Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

11 Acquisitions and disposals

11.1 Acquisitions

11.1.1 Taropa Technologies Proprietary Limited (Taropa)

On 1 March 2017 BCX acquired the entire issued ordinary share capital of Taropa.

The total purchase consideration was R13 million. The consideration is made up of R8 million cash and R5 million deferred consideration.

To the extent that Taropa's profit after tax exceeds the warranted profit, the seller will earn additional consideration amounting to R5 million, payable in the 2019 and 2020 financial years.

Taropa provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

The merger will enable BCX to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce Telkom's core connectivity business and enhance BCX's strategy.

The acquisition has been accounted for using the acquisition method. The date of acquisition is 1 March 2017 and the financial statements include the Taropa results for the one month ended 31 March 2017.

	2017 Rm
The fair value of the identifiable assets and liabilities at acquisition date was determined as follows:	
Assets	
Property, plant and equipment	1
Trade and other receivables	15
Inventories	18
Cash and cash equivalents	2
Total assets	36
Liabilities	
Trade and other payables	29
Income tax payable	1
Total liabilities	30
Total identifiable net assets at fair value	6
Non-controlling interest at proportional share of net assets	–
Goodwill arising on acquisition (provisional)	7
Purchase consideration transferred	13
Analysis of cash flows at acquisition:	
Net cash outflow on acquisition of the subsidiary (included in cash flows from investing activities)	
Cash paid	8
Cash acquired at acquisition	(2)
Net cash flow on acquisition	6

At the date of the acquisition, the fair value of the trade receivables approximated its carrying value. The gross amount of trade receivables is R13.9 million.

From the date of acquisition, Taropa has contributed R9.3 million of revenue and R0.33 million to the net profit before tax from the continuing operations of the BCX group. If the acquisition had taken place at the beginning of the year, BCX revenue from continuing operations would have been R14.079 million and the BCX group profit from continuing operations for the period would have been R1.068 million.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Taropa with those of the BCX group. The goodwill is not deductible for income tax purposes.

Transaction costs of less than R1 million, which includes issue costs, have been expensed since the inception of the acquisition. These expenses were recognised in service fees.

11 Acquisitions and disposals – continued

11.1 Acquisitions - continued

The fair value of intangible assets and goodwill has been measured on a provisional basis pending the completion of an independent valuation.

If new information is obtained within one year of the acquisition date on facts and circumstances that existed at the acquisition date, the above amounts will be revised.

11.1.2 African Arete Proprietary Limited

On 1 November 2016 BCX acquired the entire issued ordinary share capital of African Arete (Proprietary) Limited. The total purchase consideration of R19 million was settled in cash.

African Arete (Proprietary) Limited provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

The merger will enable BCX to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce Telkom's core connectivity business and enhance BCX's strategy.

The acquisition has been accounted for using the acquisition method. The date of acquisition is 1 November 2016 and the financial statements include the African Arete (Proprietary) Limited results for the five months ended 31 March 2017.

	2017 Rm
The fair value of the identifiable assets and liabilities at acquisition date was determined as follows:	
Assets	
Trade and other receivables	7
Total assets	7
Liabilities	
Trade and other payables	3
Income tax payable	1
Total liabilities	4
Total identifiable net assets at fair value	3
Non-controlling interest at proportional share of net assets	–
Goodwill arising on acquisition (provisional)	16
Purchase consideration transferred	19
Analysis of cash flows at acquisition:	
Net cash outflow on acquisition of the subsidiary (included in cash flows from investing activities)	
Cash paid	19
Net cash flow on acquisition	19

At the date of the acquisition, the fair value of the trade receivables approximated its carrying value. The gross amount of trade receivables is R6.5 million.

From the date of acquisition, African Arete (Proprietary) Limited has contributed R21.2 million of revenue and R1.2 million to the net profit before tax from the continuing operations of the BCX group. If the acquisition had taken place at the beginning of the year, BCX revenue from continuing operations would have been R13.905 million and the BCX group profit from continuing operations for the period would have been R1.066 million.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of African Arete with those of the BCX group. The goodwill is not deductible for income tax purposes.

Transaction costs of less than R1 million, which includes issue costs, have been expensed since the inception of the acquisition. These expenses were recognised in service fees.

The fair value of intangible assets and goodwill has been measured on a provisional basis pending the completion of an independent valuation.

If new information is obtained within one year of the acquisition date on facts and circumstances that existed at the acquisition date, the above amounts will be revised.

Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

11 Acquisitions and disposals – continued

11.1 Acquisitions - continued

11.1.3 Relational Database Consulting Proprietary Ltd (RDC)

On 1 April 2016, Business Connexion group Limited acquired the entire share capital of RDC.

The total purchase consideration amounting to R30 million was funded by a cash payment of R16 million and a deferred purchase consideration of R14 million payable on achieving financial targets.

RDC is a market leader in database and operating system administration with a strong focus on Oracle.

The merger will enable the group to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce the group's core connectivity business and enhance convergence strategy. Their expanded range of services includes Oracle E-Business Suite, Oracle Fusion Middleware, Oracle Solaris Support and Oracle Sales.

The acquisition has been accounted for using the acquisition method. The date of acquisition is 1 April 2016 and the financial statements include the RDC results for the twelve months ended 31 March 2017.

	2017 Rm
Assets	
Trade and other receivables	5
Cash and cash equivalents	17
Total assets	**22**
Liabilities	
Non-current debt	(3)
Trade and other payables	(13)
Total liabilities	**(16)**
Total identifiable net assets at fair value	**6**
Goodwill arising at acquisition	24
Purchase consideration transferred	30
Analysis of cash flows at acquisition:	
Net cash acquired with the subsidiary (included in cash flows from investing activities)	
Cash paid	16
Cash acquired at acquisition	17
Net cash inflow acquired on acquisition	1

To the extent that RDC's profit after tax exceeds the warranted profit, the seller will earn additional consideration amounting to R14 million, payable in the 2019 and 2020 financial years.

At the date of the acquisition, the fair value of the trade receivables approximated its carrying value. The gross amount of trade receivables is R5.2 million.

From the date of acquisition, RDC has contributed R89.4 million of revenue and R13.5 million to the net profit before tax from the continuing operations of the BCX group.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of RDC with those of the BCX group. The goodwill is not deductible for income tax purposes.

Transaction costs of R1 million, which includes issue costs, have been expensed since the inception of the acquisition.

11 Acquisitions and disposals
– continued

	2017
	Rm

11.1 Acquisitions - continued

March 2016

11.1.4 Business connexion group (BCX)

On 25 August 2015, Telkom acquired the entire issued ordinary share capital and the entire issued "A "ordinary shares of BCX. The total purchase consideration of R2.7 billion was funded through Telkom's own cash resources.

BCX provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

11.1.5 Anco IT Proprietary Ltd (Anco)

On 1 November 2015 BCX acquired the entire issued ordinary share capital of Anco. The total purchase consideration of R41 million was in the form of cash, earn-out payments, a loan to BCX and deferred consideration.

Anco provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

11.1.6 UCS Solutions (Pty) Ltd (UCS) minority interest

On 31 December 2015 the Telkom group, through BCX acquired the remaining 15% of the UCS Solution Proprietary Limited (and its holding in Integr8 IT Proprietary Limited), based on the vested put option agreement with shareholders. UCS and Integr8 are now a wholly owned subsidiary of BCX group. This transaction was accounted for as an equity transaction.

11.2 Common control transactions

2017

11.2.1 Enterprise business

On 1 November 2016 Enterprise, previously a division of Telkom group was sold to BCX to realise synergies. The integration will enable the Telkom group to offer Enterprise solutions beyond connectivity and to strengthen Telkom's leadership in the Enterprise market. The transaction was financed through redeemable preference shares from BCX to Telkom and accounted for as a common control transaction. BCX recognised the acquired Enterprise assets at their carrying amount on the date of sale and the difference between the proceeds and the carrying amount of the Enterprise business was recognised as common control equity reserves. In Telkom company the difference between the carrying amount of the Enterprise business and proceeds was recognised in profit or loss. Refer to note 15 for information on the preference shares.

11.2.2 Mast and Towers business

On 16 March 2017, Telkom board approved a disposal of Telkom's Mast and Towers business to Swiftnet, a wholly owned subsidiary of Telkom group.

This is part of Telkom's strategic imperative to maximise value from its Mast and Tower portfolio. The Mast and Towers are currently used to provide telecommunication services to Telkom customers. They are also leased to third parties.

The approval was for the sale to take place on 1 April 2017, in the form of assets for preference shares. At 31 March 2017, Telkom company recognised the Mast and Tower portfolio as held for sale in its statement of financial position.

On 31 March 2017, the fair value of the Mast and Towers exceeds their carrying value. For group purposes the Mast and Towers will be transferred at their carrying amount.

The above transaction affects Telkom company only and not the Telkom group.

	2017 Rm
Carrying values	**265**

Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

11 Acquisitions and disposals – continued	2016 Rm

11.2 Common control transactions - continued

2016

11.2.3 Telkom DCO

On 1 November 2015 Cybernest (DCO), previously the IT business division of Telkom, was sold to BCX to realise synergies. The transaction was financed through a loan from Telkom to BCX and accounted for as a common control transaction. BCX recognised the acquired DCO assets at their carrying amount on the date of sale and the difference between the proceeds and the carrying amount of the DCO business was recognised as common control equity reserves. In Telkom company the difference between the carrying amount of the DCO business and proceeds was recognised in profit or loss.

11.3 Disposal

11.3.1 Land and buildings (properties)

On 16 March 2017, Telkom board approved a disposal of 40 properties of Telkom to Gyro group (Gyro). Gyro is a newly established property management entity, wholly owned by Telkom group. The 40 properties consist of technical, commercial and industrial properties owned by Telkom.

This is part of Telkom's strategic imperative to maximise value from its properties. These properties are currently either owner occupied or leased to third parties or not in use.

The approval was for the sale to take place on 1 April 2017, in the form of assets for preference shares.

The properties will be sold at fair value to Gyro and the fair value of these properties on 31 March 2017 exceeds their carrying values.

At 31 March 2017, Telkom company recognised these properties as held for sale in its statement of financial position.

The above transaction affects Telkom company only and not the Telkom group.

Carrying values	1 132

11.3.2 Other properties

In addition to the 40 properties, the Telkom board approved a disposal of an additional 26 properties to the market. These properties were identified as no longer needed for the Telkom operations.

The sale is planned to take place during the 2018 financial period.

At 31 March 2017, the group recognised these properties as held for sale in its statement of financial position.

The fair values of these properties at 31 March 2017 exceeds their carrying values.

Carrying values	12

11.3.3 Nanoteq Proprietary Limited

The group concluded a transaction to sell its Nanoteq business shareholding, effective 30 September 2016, for a total consideration of R57 million.

The net cash flows attributable to the operating, investing and financing activities of discontinued operations:

Net assets disposed	1
Non-controlling interest	(1)
Consideration	57
Profit on disposal	57