000
Blue Label Distribution Proprietary Limited	**36 364**	36 364
CEC Proprietary Limited	**335 468**	335 468
Datacel Group	**79 854**	79 854
Glocell Distribution Proprietary Limited	**161 697**	161 697
Heroticket Proprietary Limited	**511**	—
The Prepaid Company Proprietary Limited	**62 113**	62 113
TicketPros Proprietary Limited	**5 104**	5 104
Visual Revenue Management Proprietary Limited	**643**	643
	681 754	681 243

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The recoverable amount has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

Notes to the Group annual financial statements continued

for the year ended 31 May 2021

4. Non-financial instruments continued

4.1 Goodwill continued

The key assumptions used for the value-in-use calculations are as follows:

	2021			2020		
	Average EBITDA margin %	Terminal growth rate %	Pre-tax discount rate %	Average EBITDA margin %	Terminal growth rate %	Pre-tax discount rate %
Blue Label Distribution Proprietary Limited	**3.4**	**5.0**	**24.0**	2.8	4.5	19.9
CEC Proprietary Limited	**22.5**[1]	*	**21.6**	14.2	*	28.4
Datacel Group	**12.1**	**5.0**	**22.5**	13.8	4.5	21.5
Glocell Distribution Proprietary Limited	**53.9**[2]	**5.0**	**20.8**	8.4	4.5	21.0
The Prepaid Company Proprietary Limited	**2.8**	**5.0**	**14.9**	3.6	4.5	16.3
TicketPros Proprietary Limited	**22.0**	**5.0**	**34.0**	24.5	4.5	25.0

[1] The 8.3% increase in average EBITDA margin is directly aligned to the nine-year contract entered into by CEC in the current financial year.

* The value-in-use calculation performed on CEC covers a fixed term of nine years based on the time frame of the underlying contract, hence no terminal growth rate is applied.

[2] The 45.5% increase in average EBITDA margin results from the reclassification of airtime and data revenue and related costs in line with the agent principle within IFRS 15, due to a change in business model, which had the effect of shifting control, primary obligor, price risk and inventory risk away from Glocell Distribution.

The discount rates used are pre-tax and reflect specific risks relating to the relevant associates and subsidiaries. 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 companies/cash-generating units operate. The Group's target debt to equity ratio is applied in the calculation of the weighted average cost of capital.

For all goodwill balances, except the goodwill tested for sensitivity 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 following inputs applied when calculating the value-in-use calculation would need to be increased/decreased by the following amounts before any impairments would be required:

	Increase in discount rate %	Reduced annual increase in subscription base Units	Decrease in annual EBITDA %	Decrease in terminal growth rate R'000	Excess over carrying value R'000
CEC Proprietary Limited	**0.3**	**2 904**	**1.6**	**n/a**	**31 894**
Glocell Distribution Proprietary Limited	**1.0**	**n/a**	**9.1**	**1.5**	**13 842**

The goodwill balances did not result in impairment charges for the year when compared to recoverable amounts (2020: R259.2 million).