

Notes to the financial statements continued

for the year ended 31 March 2020

11. Business combinations and disposals continued

11.3 Acquisition of non-controlling interest in the current year

Yellow Pages (Pty) Ltd minority interest buy-out

On 20 March 2019, the Telkom Board approved the acquisition of the minority shareholding and certain intangible assets in Yellow Pages (Pty) Ltd. In May 2019, the parties to the transaction, Telkom SA SOC Limited, Truemancon Holdings (Pty) Ltd and Lourie Trade and Invest (Pty) Ltd, Applemint Properties 117 (RF) (Pty) Ltd and Yellow Pages, signed the sale of shares agreement.

During August 2019, the transaction was concluded. Telkom acquired the remaining 35.1% of Yellow Pages resulting in Telkom holding 100% in Yellow Pages. The total consideration of R210.6 million was attributed as follows:

- R159.4 million to the acquisition of the 35.1% non-controlling interest
- R51.2 million to the acquisition of an intangible asset

The share and intangible asset purchase transaction was accounted for as a step acquisition in line with the requirements of IFRS 10 *Consolidated Financial Statements* and IAS 38 *Intangible Assets*, respectively.

The step acquisition resulted in the Group increasing its share in the subsidiary from 64.9% to 100%.

12. Property, plant and equipment

Group	2020			2019		
	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value Rm
Freehold land and buildings	7 332	(4 461)	2 871	7 185	(4 297)	2 888
Leasehold buildings*	–	–	–	41	(34)	7
Network equipment	88 198	(61 509)	26 689	83 782	(59 254)	24 528
Support equipment	5 891	(4 675)	1 216	5 977	(4 915)	1 062
Furniture and office equipment	811	(512)	299	779	(473)	306
Data processing equipment and software	3 872	(3 206)	666	4 170	(3 199)	971
Under construction	1 680	–	1 680	2 111	–	2 111
Other	698	(511)	187	671	(509)	162
	108 482	(74 874)	33 608	104 716	(72 681)	32 035

Company	2020			2019		
	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value Rm
Freehold land and buildings	4 551	(2 418)	2 133	4 463	(2 310)	2 153
Leasehold buildings*	–	–	–	33	(27)	6
Network equipment	87 255	(60 814)	26 441	82 769	(58 495)	24 274
Support equipment	4 675	(3 900)	775	4 807	(3 966)	841
Furniture and office equipment	147	(52)	95	136	(42)	94
Data processing equipment and software	3 833	(3 187)	646	4 132	(3 380)	752
Under construction	1 269	–	1 269	1 905	–	1 905
Other	581	(409)	172	544	(398)	146
	102 311	(70 780)	31 531	98 789	(68 618)	30 171

* Finance lease assets were reclassified to right-of-use assets on adoption of IFRS 16.

Finance charges of R51 million (31 March 2019: R59 million) were capitalised to property, plant and equipment and intangible assets in the current financial year.

The capital expenditure under property, plant and equipment relates to expansions of R3 647 million for Group and R3 156 million for Company (31 March 2019 expansions: R2 898 million for Group and R2 741 million for Company). Expenditure due to maintenance of R3 119 million for Group and R2 956 million for Company (31 March 2019 maintenance: R4 345 million for Group and R4 274 for Company).

No material property, plant and equipment has been pledged as security.

Property, plant and equipment with a carrying amount of R6.5 million is held for sale at the 31 March 2020 reporting date for Group and Company. As this is not material, it has not been disclosed separately on the statement of financial position.

The carrying amounts of property, plant and equipment can be reconciled as follows:								
Group	Carrying value at the beginning of the year Rm	Additions Rm	Transfers Rm	Foreign Currency translation Rm	Disposals Rm	Depreciation Rm	Write-offs, impairments and impairment reversals Rm	Carrying value at the end of the year Rm
2020								
Freehold land and buildings	2 888	103	78	2	(5)	(193)	(2)	2 871
Network equipment	24 528	5 194	1 065	–	4	(4 012)	(90)	26 689
Support equipment	1 062	161	359	1	(11)	(367)	11	1 216
Furniture and office equipment	306	46	19	1	(8)	(63)	(2)	299
Data processing equipment and software	971	66	(175)	–	(1)	(182)	(13)	666
Under construction	2 111	1 141	(1 425)	–	(1)	–	(146)	1 680
Other	162	55	25	–	(3)	(51)	(1)	187
	32 028	6 766	(54)	4	(25)	(4 868)	(243)	33 608
2019								
Freehold land and buildings	2 873	165	52	2	(8)	(192)	(4)	2 888
Leasehold buildings	4	–	5	–	–	(2)	–	7
Network equipment	22 047	5 242	1 251	–	(5)	(3 946)	(61)	24 528
Support equipment	1 224	197	103	2	(4)	(384)	(76)	1 062
Furniture and office equipment	306	67	11	2	(10)	(68)	(2)	306
Data processing equipment and software	1 156	119	(97)	–	(7)	(199)	(1)	971
Under construction	2 498	1 244	(1 566)	1	(6)	–	(60)	2 111
Other	216	–	7	1	–	(51)	(11)	162
	30 324	7 034	(234)	8	(40)	(4 842)	(215)	32 035

Notes to the financial statements continued

for the year ended 31 March 2020

12. Property, plant and equipment continued

The carrying amounts of property, plant and equipment can be reconciled as follows:							Write-offs, impairments and impairment reversals	Carrying value at the end of the year
Company	Carrying value at the beginning of the year	Additions	Transfers	Disposals	Depreciation		Rm	Rm
	Rm	Rm	Rm	Rm	Rm			
2020								
Freehold land and buildings	2 153	93	26	(2)	(135)	(2)		2 133
Network equipment	24 274	5 169	976	–	(3 921)	(57)		26 441
Support equipment	841	127	23	–	(226)	10		775
Furniture and office equipment	94	2	10	–	(10)	(1)		95
Data processing equipment and software	752	64	19	–	(176)	(13)		646
Under construction	1 905	611	(1 101)	–	–	(146)		1 269
Other	146	47	24	–	(44)	(1)		172
	30 165	6 113	(23)	(2)	(4 512)	(210)		31 531
2019								
Freehold land and buildings	2 100	145	41	(2)	(127)	(4)		2 153
Leasehold buildings	1	–	6	–	(1)	–		6
Network equipment	21 686	5 165	1 304	–	(3 846)	(35)		24 274
Support equipment	906	180	10	–	(233)	(22)		841
Furniture and office equipment	104	–	–	–	(11)	1		94
Data processing equipment and software	862	116	(30)	–	(195)	(1)		752
Under construction	2 286	1 130	(1 457)	–	–	(54)		1 905
Other	147	40	8	–	(37)	(12)		146
	28 092	6 776	(118)	(2)	(4 450)	(127)		30 171

32% of the capital expenditure in Telkom Company relates to the expansion of existing networks and services. Expansion of the Mobile network also contributed to a 52% growth in PPE. 11% of capital expenditure was on the Next Generation Network programme. The balance of 5% capital expenditure is mainly attributable to investment in Network Evolution initiatives, sustainment programmes, IT and OSS systems and property upgrades and growth projects. The build programme that provides capacity for growth in services and for migrations of services, with focus on Next Generation Network technologies, is expected to continue over the next few years.

The Group and Company has a process of determining whether an asset which incorporates both a tangible and an intangible element, should be recognised as a tangible or an intangible asset, based on management's judgement, facts available and the significance of each element to the total value of the asset. Assets with a carrying value to the net amount of R53 million (31 March 2019: R101 million) for Group and R23 million (31 March 2019: R91 million) for Company were reclassified from property, plant and equipment to intangible assets in the current year.

Assets with a carrying value of R66.1 million (31 March 2019: R475.4 million) for Group and R66.1 million (31 March 2019: R474.4 million) for Company relates to inventory that was transferred to property, plant and equipment in the current year.

Changes to the estimated useful lives of property, plant and equipment resulted in a decrease in depreciation to the value of R272 million (31 March 2019: R509 million) for Company and R284 million (31 March 2019: R512 million) for Group. Refer to note 6 for the useful lives.

Where assets have become technologically obsolete or damaged and can no longer contribute towards the Group and Company's revenue generating capacity, they are written off or impaired.

At Group, transfers were effected between property, plant and equipment, intangible assets and inventory. Transfers in Company mostly related to property, plant and equipment, assets held for sale and intangible assets.

In addition to the goodwill in the consolidated financial statements, the impairment considerations apply equally to the investment in BCX (refer to note 16.3) and the property, plant and equipment in the separate financial statements.

Property, plant and equipment consists mainly of network equipment. The network equipment within the Company does not generate cash inflows that are largely independent of those from other assets or Groups of assets. This resulted in PPE having to be assessed for impairment as part of the Telkom CGU. The recoverability of PPE is largely dependent on macro-economic factors, which include cash flows to be generated through the network assets, as well as internal assumptions and estimates related to realisation levels and operating costs. The impairment test included assessing the recoverable amount of PPE, with reference to all cash flows (including the fair value contributory asset income), and comparing this to the carrying amount of the PPE. Refer to note 14.