

6. Operating expenses

6.1 Payments to other operators

Payments to other network operators (interconnection fees) have decreased due to the reduction in the mobile termination rates.

6.2 Cost of sales

The increase in the cost of sales is largely attributable to increase in the mobile device sales.

6.3 Employee expenses

Salaries and wages

Medical aid contributions

Retirement contributions: Defined contribution plan

Post-retirement pension and retirement fund (refer to notes 29 and 31)

Current service cost

Interest cost

Interest on plan assets

Curtailment loss – Telkom Retirement Fund*

Curtailment gain – Telkom Pension Fund

Post-retirement medical aid (refer to notes 29 and 31)

Current service cost

Interest cost

Settlement (gain)/loss

Interest on plan asset

Curtailment gain

Post-retirement telephone rebates (refer to notes 29 and 31)

Current service cost

Interest cost

Curtailment loss

Share-based compensation expense (refer to note 25)

Other benefits**

Employee expenses capitalised

The increase in employee expenses is mainly due to a net curtailment gain of R2.2 billion that related to the curtailment and settlement of the post-retirement medical aid benefit which occurred in the prior financial year. The average salary increase as well as the retrenchment packages, voluntary early retirement packages and voluntary severance packages gave rise to the increase in employee expenses offset by a settlement gain that related to the post-retirement medical aid benefit.

Group		Company	
2015 Rm	Restated 2014 Rm	2015 Rm	2014 Rm
2 930	3 944	2 956	3 950
2 787	2 177	2 787	2 177
9 354	6 922	9 288	6 867
7 217	7 143	7 166	7 103
–	1	–	–
621	604	617	601
23	104	23	104
25	6	25	6
990	875	990	875
(992)	(879)	(992)	(879)
–	103	–	103
–	(1)	–	(1)
(177)	(1 836)	(177)	(1 836)
4	62	4	62
276	468	276	468
(221)	234	(221)	234
(236)	(197)	(236)	(197)
–	(2 403)	–	(2 403)
36	34	36	34
3	4	3	4
33	31	33	31
–	(1)	–	(1)
115	11	115	11
2 005	1 317	1 994	1 306
(486)	(456)	(486)	(456)

*Impact of the VSP/VERP process related to 31 March 2013

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

Notes to the consolidated annual financial statements (continued)

For the year ended 31 March 2015

6. Operating expenses (continued)

6.4 Selling, general and administrative expenses

Selling and administrative expenses

Maintenance

Marketing

Impairment of receivables

Selling, general and administrative expenses increased marginally. More focused marketing activities resulted in a decrease in selling, general and administrative expenses in the current financial year. The decrease was partially offset by an increase in bad debt provision. The adverse economic conditions gave rise to higher impairments.

Change in comparative

Copper theft losses of R134 million was reclassified from maintenance to selling and administrative expenses for more relevant disclosure.

6.5 Service fees

Facilities and property management*

Consultancy, security and other services

Auditors' remuneration

The increase in service fees is driven by costs relating to higher utilities and maintenance costs on Telkom properties.

*Includes R52 million provision for site rehabilitation in the current financial year.

6.6 Operating leases*

Land and buildings

Equipment

Vehicles

Operating leases decreased as a result of the lower number of vehicles utilised by the group.

*Operating lease commitments are disclosed in note 38.

Group		Company	
2015 Rm	Restated 2014 Rm	2015 Rm	2014 Rm
4 712	4 699	4 693	4 733
749	856	765	861
2 938	2 903	2 937	2 903
705	789	714	799
320	151	277	170
3 212	3 103	3 208	3 108
1 934	1 741	1 934	1 741
1 221	1 302	1 218	1 308
57	60	56	59
992	1 007	987	1 004
460	458	455	455
48	35	48	35
484	514	484	514

6. Operating expenses (continued)

6.7 Depreciation, amortisation, impairment, write-offs and losses

Depreciation of property, plant and equipment

Amortisation of intangible assets

Impairment of property, plant and equipment and intangible assets

Write-offs of property, plant and equipment and intangible assets

The decrease in depreciation is due to accelerated depreciation on new connections installed to customer premises in the prior financial year that was not incurred to the same extent in the current financial year together with the impairment of certain legacy and technologically aged items that did not occur in the current financial year.

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

Freehold buildings

Leasehold buildings

Network equipment

Cables

Switching equipment

Transmission equipment

Other

Support equipment

Furniture and office equipment

Data processing equipment and software

Telkom support services equipment

The expected useful lives assigned to intangible assets are:

Software and licences

Trademarks, copyrights and other

Group		Company	
2015 Rm	Restated 2014 Rm	2015 Rm	2014 Rm
5 478	5 891	5 457	5 871
4 500	4 605	4 480	4 587
758	654	757	652
–	392	–	392
220	240	220	240
Years		Years	
15 to 40	15 to 40	15 to 40	15 to 40
1 to 5	1 to 5	1 to 4	1 to 5
4 to 30	4 to 30	4 to 30	4 to 30
5 to 18	5 to 18	5 to 18	5 to 18
5 to 18	5 to 18	5 to 18	5 to 18
2 to 20	2 to 20	2 to 20	2 to 20
5 to 13	5 to 13	5 to 13	5 to 13
1 to 15	1 to 15	11 to 15	11 to 15
1 to 10	1 to 10	5 to 10	5 to 10
1 to 20	1 to 20	2 to 20	2 to 20
Years		Years	
2 to 11	2 to 11	5 to 10	5 to 10
4 to 13	4 to 13	4 to 13	4 to 13

As a result of the transformation programme together with the group policies and procedures, the group reassessed the useful lives of certain legacy equipment. The reassessment of useful lives had the effect of increasing the depreciation and amortisation expense for the year ended 31 March 2015 by R353 million (2014: R1 193 million). Depreciation and amortisation for each year of the remaining useful lives of the individually reassessed equipment will be significantly lower.