4.4 Impact of COVID–19 on revenue

There was no significant impact of COVID-19 on Mobile revenue as the telecommunications industry was declared as an essential service in South Africa, which allowed the Group to continue to connect South Africans during the national lockdown period. This contributed to the Group experiencing a surge in fixed and mobile network traffic for telco services from people working from home. There were no significant contract modifications that took place and both new and existing contracts were assessed to be enforceable at the end of the reporting date.

Telkom enhanced broadband-led propositions across customer segments and scaled up digital platforms as the Telkom stores were closed during the early phase of the national lockdown. As a result, the Mobile business sustained its growth trajectory into the first half of the year, driven by data demand.

The Group's fixed and IT services revenue has however been negatively impacted by COVID-19 during the period under review. To curb the revenue decline in fixed line, Telkom has been migrating its fixed line customers to fibre and wireless from copper-based technology.

5. Other income

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
	619	676	1 018	1 577
Interest received from trade receivables[1]	151	128	108	78
Sundry income[2]	401	530	839	1 493
Profit on disposal of assets[3]	67	18	71	6

[1] *Interest received on trade receivables relates to interest on overdue trade receivables accounts. These are financial assets measured at amortised cost. Interest is recognised on a time proportionate basis, taking into account the principal amount outstanding and effective interest rate.*
[2] *Sundry income for Telkom Company includes income from management fees charged to subsidiaries.*
[3] *Included in the current year profit on disposal of assets for Group and Company is a gain on disposal of contract assets to the amount of R63 million.*

6. Expenses

6.1 Cost of handsets, equipment, software and directories

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Cost of handsets, equipment, software and directories The decline in cost of handsets, equipment, software and directories is primarily due to the major distribution channels being closed during the COVID-19 national lockdown. This was largely in the first six months of the current financial year.	(4 781)	(5 625)	(2 722)	(3 189)

6.2 Sales commission, incentives and logistical costs

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Sales commission, incentives and logistical costs This increase is mainly as a result of the year on year growth in mobile revenues.	(2 425)	(2 006)	(2 243)	(1 778)

Notes to the financial statements continued

for the year ended 31 March 2021

6. Expenses continued

6.3 Employee expenses

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Employee expenses	(9 312)	(10 713)	(4 762)	(6 311)
Salaries and wages	(7 755)	(8 563)	(3 466)	(4 329)
Post-retirement pension and retirement fund (refer to note 29)	(536)	(623)	(364)	(474)
Post-retirement medical aid (refer to note 29)	122	70	122	70
Post-retirement telephone rebates (refer to note 29)	(35)	(40)	(35)	(40)
Share-based compensation expense (refer to note 24)	(203)	(328)	(154)	(323)
Other benefits*	(1 117)	(1 620)	(1 077)	(1 606)
Employee expenses capitalised to capital projects	212	391	212	391

* *Other benefits include, among others, skills development, annual leave, performance incentive, service bonuses, voluntary employee severance/voluntary early retirement and retrenchment package costs and termination benefits. Included in other benefits as at 31 March 2021 is a R270 million (31 March 2020: R1 186 million) expense for voluntary severance, retirement and retrenchment packages.*

6.4 Other expenses

	Group		Company	
	31 March 2021 Rm	Restated 31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Other expenses	(2 197)	(2 756)	(953)	(877)
Included in the other expenses line item are the following expenses:				
Operating expenses	(1 886)	(2 448)	(608)	(584)
Sundry expenses	(147)	(207)	(80)	(36)
Licence fees	(370)	(292)	(354)	(281)
Subsistence and travel	(18)	(87)	(8)	(44)
Third party service costs	(1 055)	(1 499)	–	–
Image building and market research costs	(48)	(73)	(49)	(73)
Commission	(110)	(106)	(110)	(105)
Data procedure expenses	(76)	(87)	–	–
Other	(62)	(97)	(7)	(45)
Non-operating expenses	(311)	(308)	(345)	(293)
Donations	(1)	(45)	(32)	(44)
Losses	(307)	(248)	(307)	(248)
Other	(3)	(15)	(6)	(1)

6.5 Maintenance

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Maintenance	(3 971)	(3 880)	(4 871)	(4 855)
Maintenance cost has slightly increased year on year, largely due to higher maintenance and support contract costs emanating from the growth in the Mobile business and from higher submarine cable maintenance.				

6.6 Service fees

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Service fees	(3 316)	(3 274)	(2 858)	(2 753)
Facilities and property management	(2 037)	(1 990)	(1 815)	(1 776)
Consultancy, security and other services	(1 279)	(1 284)	(1 043)	(977)

6.7 Lease-related expenses

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Lease-related expenses	(487)	(478)	(449)	(518)
Included in lease-related expenses is an amount of R54 million (31 March 2020: R168 million) for Group and Rnil (31 March 2020: R103 million) for Company related to short-term leases as well as month-to-month leases that are non-strategic in nature. Similar to prior year, there were no low value leases. Variable lease payments were not included in the lease liability in the current year.				

6.8 Depreciation, amortisation, impairments and write-offs of non-financial assets

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Depreciation, amortisation, impairments and write-offs of non-financial assets	(6 870)	(6 915)	(6 863)	(6 808)
Depreciation of property, plant and equipment	(4 918)	(4 868)	(4 546)	(4 512)
Depreciation of right-of-use assets	(947)	(954)	(1 416)	(1 510)
Amortisation of intangible assets	(805)	(679)	(708)	(579)
Write-offs, impairments and losses of property, plant and equipment and intangible assets	(200)	(414)	(193)	(207)

The estimated useful lives assigned to groups of property, plant and equipment are:	Years	Years	Years	Years
Freehold buildings*	5 to 50	5 to 50	10 to 40	10 to 40
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 18	2 to 18	2 to 18	2 to 18
Support equipment	5 to 13	5 to 13	5 to 13	5 to 13
Furniture and office equipment	5 to 15	5 to 15	11 to 15	11 to 15
Data processing equipment and software	3 to 10	3 to 10	5 to 10	5 to 10
Telkom support services equipment	2 to 20	2 to 20	2 to 20	2 to 20

The expected useful lives assigned to intangible assets are:	Years	Years	Years	Years
Software and licences	3 to 10	5 to 10	5 to 10	5 to 10
Trademarks, copyrights and other	5 to 13	4 to 13	5 to 13	4 to 13

* *In the published FY2020 financial statements, 5 to 43 years were disclosed as the useful lives for freehold buildings which was based on the active asset categories which had lower maximum useful lives remaining. In the current year, Telkom has opted to disclose the maximum useful lives for which the assets can be used under this category.*

Notes to the financial statements continued

for the year ended 31 March 2021

6. Expenses continued

6.8 Depreciation, amortisation, impairments and write-offs of non-financial assets continued

During the year, the Group reassessed the useful lives on various technologies. The reassessment takes into account the Group's current capex strategy and changes in the technological environment. The reassessment of useful lives decreased the depreciation expense by R110 million and increased the amortisation expense by R66 million (31 March 2020: depreciation expense decreased by R272 million and the amortisation expense decreased by R17 million) at a company level and decreased the depreciation expense by R120 million and increased the amortisation expense by R62 million (31 March 2020: depreciation expense decreased by R284 million and the amortisation expense decreased by R23 million) at a group level. Refer to note 2.5.15 and note 2.5.13 for the related accounting policies.

7. Investment income

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Investment income	188	79	1 643	2 610
Interest income	188	79	134	691
Dividend income from subsidiaries	–	–	1 509	1 919

Interest income relates to interest earned from financial assets (cash and cash equivalents and loans at amortised cost) measured at amortised cost. Interest is recognised on a time proportionate basis, taking into account the principal amount outstanding and the effective interest rate.

8. Net finance charges, hedging costs and fair value movements

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Net finance charges, hedging costs and fair value movements	(1 527)	(1 803)	(1 747)	(2 219)
Net finance charges	(1 249)	(1 570)	(1 496)	(1 989)
Finance charges on lease liabilities	(445)	(368)	(560)	(555)
Net finance charges on local debt*	(835)	(1 254)	(967)	(1 486)
Less: Finance charges capitalised**	31	52	31	52
Foreign exchange, fair value movements and costs of hedging	(278)	(233)	(251)	(230)
Foreign exchange gain/(loss)	829	(549)	870	(562)
Cost of hedging	(153)	(205)	(153)	(205)
Fair value adjustments	(954)	521	(968)	537
Capitalisation rate for borrowing costs (%)	7.1	9.8	7.1	9.8

* *For interest-bearing debt movement, refer to note 26.*
** *Finance charges on general borrowings are capitalised to qualifying assets (PPE and intangible assets).*

Finance charges relate to interest expense on financial liabilities measured at amortised cost.

Finance charges on local and foreign debt decreased from R1 570 million in March 2020 to R1 251 million in March 2021, mainly due to reduced interest rates as a result of the COVID-19 pandemic. Included in finance charges, as at 31 March 2021, is an amount of R29 million relating to interest on the SARS liability.