

Notes to the financial statements continued

for the year ended 31 March 2020

14. Intangible assets

Group	2020			2019		
	Cost Rm	Accumulated amortisation and write-offs Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and write-offs Rm	Carrying value Rm
Goodwill	1 268	(9)	1 259	1 268	(9)	1 259
Trademarks, copyrights and other	591	(381)	210	769	(512)	257
Software	12 932	(9 882)	3 050	12 030	(9 284)	2 746
Under construction	220	–	220	259	–	259
	15 011	(10 272)	4 739	14 326	(9 805)	4 521

Company						
Trademarks, copyrights and other	42	(39)	3	37	(37)	–
Software	12 322	(9 402)	2 920	11 601	(8 974)	2 627
Under construction	216	–	216	203	–	203
	12 580	(9 441)	3 139	11 841	(9 011)	2 830

The carrying amounts of intangible assets can be reconciled as follows:								
Group	Carrying value at the beginning of the year Rm	Additions Rm	Business combination Rm	Transfers Rm	Disposals Rm	Amortisation Rm	Write-offs and impairments Rm	Carrying value at the end of the year Rm
2020								
Goodwill	1 259	–	–	–	–	–	–	1 259
Trademarks, copyrights and other	257	10	4	6	(7)	(54)	(6)	210
Software	2 746	897	–	191	(2)	(625)	(157)	3 050
Under construction	259	78	–	(107)	(2)	–	(8)	220
	4 521	985	4	90	(11)	(679)	(171)	4 739
2019								
Goodwill	1 253	–	15	–	–	–	(9)	1 259
Trademarks, copyrights and other	242	15	4	65	–	(57)	(12)	257
Software	2 845	492	(3)	120	(30)	(645)	(33)	2 746
Under construction	152	117	–	(7)	–	–	(3)	259
	4 492	624	16	178	(30)	(702)	(57)	4 521

The carrying amounts of intangible assets can be reconciled as follows:		Carrying value at the beginning of the year Rm	Additions Rm	Transfers Rm	Amortisation Rm	Write-offs, impairments and impairment reversals Rm	Carrying value at the end of the year Rm
Company							
2020							
Trademarks, copyrights and other		–	1	3	(1)	–	3
Software		2 627	792	75	(578)	4	2 920
Under construction		203	72	(56)	–	(3)	216
		2 830	865	22	(579)	1	3 139
2019							
Software		2 726	409	79	(567)	(20)	2 627
Under construction		82	100	24	–	(3)	203
		2 808	509	103	(567)	(23)	2 830

The goodwill in Group is attributable to Yellow Pages, goodwill that arose on acquisition of BCX in August 2015 and subsequent acquisitions made by the BCX Group.

Intangible assets that are material to the Group consist of software, trademarks and other, whose average remaining amortisation period is 4 years (31 March 2019: 2.2 years).

No other intangible asset apart from goodwill has been assessed as having an indefinite useful life.

Intangible assets under construction are included for testing in the impairment testing for the Telkom CGU. No impairment was identified.

Approximately R428 million (31 March 2019: R265 million) and R314 million (31 March 2019: R165 million) of additions relate to externally acquired intangible assets for Group and Company, respectively, while R548 million (31 March 2019: R357 million) relates to internal developments for Group and R547 million (31 March 2019: R345 million) relates to internal developments for Company.

Changes to the estimated useful lives of intangible assets resulted in a decrease in amortisation to the value of R17 million (31 March 2019: R21 million) for Company and R23 million (31 March 2019: R25 million) for Group. Refer to note 6 for the useful lives.

Where assets have become technologically obsolete or can no longer contribute towards the Group and Company's revenue generating capacity, the assets are written off or impaired. The total impairment and write-off balance is not considered significant to the financial statements as a whole in the current or prior financial year.

	Group	
	2020 Rm	2019 Rm
The Group's goodwill balance is reconciled as follows:		
Opening balance	1 259	1 253
Acquisition of NGA (Pty) Ltd	–	15
Impairment of African Arete	–	(9)
Closing balance	1 259	1 259

Description	Telkom CGU Rm	BCX CGU Rm	Total goodwill recognised Rm
Carrying amount	63	1 196	1 259

Impairment considerations - including the impact of COVID-19

Management has performed an annual impairment assessment for all goodwill balances as at 31 March 2020 in line with the requirements of IAS 36 *Impairment of Assets*, and performed impairment assessments for assets where impairment indicators were identified. Management also tested the investments in BCX for impairment.

The following key indicators of impairment were identified:

- Market capitalisation fell below the net asset value;
- The budget was not achieved in 2020 due to a decline in fixed-line revenue, additional impairment recognised for trade receivables and contract assets, as well as the significant staff retrenchment costs; and
- COVID-19 trigger for impairment of the underlying assets.

COVID-19 implications on the cash flow forecast

Management completed a scenario analysis with respect to the impact of COVID-19. Scenarios associated with the potential impact of COVID-19 on future cash flow projections have been considered given the evidence available at the time of finalising the annual financial statements.

These scenarios considered the following:

- the length of the lockdown and the potential impacts;
- macro-economic and industry factors;
- global trends;
- the impact of rating agencies downgrades on the South African market;
- Telkom credit rating downgrade;

- impact of job losses and limited resources to further squeeze low-income consumers;
- GDP;
- inflation; and
- growth rates.

Further, several macro trends emerging, that will shape the face of the telecoms industry and the evaluation of industries that are expected to experience differing demand profiles based on the lifting of COVID-19 lockdown restrictions, regardless of disease outcome, were factored into management's assessment.

IFRS 16 impact on the cash flow forecasts

As a right-of-use ("ROU") asset does not generate cash inflows largely independent from other assets, the ROU asset will be tested for impairment together with the CGU to which such asset belongs.

From an IFRS 16 perspective, the assumptions assume the reinvestment of the ROU asset, that is cash flows to replace the ROU have been included in the model.

Due to the adoption of IFRS 16, management adjusted the value-in-use model by excluding the cash outflows in respect of the lease payments as it relates to financing and including the cash outflows to replace the ROU asset. The discount rate has been adjusted to include the lease liability and the cost of leasing.

Notes to the financial statements continued

for the year ended 31 March 2020

14. Intangible assets continued

BCX CGU

Value in use, using the discounted cash flow method, was adopted as the valuation basis. Based on this, the income approach was used. A five-year period is used for the discounted cash flows, approved by senior management and/or the Board of directors of the Group.

The valuation was performed on an Enterprise value basis.

The value in use calculation took into consideration the following key assumptions:

Fair value charge

BCX cash flows are generated using Telkom's network assets. A fair value contributory asset charge was derived for the use of the network asset between Telkom Company and BCX, which informed the identification of BCX as a separate CGU. This was based on the products Telkom Company sells to BCX. A fair value charge was derived on the margin BCX earns through the external sale of its products.

EBITDA margin

The budgeted EBITDA margin was used based on past experience and management's future expectations of business performance. The valuation was performed using cash flows which incorporated the impact of COVID-19.

Growth rates

The growth rates were consistent with publicly available information relating to long-term average growth rates for the market in which the CGU operated. The compound annual growth rate used is 4.5%.

Terminal growth rates

A terminal growth rate of 5% was applied. The growth rate considered steady state of growth rates to extrapolate revenue beyond the forecast period cash flows.

Discount rate

Discount rates used reflect both time value of money and other specific risks relating to the entity were used. The discount rate was calculated based on comparable companies in the industry.

In the valuation, a WACC range of 16.2% to 17.1% has been applied as a discount rate. A perpetuity calculation was also included after 5 years as per the terminal growth rate disclosure above.

Based on the value in use calculation, the estimated value in use of BCX significantly exceeds the carrying amount of the BCX CGU. As such, there is no impairment loss to be recognised.

Sensitivity to changes in assumptions

Given the significant headroom computed, no further sensitivity analysis has been performed.

Telkom CGU

Value in use, using the discounted cash flow method, was adopted as the valuation basis. Based on this, the income approach is used as the primary valuation approach, with the market approach as a cross check. The latter involves calculating multiples of comparable listed

companies and comparing the results to the implied Telkom multiple from the income approach valuation. A five-year period is used for the discounted cash flows, approved by senior management and/or the Board of directors of the Group.

The Telkom CGU was then valued using a sum-of-the-parts approach. The valuation was performed on an Enterprise value basis.

The value in use calculation took into consideration the following key assumptions:

Fair value charge

BCX cash flows are generated using Telkom's network assets. A fair value income was derived for the use of the network asset between Telkom Company and BCX, which informed the identification of BCX as a separate CGU. This was based on the products Telkom Company sells to BCX. A fair value income was derived on the margin BCX earns through the external sale of its products.

EBITDA margin

The budgeted EBITDA margin is based on experience and management's future expectations of business performance. The valuation was performed using cash flows which incorporated the impact of COVID-19.

Growth rates

The growth rates were consistent with publicly available information relating to long-term average growth rates for the market in which the CGU operated. The compound annual growth rate used is 4.5%.

Terminal growth rates

A terminal growth rate of 5% was applied. The terminal value was determined at the end of year 5 of the cash flow forecasts. The growth rate considered steady state of growth rates to extrapolate revenue beyond the forecast period cash flows.

Discount rate

In the valuation, a WACC range of 12% to 12.4% has been applied as a discount rate. No specific risk premiums applied, as potential forecast risks were modelled as scenarios. A perpetuity calculation was also included after 5 years as per the terminal rate disclosure above.

Based on the value in use calculation, the estimated value in use of Telkom exceeded its carrying amount by R 1 867 million. As the indicated value in use range exceeds the carrying amount of the Telkom CGU, there is no impairment loss to be recognised.

Sensitivity to changes in assumptions

The recoverable amount is most sensitive to the discount rate and long-term growth rate. The following specific change in the discount rates or long-term growth rates of the Telkom CGU would result in the recoverable amount being equal to the carrying amount of the net assets of the CGU:

31 March 2020

Telkom cash-generating unit	Absolute change in the discount rate %	Absolute change in the terminal growth rate %
	0.12	0.4