6 Operating expenses

	Group		Company	
	2017 Rm	Restated 2016 Rm	2017 Rm	Restated 2016 Rm
6.1 Payments to other operators	**2 618**	2 793	**2 627**	2 813
Payments to other operators decreased mainly due to the lower traffic volumes.				
6.2 Cost of sales	**6 498**	5 011	**3 669**	3 100
The increase in cost of sales is largely attributable to the increase of IT services, and the increase in the sale of high-end devices as well as the effect of the full year consolidation of BCX.				
Change in comparatives				
Refer to note 2.5 for other group restatements.				
6.3 Employee expenses	**10 562**	12 165	**6 530**	10 105
Salaries and wages	**8 225**	7 942	**5 032**	6 129
Medical aid contributions	**24**	17	**–**	–
Subsidiaries' retirement contributions: Defined contribution plan	**151**	44	**–**	–
Post-retirement pension and retirement fund (refer to note 29)	**572**	856	**572**	856
Current service cost	**84**	112	**84**	112
Employer contribution - Service cost	**431**	551	**431**	551
Interest cost	**3 565**	3,113	**3 565**	3 113
Interest on plan assets	**(3 483)**	(3 079)	**(3 483)**	(3 079)
Curtailment (gain)/loss - Telkom Retirement Fund***	**(25)**	159	**(25)**	159
Post-retirement medical aid (refer to notes 27 and 29)	**(99)**	26	**(101)**	23
Current service cost	**2**	6	**2**	5
Interest cost	**207**	185	**205**	183
Settlement (gain)/loss**	**(32)**	3	**(32)**	3
Interest on plan asset	**(276)**	(216)	**(276)**	(216)
Curtailment loss	**–**	48	**–**	48
Post-retirement telephone rebates (refer to notes 27 and 29)	**40**	40	**40**	40
Current service cost	**3**	4	**3**	4
Interest cost	**37**	34	**37**	34
Curtailment loss	**–**	2	**–**	2
Share-based compensation expense (refer to note 23)	**222**	115	**201**	115
Other benefits*	**2 031**	3 586	**1 390**	3 403
Employee expenses capitalised	**(604)**	(461)	**(604)**	(461)

The decrease in employee expenses is mainly due to the decline in headcount and the lower VSP/VERP expense compared to the prior financial year.

* *Other benefits include, amongst others, skills development, annual leave, performance incentive, service bonuses, voluntary employee severance/voluntary early retirement packages costs and termination benefits.*
** *The current year relate to the refund.*
*** *Due to the VSP/VERP process."*

Change in comparatives

Refer to note 2.5.

Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

6 Operating expenses – continued	Group 2017 Rm	Group Restated 2016 Rm	Company 2017 Rm	Company Restated 2016 Rm
6.4 Selling, general and administrative expenses	**7 237**	5 796	**6 469**	5 600
Selling and administrative expenses	**2 337**	1 611	**922**	827
Maintenance	**3 620**	3 050	**4 449**	3 689
Marketing	**817**	824	**738**	765
Impairment of receivables	**463**	311	**360**	319
The increase in selling, general and administrative expenses is mainly due to the full year inclusion of BCX and increases in outsourcing costs.				
Change in comparatives				
Refer to note 2.5.				
6.5 Service fees	**2 869**	2 965	**2 492**	2 792
Facilities and property management	**1 842**	1 704	**1 480**	1 518
Consultancy, security and other services	**966**	1 197	**955**	1 226
Auditors' remuneration	**61**	64	**57**	48
The decrease is mainly due to lower company transformation and property management expenses.				
Change in comparatives				
Refer to note 2.5.				
6.6 Operating leases*	**1 045**	1 100	**861**	980
Land and buildings	**550**	607	**525**	508
Transmission and data lines	**159**	17	**–**	–
Equipment	**31**	50	**31**	47
Vehicles	**305**	426	**305**	425
The decrease in operating leases is mainly attributable to a decrease in the number of vehicles leased.				
** Operating lease commitments are disclosed in note 36.*				
Change in comparatives				
Refer to note 2.5.				
6.7 Depreciation, amortisation, impairment, write-offs and losses	**5 661**	5 498	**5 229**	5 274
Depreciation of property, plant and equipment	**4 752**	4 448	**4 458**	4 305
Amortisation of intangible assets	**766**	880	**628**	799
Write-offs, impairments and losses of property, plant and equipment and intangible assets	**143**	170	**143**	170
The increase is due to accelerated depreciation of old technology as we intensify the roll-out of fibre and LTE as well as asset write-offs.				
Change in comparatives				
Refer to note 2.5.				
The estimated useful lives assigned to groups of property, plant and equipment are:	**Years**		**Years**	
Freehold buildings	**10 to 50**	10 to 50	**10 to 50**	10 to 50
Leasehold buildings	**–**	–	**–**	–
Network equipment				
Cables	**4 to 30**	4 to 30	**4 to 30**	4 to 30
Switching equipment	**5 to 18**	5 to 18	**5 to 18**	5 to 18
Transmission equipment	**5 to 18**	5 to 18	**5 to 18**	5 to 18
Other	**2 to 20**	2 to 20	**2 to 20**	2 to 18
Support equipment	**3 to 13**	3 to 13	**5 to 13**	5 to 13
Furniture and office equipment	**1 to 15**	1 to 15	**11 to 15**	11 to 15

6 Operating expenses
– continued

	Group		Company	
	2017	Restated 2016	**2017**	Restated 2016
***The estimated useful lives assigned to groups of property, plant and equipment are:** - continued*	**Years**		**Years**	
Data processing equipment and software	**1 to 10**	1 to 10	**5 to 10**	5 to 10
Telkom support services equipment	**1 to 20**	1 to 20	**1 to 20**	2 to 20
The expected useful lives assigned to intangible assets are:				
Software and licences	**2 to 11**	2 to 11	**5 to 10**	5 to 10
Trademarks, copyrights and other	**3 to 13**	3 to 13	**4 to 13**	4 to 13

As a result of the transformation programme, the group reassessed the useful lives of certain technologies to address the challenges within the competitive market and IP-based products and services. The reassessment of useful lives had the effect of increasing the depreciation and amortisation expense for the year ended 31 March 2017 by R325 million (2016: R192 million). Depreciation and amortisation for each year of the remaining useful lives of the individually reassessed equipment will be significantly lower.

7 Investment income

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
	219	203	**522**	812
Interest income	**219**	203	**370**	180
Dividend income from subsidiaries	**–**	–	**152**	632

The company's interest income increased as a result of an increase in interest received from subsidiaries.

Interest income relates to interest earned from financial assets not measured at fair value through profit or loss. Interest is recognised on a time proportionate basis taking into account the principal amount outstanding and the effective interest rate.

Dividends from investments are recognised on the date that the group is entitled to the dividend.

The decrease in dividend income is due to the non-declaration of dividend by Acajou Investments (Pty) Ltd to Telkom company in the current financial year.

8 Finance charges and fair value movements

	Group		Company	
	2017 Rm	2016 Rm	**2017 Rm**	2016 Rm
	888	622	**801**	618
Finance charges on interest bearing debt*	**618**	521	**558**	489
Local debt	**771**	624	**711**	592
Less: Finance charges capitalised**	**(153)**	(103)	**(153)**	(103)
Foreign exchange and fair value movements	**270**	101	**243**	129
Foreign exchange (gains)/losses	**(145)**	428	**(169)**	457
Fair value adjustments	**415**	(327)	**412**	(328)
Capitalisation rate for borrowing costs (%)	**11.5**	11.5	**11.5**	11.5

Finance charges relate to interest expense on financial liabilities not measured at fair value through profit or loss.

The increase in foreign exchange and fair value movements was mainly as a result of hedges taken in a volatile economic environment partly offset by a higher fair value gain on revaluation of the underlying assets held by the cell captive.

** For interest bearing debt movement, refer to note 26.*
*** Finance charges on qualifying assets are capitalised to property, plant and equipment and intangible assets.*