Notes to the financial statements continued

for the year ended 31 March 2024

5. Long-term assets continued

5.2 Intangible assets continued

The goodwill in Group is attributable to goodwill that arose on acquisition of BCX in August 2015 and subsequent acquisitions made by BCX and BCX's acquisition of Dotcom Software Solutions (Pty) Ltd in December 2022.

Intangible assets that are material to the Group consist of software, trademarks and other, whose average remaining amortisation period is two years (31 March 2023: two 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, BCX and Openserve CGUs.

Approximately R1 098 million (31 March 2023: R1 328 million) and R1 010 million (31 March 2023: R1 176 million) of additions relate to externally acquired intangible assets for the Group and the Company, respectively, while R324 million (31 March 2023: R506 million) relates to internal developments for the Group and R237 million (31 March 2023: R461 million) relates to internal developments for the Company. Additions of R3 million for Group relate to Swiftnet additions which is classified as held for sale.

Changes to the estimated useful lives of intangible assets resulted in a decrease in amortisation to the value of R2 million (31 March 2023: R128 million) for the Company and R8 million (31 March 2023: 132 million) for the Group. Refer to note 3.4.9 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. The total write-off balance is not considered significant to the financial statements as a whole in the current or prior financial years.

5.3 Impairment of goodwill and cash-generating units

Significant accounting judgements, estimates and assumptions

CGU impairment assessment
IAS 36 (Impairment of Assets) requires assets to be assessed for impairment when impairment indicators are evident. This standard also requires goodwill to be assessed for impairment on an annual basis.

In determining the recoverable amount of the Group's CGUs, the Group considered several sources of estimation uncertainty and makes certain assumptions or judgements about the future.

Management uses the cash flow projections per the Board-approved business plans. These cash flow projections are based on a five-year outlook for the current year-end. Management applied the following key assumptions in the discounted cash flow (DCF) valuation model:

- Revenue growth;
- EBITDA margins;
- Discount rates; and
- Terminal growth rates.

Summary of material accounting policies

Measurement
Goodwill is measured at cost less accumulated impairment losses and is not amortised. Goodwill is tested for impairment annually or when an indication of impairment exists.

Goodwill impairment assessment
Goodwill arising in a business combination is recognised as an intangible asset at the date of acquisition.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net fair value of the acquiree's identifiable net assets.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

Notes to the financial statements continued

for the year ended 31 March 2024

5. Long-term assets continued

5.3 Impairment of goodwill and cash-generating units continued

	Group	
The Group's goodwill balance is as follows:	**2024 Rm**	2023 Rm
Opening balance	**1 295**	1 259
Acquisition of Dotcom Software Solutions (Pty) Ltd	**–**	99
Impairment	**–**	(63)
Closing balance	**1 295**	1 295

Description	**BCX CGU Rm**	**Total goodwill recognised Rm**
Carrying amount	**1 295**	**1 295**

Impairment considerations

The Group tests impairment at a cash-generating unit (CGU) level. As a right-of-use (ROU) asset does not generate cash inflows largely independent from other assets, the ROU asset is tested for impairment together with the CGU to which such an asset belongs. From an IFRS 16 perspective, the assumptions assume the reinvestment of the ROU asset, i.e. cash flows to replace the ROU asset have been included in the model. 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 Group's CGUs consist of Telkom Consumer, Openserve, BCX and Gyro. BCX is the only CGU that has goodwill. In line with IAS 36 (Impairment of Assets), management has performed an annual impairment assessment of CGUs as of 31 March 2024.

Management has identified impairment indicators on the Telkom Consumer and Openserve CGUs, and further details are noted below.

The Group utilised the value in use, using the discounted cash flow method, as the valuation basis for all CGUs. 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 the Group.

Notes to the financial statements continued

for the year ended 31 March 2024

5. Long-term assets continued

5.3 Impairment of goodwill and cash-generating units 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 the Group.

The BCX 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:

EBITDA margin

The budgeted EBITDA margin was used, based on past experience and management's future expectations of business performance.

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 for revenue is 4.9% (31 March 2023: 8.4%) and EBITDA ranges between 11.5% and 16.0% (31 March 2023: 12.6% and 15.5%).

Terminal growth rates

A terminal growth rate of 5% (31 March 2023: 4% to 5%) was applied. The terminal value was determined at the end of year five 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

The discount rate used reflects both time value of money and other specific risks relating to the entity. The discount rate was calculated based on comparable companies in the industry. An equity market risk premium was applied to account for the additional risk associated with equity investments, in excess of the risk-free rate.

The pre-tax discount rate for the BCX CGU is 21.6% (31 March 2023: 21.3% to 22.5%). An in-perpetuity calculation was also included after five years as per the terminal growth rate disclosure.

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 Consumer CGU

Telkom Consumer operates in South Africa. The economic climate of South Africa is under strain due to numerous factors. Telkom Consumer's business is dependent on technology, and for some of its operations the old technology (legacy assets) was still being utilised.

The five-year budgets indicated that the economic performance of the CGU had not materially changed from the previous valuation. Even though the discount rates had sightly increased from the previous valuation, this was not material enough to warrant an impairment loss. Effectively, the five-year budgets have been adjusted to incorporate the changes, resulting in the recoverable amount of the CGU being higher than its carrying value.

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

EBITDA margin

The budgeted EBITDA margin is based on experience and management's future expectations of business performance.

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 for revenue is 3.9% (31 March 2023: 2.6%) and EBITDA is 10.8% (31 March 2023: 14%).

Terminal growth rates

A terminal growth rate of 3% (31 March 2023: 3%) was applied. The terminal value was determined at the end of year five 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

An equity market risk premium was applied to account for the additional risk associated with equity investments, in excess of the risk-free rate. The pre-tax discount rate for the Telkom CGU is 17.4% (31 March 2023: 15% to 16.4%). An in-perpetuity calculation was also included after five years as per the terminal rate disclosure.

Based on the value-in-use calculation, the recoverable amount of the Telkom CGU is higher than the carrying value as at 31 March 2024, indicating no impairment loss.

Sensitivity to changes in assumptions

The recoverable amount is most sensitive to the discount rate and terminal growth rate:

- A 17.93% pre-tax discount rate, in absolute terms, would result in the recoverable amount of Consumer CGU to approximate its carrying amount.
- A 2.47% terminal growth rate, in absolute terms, would result in the recoverable amount of Consumer CGU to approximate its carrying amount.

Openserve CGU

Openserve operates in South Africa. The economic climate of South Africa is under strain due to numerous factors. Openserve's business is dependent on technology, and for some of its operations the old technology (legacy assets) was still being utilised.

The five-year budgets indicated that the economic performance of the CGU had not materially changed from the previous valuation. Even though the discount rates had sightly increased from the previous valuation, this was not material enough to warrant an impairment loss. Effectively, the five-year budgets have been adjusted to incorporate the changes, resulting in the recoverable amount of the CGU being higher than its carrying value.

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

EBITDA margin

The budgeted EBITDA margin is based on experience and management's future expectations of business performance.

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 for revenue is 4.2% (31 March 2023: 3.1%) and EBITDA is 6.2% (31 March 2023: 3.6%).

Notes to the financial statements continued

for the year ended 31 March 2024

5. Long-term assets continued

5.3 Impairment of goodwill and cash-generating units continued

Openserve CGU continued

Terminal growth rates
A terminal growth rate of 5.0% (31 March 2023: 5%) was applied. The terminal value was determined at the end of year five 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
An equity market risk premium was applied to account for the additional risk associated with equity investments, in excess of the risk-free rate. The pre-tax discount rate for the Openserve CGU is 16.7% (31 March 2023: 14.7% to 16.1%). An in-perpetuity calculation was also included after five years as per the terminal rate disclosure.

Based on the value-in-use calculation, the recoverable amount of the Openserve CGU is higher than the carrying value as at 31 March 2024, indicating no impairment loss.

Sensitivity to changes in assumptions
Given the significant headroom computed, no further sensitivity analysis has been performed.

5.4 Investment property

Significant accounting judgements, estimates and assumptions

Impairments of investment property
The Company regularly reviews its non-financial assets and cash-generating units for any indication of impairment. An impairment test is performed when indicators, including changes in technology, market, economic, legal and operating environments, availability of funding or discontinuance of services occur and could result in changes to the asset's or cash-generating unit's estimated recoverable amount.

Previously recognised impairment losses are reviewed annually for any indication that they may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. Such impairment losses are reversed in profit or loss if the recoverable amount has increased as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

Fair value estimation
The Company's investment properties are subject to IAS 16 cost model measurement and as required by IAS 40, the Company discloses the fair value of investment property. Depending on the available information and location of investment property, the Company uses the income capitalisation or repeat sales index system valuation method to determine the fair value of investment properties.

The fair value of investment property is measured at the value calculated internally. The calculation of fair value uses the assumptions such as capitalisation rate, vacancy rate, rental and operating expense rate.

The valuation performed on the investment property will be based on open market value.

Summary of material accounting policies

Recognition of investment property
Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the Company, and the cost of the investment property can be measured reliably.

Property held to earn rentals will be recognised as investment property. Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially to acquire an investment property and costs incurred subsequently to add to, replace part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of a replaced part is derecognised.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Subsequent measurement
Subsequent to initial recognition, investment property is carried at its cost less any accumulated depreciation and any impairment losses.

Investment property is measured in terms of the cost model.

Depreciation and useful lives
Depreciation is charged from the date the asset is available for use on a straight-line basis over the estimated useful life and ceases at the earlier of the date that the asset is classified as held for sale and the date the asset is derecognised.