4. NON-FINANCIAL INSTRUMENTS

Non-financial assets comprise:

- goodwill;
- intangible assets;
- property, plant and equipment; and
- inventories.

Impairment of non-financial assets

The Group evaluates the carrying value of assets with indefinite 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 the 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.

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.

	2024 R'000	2023 R'000
Year ended 31 May		
Opening carrying amount	**717 475**	681 754
Acquisition of subsidiaries	**—**	35 721
Closing carrying amount	**717 475**	717 475
At 31 May		
Cost	**1 113 173**	1 113 173
Accumulated impairments	**(395 698)**	(395 698)
Carrying amount	**717 475**	717 475

The carrying amount of goodwill and intangible assets is reduced to their recoverable amounts through recognition of an impairment loss when required.

4. NON-FINANCIAL INSTRUMENTS continued

4.1 Goodwill continued

Assessment of goodwill for impairment continued

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

	2024 R'000	2023 R'000
Aligned Partnered Solutions Proprietary Limited	**4 091**	4 091
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**	511
Lipa Payments Proprietary Limited	**31 630**	31 630
The Prepaid Company Proprietary Limited	**62 113**	62 113
TicketPros Proprietary Limited	**5 104**	5 104
Visual Revenue Management Proprietary Limited	**643**	643
	717 475	717 475

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 utilise cash flow projections derived from budget information for the forthcoming financial year that are approved by the Board of Directors, as well as management forecasts for an extended four-year period, which are based on assumptions of the business, industry, and economic growth. The forecasts are extended to ten years where required to achieve sustainable operating levels. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

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

	2024			2023		
	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	**6.1**	**4.5**	**30.2**	4.3	4.5	22.1
CEC Proprietary Limited	**13.5[2]**	**4.5[1]**	**22.9**	22.5	—[1]	19.6
Datacel Group	**13.3**	**4.5**	**31.2**	16.7	4.5	26.3
Glocell Distribution Proprietary Limited	**89.7[3]**	**4.5**	**19.5**	40.5	4.5	20.6
Lipa Payments Proprietary Limited	**4.0**	**4.5**	**24.3**	—	—	—
The Prepaid Company Proprietary Limited	**2.5**	**4.5**	**21.6**	2.1	4.5	22.1

[1] In the prior year, the value-in-use calculation performed on CEC covered a fixed term of nine years based on the time frame of the underlying contract and the assumption that Cell C would purchase the book at the conclusion thereof. No terminal value calculation was therefore applied. In the current year, the assumption is that CEC will purchase the book and continue operations into the future. Cash flows were therefore extrapolated using a terminal growth rate.

[2] The decrease in the average EBITDA margin is primarily attributable to the impact of the handset financing structure and increased expected credit losses.

[3] The increase in the average EBITDA margin is primarily attributable to a restructuring of 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 forecast 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 significant 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 %	Decrease in annual EBITDA %	Decrease in terminal growth rate R'000	Excess over carrying value R'000
CEC Proprietary Limited	**0.8**	**3.0**	**1.4**	**141 281**
Glocell Distribution Proprietary Limited	**2.4**	**12.6**	**4.5**	**30 796**
The Prepaid Company Proprietary Limited	**1.2**	**14.0**	**3.4**	**146 178**

The goodwill balances did not result in impairment charges for the year when compared to recoverable amounts (2023: Rnil).

4.2 Intangible assets

Intangible assets acquired through business combinations are initially carried at fair value as determined in accordance with IFRS 3 – *Business Combinations*. Intangible assets purchased are initially carried at cost.

Intangible assets have a finite life (unless indicated otherwise) and are stated at cost, less accumulated amortisation and accumulated impairment losses, if any. Useful lives are reviewed on an annual basis, and adjusted if appropriate.

Amortisation is calculated using the straight-line method to allocate the cost of the intangible asset over its estimated useful life.

(a) Distribution agreements and customer relationships

Distribution agreements and customer relationships are amortised over their estimated useful lives of up to 13 years.

(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. Amortisation is calculated for computer software over its estimated useful life (three to 10 years).

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

(c) Internally generated software development

Costs incurred on development projects are recognised as intangible assets when the recognition criteria as set out in IAS 38 is met, which includes when there is an ability to use or sell the intangible asset and that it can be demonstrated how the intangible asset will generate probable future economic benefits.

Research expenditure and 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) 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 is intangible as it does not have physical substance and is non-monetary. 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.

Amortisation is calculated over their estimated useful lives (10 years).

Purchased postpaid bases represent the right to share in the revenue of the cellular network in respect of contracts forming part of the acquired base, which comprises identifiable subscribers. Amortisation is calculated over their estimated useful lives (10 years).