Notes to the financial statements

for the year ended 31 March 2015

14 Goodwill

Consolidated	Total £'000
Cost	
At 31 March 2014 and 2015	**85,272**
Amounts written off	
At 31 March 2014	—
Impairment	33,900
At 31 March 2015	**33,900**
Net book value	
At 31 March 2015	**51,372**
At 31 March 2014	85,272

Goodwill acquired in a business combination is allocated at the date of acquisition to the CGU that is expected to benefit from that business combination. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for these value in use calculations are those regarding discount rates, growth rates and forecast cash flows. The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the individual CGU. Growth rates reflect long-term growth rate prospects for the UK economy.

The discount rate and growth rate (in perpetuity) used for value in use calculations are as follows:

	2015	2014
Discount rate (pre-tax) % – Group	**8.2**	10.5
Discount rate (pre-tax) % – Eclipse, Kcom and Smart421 CGUs	**9.0**	11.1
Growth rate (in perpetuity) % – Group	**2.0**	2.0

The Group prepares cash flow forecasts using the current operating budget approved by the Directors, which covers a five-year period and an appropriate extrapolation of cash flows beyond this. The cash flow forecasts assume revenue and EBITDA growth in line with our strategic priorities.

At 31 March 2015, before the Group's impairment tests, goodwill of £72,324,000 (2014: £72,324,000) was allocated to the Kcom CGU. The Kcom CGU (which represents principally the Group's Kcom brand) has been affected by the decline of certain traditional legacy activities. The estimates used within our value in use calculation take into account that historical experience and the Board's estimate of future events.

The results of our impairment test indicated that an impairment of £33,900,000 (2014: £Nil) was required. The assumptions within the value in use calculation which had the most significant impact related to movements in cash flows, pre-tax discount rate and perpetuity growth rate. The impairment loss arises within the Kcom segment and has been treated as an exceptional item.

As a result of this impairment charge, the level of headroom is now £Nil and the following changes would therefore impact the remaining carrying value of the Kcom CGU goodwill:

Sensitivity	£'000
0.1% decrease in growth rate (in perpetuity)	(1,471)
0.1% increase in the discount rate (pre-tax)	(1,449)
£1m decrease in net cash flows (in perpetuity)	(10,885)

For the Eclipse and Smart421 CGUs, management has considered the level of headroom resulting from the impairment tests. Where appropriate, further sensitivity analysis has been performed by changing the base case assumptions applicable to each CGU. The analysis has indicated that no reasonably possible changes in any individual key assumption would cause the carrying amount of the business to exceed its recoverable amount.

Following the Group's impairment charge, the carrying amount of goodwill of £51,372,000 (2014: £85,272,000) is allocated across multiple CGUs as follows:

CGUs	2015 £'000	2014 £'000
Eclipse	**7,862**	7,862
Kcom	**38,424**	72,324
Smart421	**5,086**	5,086
At 31 March 2015	**51,372**	85,272