## 14. INTANGIBLE ASSETS

| Group | 2013 Cost Rm | 2013 Accumulated amortisation Rm | 2013 Carrying value before impairment Rm | 2013 Impairment Rm | 2013 Carrying value Rm | 2012 Cost Rm | 2012 Accumulated amortisation Rm | 2012 Carrying value before impairment Rm | 2012 Impairment Rm | 2012 Carrying value Rm |
|---|---|---|---|---|---|---|---|---|---|---|
| Goodwill | **588** | **(517)** | **71** | **–** | **71** | 588 | (75) | 513 | (442) | 71 |
| Trademarks, copyrights and other | **621** | **(444)** | **177** | **(31)** | **146** | 533 | (334) | 199 | (51) | 148 |
| Licences | **–** | **–** | **–** | **–** | **–** | 16 | (16) | – | – | – |
| Software | **8,915** | **(6,042)** | **2,873** | **(944)** | **1,929** | 8,321 | (5,319) | 3,002 | (10) | 2,992 |
| Connection incentive bonus* | **180** | **(180)** | **–** | **–** | **–** | 180 | (43) | 137 | – | 137 |
| Under construction | **435** | **–** | **435** | **–** | **435** | 207 | – | 207 | – | 207 |
| | **10,739** | **(7,183)** | **3,556** | **(975)** | **2,581** | 9,845 | (5,787) | 4,058 | (503) | 3,555 |

| Company | 2013 Cost Rm | 2013 Accumulated amortisation Rm | 2013 Carrying value before impairment Rm | 2013 Impairment Rm | 2013 Carrying value Rm | 2012 Cost Rm | 2012 Accumulated amortisation Rm | 2012 Carrying value before impairment Rm | 2012 Impairment Rm | 2012 Carrying value Rm |
|---|---|---|---|---|---|---|---|---|---|---|
| Trademarks, copyrights and other | **211** | **(117)** | **94** | **(31)** | **63** | 176 | (93) | 83 | – | 83 |
| Software | **8,893** | **(6,022)** | **2,871** | **(944)** | **1,927** | 8,344 | (5,353) | 2,991 | – | 2,991 |
| Connection incentive bonus* | **180** | **(180)** | **–** | **–** | **–** | 180 | (43) | 137 | – | 137 |
| Under construction | **435** | **–** | **435** | **–** | **435** | 207 | – | 207 | – | 207 |
| | **9,719** | **(6,319)** | **3,400** | **(975)** | **2,425** | 8,907 | (5,489) | 3,418 | – | 3,418 |

* *The Connection Incentive Bonus amortisation is not included in the amortisation category of the statement of profit or loss and other comprehensive income but is included under the selling, general and administration expenses category.*

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

*for the year ended 31 March 2013*

## 14. INTANGIBLE ASSETS (continued)

The carrying amounts of intangible assets can be reconciled as follows:

| Group | Carrying value at beginning of year Rm | Additions* Rm | Transfers** Rm | Foreign currency trans-lation Rm | Disposals Rm | Depre-ciation*** Rm | Write-offs Rm | Carrying value before impair-ment Rm | Impair-ment*** Rm | Carrying value at end of year Rm |
|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | | | |
| Goodwill | **71** | **–** | **–** | **–** | **–** | **–** | **–** | **71** | **–** | **71** |
| Trademarks, copyrights and other | **148** | **71** | **18** | **–** | **(1)** | **(58)** | **(1)** | **177** | **(31)** | **146** |
| Software | **2,992** | **471** | **259** | **–** | **–** | **(849)** | **–** | **2,873** | **(944)** | **1,929** |
| Connection incentive bonus | **137** | **–** | **–** | **–** | **–** | **(137)** | **–** | **–** | **–** | **–** |
| Under construction | **207** | **419** | **(191)** | **–** | **–** | **–** | **–** | **435** | **–** | **435** |
| | **3,555** | **961** | **86** | **–** | **(1)** | **(1,044)** | **(1)** | **3,556** | **(975)** | **2,581** |
| 2012 | | | | | | | | | | |
| Goodwill | 449 | – | – | 64 | – | – | – | 513 | (442) | 71 |
| Trademarks, copyrights and other | 167 | 68 | (1) | 32 | – | (67) | – | 199 | (51) | 148 |
| Software | 3,132 | 394 | 199 | – | – | (634) | (89) | 3,002 | (10) | 2,992 |
| Connection incentive bonus | – | 180 | – | – | – | (43) | – | 137 | – | 137 |
| Under construction | 217 | 171 | (181) | – | – | – | – | 207 | – | 207 |
| | 3,965 | 813 | 17 | 96 | – | (744) | (89) | 4,058 | (503) | 3,555 |

## 14. INTANGIBLE ASSETS (continued)

| Company | Carrying value at beginning of year Rm | Additions* Rm | Transfers** Rm | Disposals Rm | Depre-ciation*** Rm | Write-offs Rm | Carrying value before impair-ment Rm | Impair-ment Rm | Carrying value at end of year Rm |
|---|---|---|---|---|---|---|---|---|---|
| **2013** | | | | | | | | | |
| Trademarks, copyrights and other | **83** | **17** | **18** | **–** | **–** | **(24)** | **94** | **(31)** | **63** |
| Software | **2,991** | **468** | **259** | **–** | **–** | **(847)** | **2,871** | **(944)** | **1,927** |
| Connection Incentive Bonus | **137** | **–** | **–** | **–** | **–** | **(137)** | **–** | **–** | **–** |
| Under construction | **207** | **420** | **(192)** | **–** | **–** | **–** | **435** | **–** | **435** |
| | **3,418** | **905** | **85** | **–** | **–** | **(1,008)** | **3,400** | **(975)** | **2,425** |
| 2012 | | | | | | | | | |
| Trademarks, copyrights and other | 101 | 1 | – | – | – | (19) | 83 | – | 83 |
| Software | 3,127 | 394 | 197 | – | (89) | (638) | 2,991 | – | 2,991 |
| Connection Incentive Bonus | – | 180 | – | – | – | (43) | 137 | – | 137 |
| Under construction | 217 | 170 | (180) | – | – | – | 207 | – | 207 |
| | 3,445 | 745 | 17 | – | (89) | (700) | 3,418 | – | 3,418 |

There are no intangible assets whose titles are restricted, or that have been pledged as security for liabilities at 31 March 2013.

The Goodwill in Group mainly relates to Trudon.

Intangible assets that are material to the Group consist of Software, Copyrights and Trademarks whose average remaining amortisation period is 4.6 years (2012: 4.3 years).

The Connection Incentive Bonus is a bonus paid to customers on the connection of the initial subscriber contract in respect of a specific tariff plan, in accordance with the provision of the Incentive Notice Letter.

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

Approximately R263 million (2012: R438 million) and R207 million (2012: R370 million) of additions relate to externally acquired intangible assets for Group and Company, respectively, while R698 million (2012: R375 million) relates to internal developments for Group and Company.

Included in the impairment charge in Group is RNil million (2012: R442 million) on goodwill and RNil million (2012: R52 million) on other intangible assets relating to the iWayAfrica Group and R975 million (2012: RNil million) relating to the impairment of Telkom Cash-Generating Units.

**Impairment testing of Cash-Generating Units (Group and Company)**

During 2013, the Group decided to significantly reduce the size of its legacy network. In line with other fixed-line incumbents globally, the Group has, for more than a decade, faced technological changes, competition from mobile operators and an evolving regulatory landscape which have contributed to lower investment returns from the legacy network assets. While the assets form a significant part of the asset base, they are not relevant in the efficiency focused service offering of the Group, with an emphasis on Internet Protocol compliant assets.

In addition, Telkom shares have also been trading significantly lower than the net asset value (NAV) of a Telkom share which at 31 March 2013 was R58 per share. In accordance with IAS 36, when the carrying value of an entity's net assets is more than its market capitalisation, it is an indication that the carrying value of the assets may be impaired.

These impairment indicators prompted the Group to test the network and related assets for impairment by comparing the recoverable amount to the carrying value. As such, an impairment charge of R12 billion has been processed after the requisite approval by the board of directors.

# NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

*for the year ended 31 March 2013*

## 14. INTANGIBLE ASSETS (continued)

**Impairment testing of Cash-Generating Units (Group and Company)** (continued)

In determining the recoverable amount of the Telkom cash generating unit, the Company considers several sources of estimation uncertainty and makes certain assumptions/judgements about the future. The disclosure presented below provides information about these sources of estimation uncertainty and assumptions as well as the impact thereof on the CGU's carrying amounts.

**Valuation key assumptions**

The recoverable amount of a CGU is determined based on value in use. These calculations use post-tax cash flow projections based on financial budgets approved by the Board covering a five-year period extrapolated to 10 years in order to more appropriately reflect the implications of terminal growth.

The determined value in use of each CGUs is most sensitive to the discount rate. The key assumptions used for value in use calculations are as follows:

- **iWayAfrica Group**

| Assumptions | iWayAfrica 2012 |
|---|---|
| Gross margin | 27 to 30% |
| Growth rate | 2% |
| Discount rate | 13.87% |

**Gross margin**
The budgeted gross margin is based on past experience and management's future expectations of business performance.

**Growth rates**
The growth rates are determined based on forward-looking growth rates of the entities, and they reflect management's assessment of the long-term growth prospects of the sector in which the CGU operates.

**Discount rates**
The discount rates used are post-tax and reflect specific risks relating to the relevant CGU.

- **Telkom**

| Assumptions | Telkom 2013 |
|---|---|
| Discount rate – Terminal | 13.6% |

**Discount rates**
Management determined these rates based on past experience as well as external sources of information such as risk free return based on government bond R186 and the beta.
The discount rates reflect the specific risks related to the future cash flows of the CGU.

**Impairment test**

**iWayAfrica Group**

Goodwill for the iWayAfrica Group was tested for impairment at 31 March 2012 which resulted in an impairment charge of R442 million in the 2012 financial year.

With regard to the assessment of value in use of iWayAfrica, management believes that no reasonably possible changes in the assumptions would cause the carrying amount of the CGU to exceed its recoverable amount.

**Telkom**

**Changes in key assumptions**

| | Telkom Rm |
|---|---|
| **Recoverable amount** | 22,741 |
| Shortfall of recoverable amount over carrying amount | (12,000) |
| Discount rate used in recoverable amount calculation | 13.6% |
| Discount rate to reduce recoverable amount to carrying amount | 10.1% |

**Sensitivity analysis**

| A one percentage point change in the discount rate would have the following effects on the balances: | 1% Decrease | 1% Increase |
|---|---|---|
| | 12.6% | 14.6% |
| | Rm | Rm |
| Effect on property, plant and equipment | (8,671) | (13,056) |
| Effect on intangible assets | (754) | (1,135) |
| Effect on aggregate assets | (9,425) | (14,191) |