NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2013

	Group 2013 Rm	Group 2012 Rm	Company 2013 Rm	Company 2012 Rm
6. OPERATING EXPENSES				
Operating expenses comprise:				
6.1 Employee expenses	**9,861**	8,636	**9,490**	8,291
Salaries and wages	**7,536**	6,987	**7,283**	6,751
Medical aid contributions	**19**	18	**–**	–
Retirement contributions	**624**	575	**606**	558
Post-retirement pension and retirement fund (refer to note 30)	**(95)**	(88)	**(95)**	(88)
Current service cost	**5**	5	**5**	5
Interest cost	**794**	737	**794**	737
Expected return on plan assets	**(894)**	(830)	**(894)**	(830)
Post-retirement medical aid (refer to notes 29 and 30)	**491**	468	**490**	466
Current service cost	**110**	107	**110**	106
Interest cost	**622**	569	**621**	568
Expected return on plan asset	**(241)**	(208)	**(241)**	(208)
Telephone rebates (refer to notes 29 and 30)	**53**	56	**53**	56
Current service cost	**7**	7	**7**	7
Interest cost	**44**	47	**44**	47
Past service cost	**2**	2	**2**	2
Other benefits*	**1,754**	1,127	**1,674**	1,055
Employee expenses capitalised	**(521)**	(507)	**(521)**	(507)

The increase in salaries and wages is mainly due to an average salary increase of 6.5%.

Other benefits increased mainly due to the provision for the voluntary severance and voluntary early retirement packages (VSP/VERP) offset by a curtailment gain of R276 million (2012: curtailment loss of R2 million) on the post-retirement medical aid and a curtailment loss of R6 million (2012: RNil million) on the telephone rebates. Refer to note 29.

* *Other benefits include skills development, annual leave, performance incentive, service bonuses, curtailment and voluntary employee severance/voluntary early retirement packages costs.*

	Group 2013 Rm	Group 2012 Rm	Company 2013 Rm	Company 2012 Rm
6.2 Payments to other operators	**4,678**	5,484	**4,479**	5,288

Payments to other network operators consist of expenses in respect of interconnection with other network operators and decreased due to the reduction in the mobile termination rates.

	Group 2013 Rm	Group 2012 Rm	Company 2013 Rm	Company 2012 Rm
6. OPERATING EXPENSES (continued)				
6.3 Selling, general and administrative expenses	**7,216**	7,193	**6,825**	8,224
Selling and administrative expenses*	**2,384**	1,588	**2,111**	2,713
Maintenance	**3,112**	2,684	**3,102**	2,672
Marketing	**956**	1,059	**934**	1,025
Mobile direct costs and dealer incentives	**312**	1,019	**312**	1,019
Fixed-line dealer incentives	**51**	153	**51**	153
Impairment of receivables*	**401**	690	**315**	642

Selling and administrative expenses increased due to the provision for the Competition Commission fines.

Maintenance costs increased due to the expenditure on the integration of independent business systems.

Mobile direct costs and fixed-line dealer incentives decreased due to lower sale acquisition costs incurred as a direct result of the refocus of the company strategy.

Included in mobile direct costs is amortisation of R137 million (2012: R43 million) relating to the connection incentive bonus (refer to note 14).

* *Included in impairment of receivables is bad debts recovered of R181 million for the Group and Company. In the 2012 financial year for selling and administrative expenses is an amount of R93 million for bad debts recovered for Group and Company.*

	Group 2013 Rm	Group 2012 Rm	Company 2013 Rm	Company 2012 Rm
6.4 Service fees	**3,103**	2,974	**3,068**	2,952
Facilities and property management	**1,660**	1,505	**1,659**	1,503
Consultancy services	**409**	506	**388**	497
Security and other	**972**	895	**969**	892
Auditors' remuneration	**62**	68	**52**	60
6.5 Operating leases*	**936**	825	**880**	757
Land and buildings	**422**	331	**385**	282
Transmission and data lines	**18**	19	**–**	–
Equipment	**36**	30	**35**	29
Vehicles	**460**	445	**460**	446

* *Operating lease commitments are disclosed in note 37.*

	Group 2013 Rm	Group 2012 Rm	Company 2013 Rm	Company 2012 Rm
6.6 Depreciation, amortisation, impairment and write-offs	**18,156**	6,138	**18,093**	5,467
Depreciation of property, plant and equipment	**5,072**	4,608	**5,045**	4,556
Amortisation of intangible assets	**906**	707	**871**	657
Impairment of property, plant and equipment and intangible assets	**12,000**	569	**12,000**	–
Write-offs of property, plant and equipment and intangible assets	**178**	254	**177**	254

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for the year ended 31 March 2013

6. OPERATING EXPENSES (continued)

6.6 Depreciation, amortisation, impairment and write-off (continued)

Property, plant and equipment

The estimated useful lives assigned to groups of property, plant and equipment are:

	Years	Years	**Years**	Years
Freehold buildings	**15 to 40**	15 to 40	**15 to 40**	15 to 40
Leasehold buildings	**4 to 6**	1 to 9	**6**	1 to 7
Network equipment				
Cables	**20 to 40**	20 to 40	**20 to 40**	20 to 40
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 20
Support equipment	**5 to 13**	5 to 13	**5 to 13**	5 to 13
Furniture and office equipment	**1 to 15**	1 to 15	**11 to 15**	11 to 15
Data processing equipment and software	**1 to 10**	1 to 10	**5 to 10**	5 to 10
Other	**1 to 20**	1 to 20	**2 to 20**	2 to 20

The expected useful lives assigned to intangible assets are:

	Years	Years	**Years**	Years
Licences	**3 to 11**	3 to 11		
Software	**2 to 10**	2 to 10	**5 to 10**	5 to 10
Connection incentive bonus*	**0**	2	**0**	2
Trademarks, copyrights and other	**4 to 13**	4 to 13	**4 to 13**	4 to 13

* *For the Connection incentive bonus, refer to the Connection incentive in the Summary of significant accounting policies under Revenue recognition.*

As a result of rolling out of the next generation network transformation programme, the Group re-assessed the useful lives of certain legacy equipment. The re-assessment of useful lives had the effect of increasing the depreciation expense for the year ended 31 March 2013 by R667 million (2012: R605 million).

Depreciation for each year of the remaining useful lives of the individually re-assessed equipment could be significantly lower as a result of the impairment loss recognised on the legacy assets – refer to note 14.

The impairment loss relates to property, plant and equipment of R11,025 million and relates to intangible assets of R975 million of the Telkom Cash-Generating Unit. This is based on Value in Use. Refer to key valuation assumptions detailed in note 14.