Telkom SA SOC Ltd

Annual Financial Statements

for the year ended
31 March 2020

Telkom

This is an online report that is available on Telkom's investor relations website www.telkom.co.za/ir

Telkom SA SOC Ltd

(Registration number: 1991/005476/30)
JSE share code: TKG
ISIN: ZAE000044897

Preparer and supervisor of the financial statements

These financial statements were prepared by the Telkom finance staff under the supervision of the Group Chief Financial Officer, Tsholofelo Molefe CA (SA).

Board approval

These financial statements were authorised for issue on 19 June 2020 by the Telkom SA SOC Limited Board of directors and published on 22 June 2020.

Contents

Tapestry in wool, mohair-lined and synthetic material
By Eline Williams

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Introduction statements

Directors' responsibility statement

for the year ended March 2020

The directors are responsible for the preparation, integrity and fair presentation of the consolidated annual financial statements of the Company and its subsidiaries. It is their responsibility to ensure that the financial statements fairly present the financial position of the Group as at the end of the financial year, the results of the operations and the cashflow information is in conformity with International Financial Reporting Standards ("IFRS") and Interpretations of IFRS standards, as issued by the International Accounting Standards Board, the SAICA financial reporting guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act of South Africa, 71 of 2008, as amended.

The directors have the responsibility for ensuring that accurate and complete accounting records are kept to enable the Group and the Company to satisfy their obligation with respect to the preparation of financial statements. The directors are also responsible for the oversight of the Group's system of internal controls. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

The Group's external auditors, PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc., jointly audited the Group and Company financial statements and have expressed an independent opinion on the consolidated and separate financial statements.

The external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of directors and Committees of the Board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

For the directors to discharge their responsibilities, management continues to develop and maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner. This is designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Company's policies and procedures.

The directors, primarily through the Audit Committee, which consists of independent non-executive directors, meet periodically with the external and internal auditors, and executive management to evaluate matters concerning accounting policies, internal controls, auditing and financial reporting.

The directors are of the opinion, based on information and explanations given by management and internal audit and discussions with the external auditors on the results of the audit, that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities.

The directors are satisfied that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Company and its subsidiaries continue to adopt the going concern basis in preparing the annual financial statements.

Against the background, the directors of the Company accept responsibility for the annual financial statements, which were approved by the Board of directors on 19 June 2020, and are signed on its behalf by:

Sello Moloko
Chairperson

Sipho Maseko
Group Chief Executive Officer

Centurion
19 June 2020

Certificate from the Group Company Secretary

I hereby certify in accordance with section 88(2)(e) of the Companies Act, No 71 of 2008, as amended, that the Company has lodged with the Commissioner of Companies all such returns as are required in terms of this Act and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

AN Ceba

Ayanda Ceba (FCG)
Group Company Secretary

19 June 2020

Directors' report

To the members of Telkom SA SOC Ltd

The directors have pleasure in submitting the annual financial statements of the Group for the year ended 31 March 2020.

Nature of business

Telkom is an integrated communications and information technology service provider for South Africa.

Financial results

Profit for the year ended 31 March 2020 was R608 million (March 2019: R2 831 million) representing basic earnings per share of 121.1 cents per share (March 2019: 561.9 cents per share) and headline earnings per share of 208.1 cents per share (March 2019: 619.2 cents per share). Full details of the financial position and results of the Group are set out in the accompanying Company and Group annual financial statements.

Dividends

Final ordinary dividend number 26 of 50.08410 cents per share (March 2019: 249.40317 cents per share) declared payable on Monday, 13 July 2020 to shareholders recorded in the register of the Group at close of business on Friday, 10 July 2020.

Subsidiaries, associates and other investments

Particulars of the material subsidiaries of the Group are set out in note 41 of the accompanying Group annual financial statements.

The attributable interest of the Group in the after-tax earnings of its subsidiaries for the year ended 31 March 2020 were:

	2020 Rm	Restated 2019 Rm
Aggregate amount of profit after taxation	1 861	1 360

Share capital

Details of the authorised, issued and unissued share capital of the Company as at 31 March 2020, are contained in note 24 of the accompanying annual financial statements.

Share repurchases

Telkom purchased 0 shares from the market through Rossal No 65 (Pty) Ltd for the purpose of the employee share plan.

Borrowing powers

Telkom's directors may mortgage or encumber Telkom's property or any part thereof and issue debentures, whether secured or unsecured, whether outright or as security for debt, liability or obligation of Telkom or any third party. For this purpose, the borrowing powers of Telkom are unlimited, but are subject to the restrictive financial covenants as well as specific restrictive clauses in the current funding arrangements.

Capital expenditure and commitments

Details of the Company and Group's capital commitments on property, plant and equipment as well as intangible assets are set out in notes 12, 14 and 37 of the accompanying Group annual financial statements.

Significant events and transactions

Significant events and transactions during the year under review is disclosed on note 42 of the accompanying Group annual financial statements.

Events after the reporting date

Events subsequent to the reporting date are set out in note 43 of the accompanying Group annual financial statements.

Directorate

The following changes occurred in the composition of the Board of directors from 1 April 2019 to the date of this report:

Appointments	Date
KA Rayner	15 July 2019
SP Sibisi	1 April 2019

Resignations	Date
GW Dempster	30 November 2019

The Board of directors at the date of this report is as follows:
- MS Moloko (Chairperson)
- SN Maseko (Group Chief Executive Officer)
- TBL Molefe (Group Chief Financial Officer)
- SL Botha
- N Kapila
- KT Kweyama
- DD Mokgatle
- PCS Luthuli
- KW Mzondeki
- F Petersen-Cook
- KA Rayner
- SP Sibisi
- RG Tomlinson
- LL von Zeuner

Details of each director may be found in our integrated report.

Directors' interest

At 31 March 2020, the following directors held a beneficial interest in the shares of Telkom SA

Executive

SN Maseko	52 520
TBL Molefe	9 716

Non-executive

JA Mabuza*	5 531
KW Mzondeki	748

** Resigned on 31 May 2019*

Audit Committee report

Introduction and Mandate

The Audit Committee has formal terms of reference which are updated on an annual basis, or as and when required. The Board is satisfied that the Audit Committee has complied with these terms, and with its legal and regulatory responsibilities as set out in the Companies Act, King IV and the JSE Listings Requirements.

The primary role of the Audit Committee is to ensure the integrity of Telkom SA SOC Ltd ("Telkom" or "Company") and the Telkom Group's financial reporting and the audit processes and that a sound risk management and internal control system is maintained. In pursuing these objectives, the Audit Committee oversees relations with the external auditors and reviews the effectiveness of the internal audit function.

The Audit Committee consisted of six independent non-executive directors from 1 April 2019 to 31 March 2020. Mr KA Rayner was appointed chairperson with effect from 27 August 2019, following the resignation of Mr GW Dempster with effect from 27 August 2019 as the Committee chairperson, and as a director of the Board with effect from 30 November 2019.

The Board believes that the members collectively possess the knowledge and experience to supervise Telkom's financial management, internal and external auditors, the quality of Telkom's financial controls, the preparation and evaluation of Telkom's audited Company and consolidated financial statements and Telkom's periodic financial reporting.

Attendance and membership

The attendance of Audit Committee members at Audit Committee meetings during the financial year was as follows:

Member	Attendance
KA Rayner (chairperson)*	6/6
GW Dempster (chairperson)**	2/2
PCS Luthuli	8/8
DD Mokgatle***	1/1
KW Mzondeki	8/8
F Petersen-Cook***	1/1
RG Tomlinson****	7/8
LL von Zeuner	8/8

* *Mr Rayner was appointed Audit Committee chairperson with effect from 27 August 2019 following the resignation of Mr GW Dempster and attended all Audit Committee meetings thereafter.*

** *Resigned from the Audit Committee with effect from 27 August 2019.*

*** *Not members, attended a special Audit Committee meeting by invitation on 12 February 2020.*

****Apology*

The Telkom Group has established and maintains internal controls and procedures, which are reviewed on a regular basis by internal audit which then reports to the Risk Committee and Audit Committee respectively. These reporting responsibilities are designed to manage the risk of business failures and to provide reasonable assurance against such failures. However, this is not a guarantee that such risks are eliminated.

Responsibility

It is the duty of the Audit Committee, *inter alia*, to monitor and review and where applicable, approve:

- the effectiveness of the internal audit function;
- the appointment and/or termination of the joint external auditors (refer to "external auditors" below for details and definition), including their audit fee, independence and objectivity;
- the nature and extent of any non-audit services performed by the external auditors; • the auditor suitability and recommendation for appointment and reappointment;
- the reports of both internal and joint external auditors;
- the expertise and experience of the chief financial officer;
- financial reporting systems to ensure that reporting procedures are functioning properly;
- the governance of information technology (IT) and associated risks;
- the internal financial control compliance, combined assurance and enterprise risk management effectiveness;
- interim results and report, audited Company and consolidated annual financial statements for the financial year ended 31 March 2020 (audited Company/consolidated AFS), integrated report and all other widely distributed financial documents and announcements;
- the quality and acceptability of the Telkom Group's accounting policies and practices;
- the compliance with applicable legislation, requirements of appropriate regulatory authorities and Telkom's Group Ethics Handbook;
- the integrity of the integrated report and associated reports (by ensuring that its content is reliable and recommending it to the Board for approval); and
- policies and procedures for preventing and detecting fraud.

Annual financial statements

The Committee has reviewed and is satisfied that the audited Company/consolidated AFS, including accounting policies are appropriate and comply with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and in compliance with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listing Requirements and the requirements of the Companies Act of South Africa 2008.

Significant matters that were addressed by Management and by the Audit Committee on a review basis are as follows:

Adoption of IFRS 16	The Group adopted IRFS 16 Leases with effect from 1 April 2019. The new standard requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period and the associated liability for payments. The right of use (ROU) assets and lease liabilities represent the present value of future minimum lease payments discounted at an appropriate rate after taking the lease term into account. The adoption of IFRS 16 resulted in the Company recognising a ROU asset of R4.2 billion and related lease liability of R4.2 billion at adoption date of 1 April 2019. As at 31 March 2020, the ROU asset and liability were reflected at R4.5 billion and R4.8 billion respectively, with related depreciation and interest of R954 million and R368 million for the 12-month period then ended. The exercise resulted in the recognition of approximately 10 500 leases, with major lease categories that gave rise to a ROU asset and related liability including the mast and tower infrastructure lease agreements/co-location agreements, property leases and vehicle fleet leases.
Interim and Final Dividend and Future Dividend conside-ration	The review and recommendation to the Board, after confirmation that the Company and Telkom Group passed the solvency and liquidity test, to pay the interim dividend of 71.52636 cents per share to shareholders. The Board approved the dividend and effected payment on 2 December 2019 in accordance with the Company's Dividend Policy. The review and recommendation to the Board, after confirmation that the Company and Telkom Group passed the solvency and liquidity test, to pay the final dividend of 50.08410 cents per share to shareholders. The Board approved the dividend and payment will be effected on 13 July 2020 in accordance with the Company's Dividend Policy. The review and recommendation to the Board to suspend the declaration and payment of dividends for three financial years commencing 1 April 2020.
Tax Matter	The noting of the court order regarding the required payment to the South African Revenue Service of R861 million, the payment terms agreement with SARS and the correct treatment thereof in the audited Company/consolidated AFS.
Actuarial Assumptions	The review and approval of the Actuarial Assumptions for recommendation to the Board for both the interim period end and financial year end for financial computation and compilation purposes.
Impairment testing	The review of the impairment testing of Telkom Group Cash Generating Units ("CGUs"), resulting in no impairment adjustments.
Provisions	The review of provisions relating to the restructuring programme of R1 186 million and the additional impairment of trade receivables and contract assets due to COVID-19 of R626 million.
Key Audit Matters	The review and consideration of the Key Audit Matters detailed in the joint Independent Auditors Report on the audited Company/consolidated AFS .

Execution of Audit Committee mandate

The Audit Committee discharged all responsibilities and functions delegated to it in terms of the Audit Committee mandate, the Companies Act, King IV and the JSE Listings Requirements.

During the year the Audit Committee:

In respect of the joint external auditors:

- Considered and satisfied itself that the joint external audit firms and their two engagement partners are independent;
- Considered and satisfied itself with respect to the Auditor Suitability Review required by the JSE Listings Requirements (refer below);
- Reviewed the nature of non-audit services that were provided by the joint external auditors during the year;
- Approved the fees paid to the joint external auditors for the 2020 financial year;
- Approved and confirmed non-audit services and attendant fees which the external auditors performed during the year under review; and
- The Audit Committee chairperson held separate meetings with the external auditors prior to Audit Committee meetings.

In respect of financial reporting:

- Considered the appropriateness and experience of the Group chief financial officer as required by the JSE Listings Requirements;
- Reviewed the audited Company/consolidated AFS;
- Reviewed the appropriateness of any amendments to accounting policies and internal financial controls; and
- Reviewed the integrated reporting process.

In respect of internal audit:

- Approved the internal audit plan for the year;
- Monitored and provided oversight of the internal audit function; and
- The Audit Committee chairman held separate meetings with the CAE of internal audit prior to Audit Committee meetings.

In respect of the Audit Committee:

- Ensured the Audit Committee complied with the membership criteria as set out in the Companies Act, King IV and the JSE Listings Requirements; and
- Reviewed and approved the Audit Committee terms of reference.

Audit Committee report

In respect of information technology governance:

- Monitored Telkom's technology governance framework and processes including that of information security.

External auditors

The Audit Committee has primary responsibility for overseeing the relationship with, and performance of, the joint external auditors. This includes making the recommendation on the appointment, reappointment and removal of the joint external auditors, assessing their independence on an ongoing basis and for reviewing and approving the audit fee.

The Audit Committee, after taking account of the audit approach, materiality and audit risks, reviewed and agreed both the interim period review plan and financial year end audit plan from the joint external auditors, and agreed both the interim and financial year end audit fees. The Audit Committee received updates during the year on the audit process, including how the auditor had challenged the Telkom Group's assumptions on the significant matters noted in this report.

In terms of section 90(1) of the Companies Act and in accordance with its Board charter, each year at its annual general meeting ("AGM"), the Company must appoint two external audit firms and two designated engagement partners that comply with the requirements of section 90(2) of the Companies Act and with the JSE Listings Requirements. The Board delegated to the Audit Committee the responsibility to review the Company's current appointed joint external auditors for reappointment. The Board would then make a recommendation to the shareholders in the notice of AGM, based on the outcome of the review and report of the Audit Committee to the Board. The current appointed joint external audit firms are PricewaterhouseCoopers (PwC) and SizweNtsalubaGobodo (SNG) Grant Thornton and the respective current appointed engagement partners are messrs KJ Dikana and GM Hafiz ("joint external auditors").

In compliance with paragraph 3.84(g)(iii) of the JSE Listings Requirements, the Audit Committee assessed the respective audit firms as well as the related engagement partners' suitability for appointment, taking into account the quality of the audit work and related reporting to the Audit Committee, industry expertise of the firm and its designated partners, findings by the IRBA ,results of the most recent Public Company Accounting Oversight Board (PCAOB) and statements relating to independence as well as the representations made by the external auditors to the Audit Committee including those under ISQC 1 International Standard on Quality Control 1 ("the Auditor Suitability Review") .

Based on the results of the Auditor Suitability Review and a review of the joint external auditors independence, the Committee recommends the reappointment of the joint external auditors for the March 2021 financial period at the annual general meeting. The Board concurred with the recommendation.

Auditor independence

The Audit Committee is also responsible for determining that the joint external auditors have the necessary independence. A key factor that may impair any such independence is a lack of control over non-audit services provided by the joint external auditors.

Telkom addresses this issue by ensuring prior approval by the chairperson of the Audit Committee of all non-audit services. Fees paid for non-audit services to the joint external auditors amounted to R3.2 million for the financial year end 31 March 2020 (2019: R9 million). Fees accrued for audit work performed for the financial year end 31 March 2020 by the joint external auditors' amounted to R88.5 million (2019: R87.9 million). The Audit Committee chairperson met with the joint external auditors prior to each Audit Committee meeting to discuss and review the content of the joint external auditors report to the Audit Committee.

The Audit Committee has reviewed and assessed the independence of the external auditor, and has confirmed that the criteria for independence, as set out in the rules of the Independent Regulatory Board for Auditors, the Public Company Accounting Oversight Board, and other relevant international bodies, have been followed. The Audit Committee is satisfied that the joint auditors are independent of the Telkom Group.

Internal auditors

The Internal Audit function adopts a co-source operating model to supplement its internal audit activities and execute on its mandate. During the financial year, the co-source agreement with Deloitte & Touché and Sekelaxabiso CA Incorporated ("SkX Protiviti") ended. Following a fair and transparent process, a new co-source agreement was entered into with KPMG Services Proprietary Limited ("KPMG") and SkX Protiviti for a period of three years. The co-source service providers form part of Telkom's Internal Audit function and report directly into the CAE.

The internal control systems of the Company are monitored by Internal Audit, which reports findings and recommendations to the Audit Committee and to senior management. The Audit Committee determines the purpose, authority and responsibility of the Internal Audit function in the Internal Audit Charter.

The Internal Audit function is headed by the CAE, who may be appointed or dismissed by the Audit Committee. The CAE resigned with effect from 31 May 2020, and the Audit Committee appointed a new CAE with effect from 1 May 2020. The Audit Committee is satisfied that the incumbent CAE has the requisite skills and experience and that he is supported by a sufficient staff complement with appropriate skills and training.

Telkom's Internal Audit operates in accordance with the International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors. Internal Audit activities carried out during the year were identified and planned through a combination of the Telkom risk management framework and the risk-based methodologies adopted by Internal Audit. The Audit Committee approves the annual internal audit assurance plan presented by Internal Audit and monitors progress against the plan.

Internal Audit reports deficiencies to the Audit Committee every quarter together with recommended remedial actions, which are then followed up. Internal Audit provided the Audit Committee with a written report, which assessed as adequate the internal controls over financial reporting, IT governance and the risk management process during the financial year.

The chairperson of Audit Committee met with the CAE prior to each Audit Committee meeting to discuss and review the content of the internal report to the Audit Committee.

Internal audit and the joint external auditors have unrestricted access to the Audit Committee, the Audit Committee chairperson and the chairperson of the Board, thereby ensuring the maintenance of independence.

Risk management

Reviews of the Telkom Group's risk management, enterprise risk management programmes, business continuity and forensic services are performed by the Telkom Group's Risk Committee. The top principal risks, being those risks that will prevent the Telkom Group from achieving its strategic objectives in the short and medium term are reported to and considered by the Risk Committee and the Board. All principal risks are currently managed within the risk appetite statements. The key focus areas, risk appetite and further details of the Telkom Group's principal risks are reported in the risk management report included in the Telkom Group's integrated report.

The internal audit department has conducted a review on the effectiveness of the risk management function in accordance with the approved risk management framework. The results of the review indicated that the risk management process was satisfactory as at 31 March 2020.

Combined assurance

The Telkom Group assessed risks based on principal risks as indicated above. The current combined assurance model in place is representative of how the risks are currently being managed between the three lines of assurance. Management and internal audit have implemented a coordinated structure for planning, executing and reporting on internal audit, compliance and risk activities. The Committee is satisfied that the Group has optimised the assurance obtained from the three lines of assurance in accordance with the approved combined assurance model and that the model is effective in achieving the objectives of coordinating assurance and reporting to provide management and the Board with a clear view on what the Telkom Group risks are; what the effective risk mitigations are; and the resultant acceptable level of residual risks.

Audit Committee statement

Based on information from, and discussions with, management and the joint external auditors, the Audit Committee is of the opinion that the financial records may be relied upon as the basis for preparation of the audited Company/consolidated AFS.

The Audit Committee has considered and discussed the audited Company/consolidated AFS with both management and the external auditors. During this process, the Audit Committee:

- evaluated significant judgements and reporting decisions;
- determined that the going-concern basis of reporting is appropriate;
- evaluated the material factors and risks that could impact on the audited Company/consolidated AFS and associated reports;
- evaluated the Telkom Group's solvency and liquidity and ensured the financial sustainability and disclosures of the Telkom Group; and
- discussed the treatment of significant and unusual transactions with management and the joint external auditors.

A key requirement of our audited Company/consolidated AFS is for the audited Company/consolidated AFS to be fair, balanced, understandable and provide the information necessary for stakeholders to assess the Telkom Group's position, performance, business model and strategy. The Audit Committee and the Board are satisfied that the audited Company/consolidated AFS meets this requirement.

The Audit Committee considers that the audited Company/consolidated AFS comply in all material respects with the statutory requirements of the various laws and regulations governing disclosure and reporting of the audited Company/consolidated AFS and that the audited Company/consolidated AFS comply in all material respects with IFRS, as issued by the IASB, the SAICA Financial Reporting Guides issued by the Accounting Practices Committee and Financial Reporting Pronouncements issued by the Financial Reporting Standards Council, as well as the requirements of the South African Companies Act 2008 and the JSE Listings Requirements. The Audit Committee has recommended to the Board that the audited Company/consolidated AFS be adopted and approved by the Board.

Keith Rayner CA(SA)
Chairperson: Audit Committee

19 June 2020

Independent auditors' report

for the year ended 31 March 2020

To the Shareholders of Telkom SA SOC Limited Group

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Telkom SA SOC Limited (the Company) and its subsidiaries (together the Group) as at 31 March 2020, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Telkom SA SOC Limited's consolidated and separate financial statements set out on pages 16 to 118 comprise:

- the consolidated and separate statements of financial position as at 31 March 2020;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

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Chief Executive Officer: L S Machaba

The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.

Reg. no. 1998/012055/21,
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SizweNtsalubaGobodo Grant Thornton Incorporated
Registration Number: 2005/034639/21

Victor Sekese [Chief Executive]

A comprehensive list of all Directors is available at the Company offices or registered office

Our audit approach

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Adoption of International Financial Reporting Standard 16 - Leases (IFRS 16) (applicable to the consolidated and separate financial statements) The Group adopted IFRS 16 with effect from 1 April 2019. The Group opted to use the modified retrospective approach in transitioning to the new standard. The adoption of the standard resulted in the Group recognising a right-of-use asset (ROU Asset) and related lease liability of R4.2 billion as at adoption date of 1 April 2019. **In determining the retained earnings opening balance impact, management applied judgement to conclude on certain key inputs in the calculations, namely:** - Determining the lease term where leases were contractually agreed to continue on a month to month basis upon expiry, and where leases were silent on expiry. - Determining the lease term where there are renewal and termination options; - Determining non-lease components included in the total lease payments where these were not clearly identified in the lease contract; and - Determining the lease discount rate (incremental borrowing rate). A number of lease contracts included renewal options, escalation rates and/or excluded specifics regarding non-lease components. **The impact of the new standard was a matter of most significance to our audit as:** - the balances recorded upon adoption were material; - the updating of the accounting policies required policy elections to be made; and - the identification and processing of all the relevant data associated with the leases was complex and required management to apply significant judgement. The above judgments were more prevalent in relation to the Group's network infrastructure. **This matter is disclosed in the following notes to the consolidated and separate financial statements:** - Note 2.2.1- Adoption of IFRS 16 Leases; and - Note 13- Leases.	We obtained an understanding and evaluated the Group's implementation process, which included consideration of the updated accounting policy and policy elections made against the requirements of IFRS 16. **We made use of our IFRS expertise to assess the appropriateness of the judgement applied by management in determining the lease terms, including taking into account the exercising of renewal options and determining the non-lease components included in the lease payments. We further made use of our actuarial expertise to calculate the lease discount rate. We assessed information against lease contracts, as follows:** - Compared the lease term applied to factors such as the Group's business planning cycle, past history of terminating or not renewing a lease, how far into the future the renewal option is exercisable, and the likelihood of renewal/termination options being exercised. Based on the work that we performed, we accepted the lease terms; - Obtained management's calculation for allocating lease payments between lease and non-lease components and assessed the appropriateness of the assumptions applied in this allocation with reference to factors such as the relative standalone selling prices. Where the relative standalone selling prices could not be determined we assessed management's estimate which was based on the average percentage split of similar leases where suppliers had provided a split between lease and non-lease components. We did not identify material differences; and - Using our actuarial expertise, we evaluated the appropriateness of the incremental borrowing rate with reference to market related borrowing rates prevalent in the country. We did not identify material differences. **We further performed the following procedures on a sample basis:** - Tested the accuracy of the underlying lease data by agreeing the information to original contracts; - Agreed the lease data from the third-party lease administrator to the input data used in the IFRS 16 calculations, to evaluate whether the data was complete; - Agreed lease payments to the underlying lease contracts after taking into account any allocation between lease and non-lease components as detailed above; and - Tested management's assessment of the recognition exemptions in relation to short-term leases or leases for which the underlying asset is of low value against the requirements of IFRS 16. In performing the procedures described in the above 4 bullet points, we did not note material differences. We assessed the mathematical accuracy of the IFRS 16 calculations for the entire population by performing an independent recalculation of the expected IFRS 16 adjustment. We assessed the adequacy of the Group's disclosures made in the financial statements pertaining to leases, including checking whether the disclosures relating to transition to IFRS 16 were in accordance with the requirements of IFRS.

Independent auditors' report

for the year ended 31 March 2020

Our audit approach continued

Assessment of impairment of goodwill, investment in Business Connexion Group Limited (BCX) and property, plant and equipment (applicable to the consolidated and separate financial statements)	How our audit addressed the key audit matter
The Group's net assets include R1.3 billion of goodwill at the reporting date. The goodwill is attributable to two cash generating units (CGUs), Telkom and Business Connexion Group Limited (BCX). The Group assessed internal and external indicators of impairment of the CGUs. Key indicators of impairment included the market capitalisation which fell below the net asset value; the budget was not achieved in 2020 due to a decline in fixed line revenue; and the impacts of COVID-19 on the macro-economic environment, contractual obligations and the supply chain, which may trigger impairment of the underlying assets. As required by International Accounting Standard 36, Impairment of Assets (IAS 36), the Group performs an impairment assessment of goodwill on an annual basis and when impairment indicators are identified. **The goodwill impairment assessment was a matter of most significance to our audit of the consolidated financial statements due to the significant judgements and assumptions made by management when performing the impairment assessment, and in estimating the key assumptions applied, particularly:** - BCX cash flows are generated using Telkom's network assets. A fair value contributory asset income/charge was derived for the use of the network asset between Telkom Company and BCX, which informed the identification of BCX as a separate CGU; - Weighted average cost of capital discount rate (WACC); - Cash flow forecasts in particular the revenue growth rates and EBITDA margin; - Terminal growth rates; and - Forecast period. **For the year ended 31 March 2020 management performed an impairment assessment over the goodwill balance by doing the following:** - Assessing the recoverable amount through determination of a value in use amount and comparing this to the carrying amount, and if an impairment was identified, performing a fair value less costs of disposal calculation to determine the highest recoverable amount; - A five-year period was used for the discounted cash flows; - The valuation was performed taking into account the impacts of IFRS 16; - The value in use for each CGU was calculated using a discounted cash flow model; and - Performing a sensitivity analysis over the Telkom CGU value in use calculations, by varying the key assumptions used (terminal growth rate and the discount rate) in order to determine if a reasonably possible change in these key assumptions would cause the carrying amount of the Telkom CGU to exceed its recoverable amount. **This matter is disclosed in the following notes to the consolidated and separate financial statements:** - Note 2.5.4; and - Note 14. In addition to the goodwill in the consolidated financial statements, the impairment considerations apply equally to the investment in BCX and the property plant and equipment (PPE) in the separate financial statements.	We evaluated management's identification of the Group's CGUs based on the smallest identifiable Group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or Groups of assets. A key consideration in this evaluation was the assessment of the Enterprise cash flows within BCX which are generated using Telkom's network assets. The fair value contributory asset cash flows were assessed to be correctly included in the calculation of the recoverable amount of the BCX CGU which supported the identification of BCX as a separate CGU. We tested the mathematical accuracy of the value in use model used by management and found no material differences. We also assessed the appropriateness of the valuation model applied by management, with reference to market practice and the requirements of IAS 36. We assessed whether the impact of the implementation of IFRS 16 was included in the valuation model used by management and noted that the cash outflows in respect of the lease payments were excluded from the model, and the discount rate was adjusted to include the lease liability and the cost of leasing as required by IAS 36. We assessed the reasonability of the respective CGUs' budgets included in the business plans (which forms the basis of the cash flow forecasts) through discussions with management regarding the process followed to develop the budgets, forecasts and the assumptions utilised. We also compared the prior year budgets to the current year actual results to understand the efficacy of management's budgeting process and found that the budgeting inputs were reasonable. **We assessed the assumptions contained within the calculations including growth assumptions, discount rates and implications of industry changes. Our audit procedures included:** - Agreed the revenue growth rates and EBITDA margins used to calculate cash flow forecasts to the latest Board approved budgets, both of which cover a period of five years. We further benchmarked the revenue growth rate assumptions to industry data, history and noted the forecast assumptions to be within a reasonable range; - Compared the terminal growth rates to forecast industry trends and to past growth rate trends. This was found to be within a reasonable range; - Enquired from management regarding the adjustments made to the approved budgets by the Group with respect to cost saving initiatives and evaluated management's explanations and supporting information in order to assess the reasonability of these adjustments. No material exceptions were noted; and - Evaluated whether the assumptions used, such as working capital and capital expenditure, had been determined and applied consistently across the CGUs. We agreed the capital expenditure to the approved budget. For the fair value contributory asset income/charge with respect to the use of Telkom's network assets, we assessed the reasonability of management's calculation through discussions with management regarding the process to develop the fair value charges as well as the assumptions utilised, and traced these into the valuation models.

Assessment of impairment of goodwill, investment in Business Connexion Group Limited (BCX) and property, plant and equipment (applicable to the consolidated and separate financial statements)	How our audit addressed the key audit matter
The Company holds a 100% interest in BCX and accounts for this investment as a subsidiary in terms of International Accounting Standard 27 – Separate Financial Statements (IAS 27). Under IAS 36, the Group is required to test investments in subsidiaries carried at cost for impairment if there is an indicator of impairment. Management identified an impairment indicator regarding the material investment in BCX due to the matters noted in the goodwill section above and performed impairment tests as a result. PPE 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 includes 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. The impairment of the investment in BCX and the PPE is a matter of most significance to our audit of the separate financial statements due to the significant judgements and assumptions made by management when performing the impairment assessment, and in estimating the key assumptions applied, as specified under the goodwill section above. **This matter is disclosed in the following notes to the consolidated and separate financial statements:** - Note 12; and - Note 16.	Utilising our valuation expertise, we independently sourced data such as the long-term growth rates and WACC, cost of debt, risk-free rates in the applicable market, market risk premiums, debt/equity ratios, as well as the beta of comparable companies. We independently calculated a discount rate for each cash generating unit using our independently sourced data. This was compared to the discount rates used by management. We found the discount rates used by management to be within acceptable ranges of our independent calculations. We performed independent sensitivity analysis to determine the minimum changes in discount rates and terminal growth rates that would result in no headroom being available, and compared our results to that of management in order to identify those cash generating units considered sensitive to a change in assumptions for disclosure purposes. We assessed the appropriateness of the disclosures in the consolidated financial statements as set out in Note 2.5.4, 12 and 14 against the requirements of IAS 36. With respect to the investment in BCX in the separate financial statements, we compared the recoverable amount of the BCX CGU as determined by the procedures above to the carrying amount of the investment in BCX and noted the value in use range exceeded the carrying amount of the BCX investment. With respect to the PPE in the separate financial statements, we compared the recoverable amount of the Telkom CGU as determined by the procedures above to the carrying amount of the Telkom CGU which includes PPE and goodwill, and noted no impairment was necessary.

Independent auditors' report

for the year ended 31 March 2020

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Telkom Annual Financial Statements for the year ended 31 March 2020" , which includes the Directors' Report, the Audit Committee Report and the Certificate from the Group Company Secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the document titled "Telkom SA SOC Limited Integrated Report for the year ended 31 March 2020", which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc have been the joint auditors of Telkom SA SOC Limited for 2 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: KJ Dikana
Registered Auditor
Johannesburg

20 June 2020

SizweNtsalubaGobodo Grant Thornton Inc.

SizweNtsalubaGobodo Grant Thornton Inc.
Director: GM Hafiz
Registered Auditor
Johannesburg

20 June 2020

Annual Financial Statements

Statements of profit or loss and other comprehensive income

for the year ended 31 March 2020

	Notes	Group 31 March 2020 Rm	Group Restated 31 March[1] 2019 Rm	Company 31 March 2020 Rm	Company 31 March 2019 Rm
Revenue	4	43 043	41 774	39 251	39 029
Operating revenue		42 764	41 583	38 972	38 838
Interest revenue[2]		279	191	279	191
Other income	5	676	719	1 577	1 762
Insurance service result	16.2	41	–	41	–
Payments to other operators		(3 683)	(2 940)	(3 604)	(2 913)
Cost of handsets, equipment, software and directories		(5 625)	(5 220)	(3 189)	(3 040)
Sales commission, incentives and logistical costs		(2 006)	(1 457)	(1 778)	(1 244)
Enterprise subcontracting costs[3]		–	–	(9 471)	(10 658)
Employee expenses	6.1	(10 713)	(10 777)	(6 311)	(5 451)
Other expenses	6.2	(2 688)	(2 003)	(877)	(559)
Maintenance	6.3	(3 880)	(4 209)	(4 855)	(4 878)
Marketing		(671)	(806)	(583)	(727)
Impairment of receivables and contract assets	20	(1 140)	(384)	(763)	(408)
Service fees	6.4	(3 274)	(2 934)	(2 753)	(2 461)
Lease expenses[4]	6.5	(478)	(1 182)	(518)	(1 271)
EBITDA		9 602	10 581	6 167	7 181
Depreciation of property, plant and equipment	6.6	(4 868)	(4 842)	(4 512)	(4 450)
Depreciation of right-of-use assets	6.6	(954)	–	(1 510)	–
Amortisation of intangible assets	6.6	(679)	(702)	(579)	(567)
Write-offs, impairments and losses of property, plant and equipment and intangible assets	6.6	(414)	(270)	(207)	(150)
Operating profit/(loss)		2 687	4 767	(641)	2 014
Investment income	7	79	185	2 610	818
Income from associates		11	2	–	–
Net finance charges, hedging costs and fair value movements	8	(1 803)	(947)	(2 219)	(1 093)
Net finance charges on lease liabilities		(368)	–	(555)	–
Net finance charges - other		(1 202)	(885)	(1 434)	(1 016)
Cost of hedging		(205)	(88)	(205)	(88)
Foreign exchange and fair value movements		(28)	26	(25)	11
Profit/(loss) before taxation		974	4 007	(250)	1 739
Taxation	9	(366)	(1 176)	706	(306)
Profit for the year		**608**	**2 831**	**456**	**1 433**
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Exchange gains on translating foreign operations[5]	26	65	23	–	–
Items that will not be reclassified to profit or loss					
Defined benefit plan actuarial gains	30	1 080	1 352	1 080	1 346
Income tax relating to other comprehensive income[6]		(302)	(67)	(302)	(67)
Other comprehensive income for the year, net of taxation		843	1 308	778	1 279
Total comprehensive income for the year		**1 451**	**4 139**	**1 234**	**2 712**
Profit attributable to:					
Owners of Telkom		603	2 795	456	1 433
Non-controlling interests		5	36	–	–
Profit for the year		**608**	**2 831**	**456**	**1 433**
Total comprehensive income attributable to:					
Owners of Telkom		1 446	4 101	1 234	2 712
Non-controlling interests		5	38	–	–
Total comprehensive income for the year		**1 451**	**4 139**	**1 234**	**2 712**
Basic earnings per share (cents)	10	121.1	561.9		
Diluted earnings per share (cents)	10	119.5	551.8		

1 *Restated. Refer to note 2.4 and 2.7.*
2 *Restated. Refer to note 2.4.1.3.*
3 *Subcontracting costs relating to Enterprise customers which were sold to BCX on 1 November 2016 from Telkom, refer to note 4.*
4 *For the year ended 31 March 2020, this amount represents low-value and short-term leases as defined by IFRS 16. The comparative amount represents operating leases as defined by IAS 17.*
5 *This component of OCI does not attract any tax.*
6 *Income tax relating to other comprehensive income is not in line with the decrease in the defined benefit gains due to the fact that in FY2019 the tax movement was impacted by the unrecognised deferred tax asset relating to other comprehensive income in FY2018.*

Statements of financial position

as at 31 March 2020

		Group			Company		
	Notes	31 March 2020 Rm	Restated 31 March[1] 2019 Rm	Restated 1 April[1] 2018 Rm	31 March 2020 Rm	Restated 31 March[1] 2019 Rm	Restated 1 April[1] 2018 Rm
Assets							
Non-current assets		45 071	37 961	36 359	51 077	41 784	39 463
Property, plant and equipment	12	33 608	32 035	30 324	31 531	30 171	28 092
Right-of-use assets	13	4 502	–	–	6 275	–	–
Intangible assets	14	4 739	4 521	4 492	3 139	2 830	2 808
Investment in subsidiaries	16.1.1	–	–	–	8 418	2 986	2 996
Loans and preference share investment in subsidiaries	16.1.2	–	–	–	–	4 801	4 361
Other investments	16.2	62	78	100	–	–	–
Employee benefits	30	992	729	627	992	729	627
Other financial assets	22.1	192	133	60	–	–	–
Finance lease receivables	17	148	210	262	147	210	262
Deferred taxation	18	828	255	494	575	57	317
Current assets		16 315	14 783	13 778	13 404	14 445	13 310
Inventories	19	972	1 267	1 341	640	862	944
Income tax receivable	35	9	76	54	–	–	–
Loans to subsidiaries	16.1.2	–	–	–	128	152	152
Finance lease receivables	17	106	108	112	106	108	112
Trade and other receivables	20	7 019	7 425	6 370	6 197	8 427	6 970
Contract assets	20	1 979	2 161	1 425	1 850	2 161	1 425
Other current assets	21	536	357	247	536	357	247
Other financial assets	22.1	759	388	163	507	229	163
Absa sinking fund investment	16.2	161	1 573	1 509	161	1 574	1 509
Investment in insurance cell captive	16.2	46	–	–	46	–	–
Cash and cash equivalents	23	4 728	1 428	2 557	3 233	575	1 788
Assets classified as held for sale	11	–	200	204	–	–	–
Total assets		**61 386**	**52 944**	**50 341**	**64 481**	**56 229**	**52 773**
Equity and liabilities							
Equity attributable to owners of the parent		29 504	29 573	26 957	26 558	26 824	25 617
Share capital	24	5 050	5 050	5 050	5 050	5 050	5 050
Share-based compensation reserve	25	835	512	377	810	487	362
Non-distributable reserves	26	1 642	1 621	1 579	989	1 033	1 011
Retained earnings		21 977	22 390	19 951	19 709	20 254	19 194
Non-controlling interests		(29)	195	194	–	–	–
Total equity		**29 475**	**29 768**	**27 151**	**26 558**	**26 824**	**25 617**
Non-current liabilities		14 767	6 740	10 268	15 780	6 469	9 986
Interest-bearing debt	27	10 105	4 840	7 158	10 105	4 824	7 109
Lease liabilities	13	3 708	–	–	4 970	–	–
Provisions	28	343	1 193	2 427	330	1 179	2 375
Other financial liabilities	22.2	62	79	–	–	–	–
Deferred revenue	29	396	466	502	375	466	502
Deferred taxation	18	153	162	181	–	–	–
Current liabilities		17 144	16 436	12 922	22 143	22 936	17 170
Trade and other payables	31	8 339	6 536	5 771	10 716	10 941	9 473
Shareholders for dividend	36	31	29	58	31	29	27
Interest-bearing debt	27	1 900	5 401	2 239	1 900	5 370	2 204
Lease liabilities	13	1 067	–	–	1 704	–	–
Provisions	28	1 892	1 316	1 489	1 589	890	1 121
Deferred revenue	29	1 754	1 396	1 597	1 616	1 338	1 510
Income tax payable	35	1 240	1 335	1 382	1 161	1 331	1 367
Other financial liabilities	22.2	919	423	356	3 426	3 037	1 467
Credit facilities utilised	23	2	–	30	–	–	1
Total liabilities		**31 911**	**23 176**	**23 190**	**37 923**	**29 405**	**27 156**
Total equity and liabilities		**61 386**	**52 944**	**50 341**	**64 481**	**56 229**	**52 773**

[1] *Restated. Refer to note 2.4, 2.8 and 2.9.*

Statements of changes in equity

for the year ended 31 March 2020

Group	Share capital Rm	Non-distributable reserves Rm	Share-based compensation reserve Rm	Retained earnings Rm	Total Rm	Non-controlling interest Rm	Total equity Rm
	Attributable to equity holders of Telkom						
Balance at 1 April 2018 (as previously reported)	5 050	1 579	377	20 158	27 164	194	27 358
Total comprehensive income	–	21	–	4 080	4 101	38	4 139
Profit for the year	–	–	–	2 795	2 795	36	2 831
Other comprehensive income	–	21	–	1 285	1 306	2	1 308
Exchange gains on translating foreign operations	–	21	–	–	21	2	23
Net defined benefit plan remeasurements	–	–	–	1 285	1 285	–	1 285
Transactions with owners recorded directly in equity							
Fair value movement on the sinking fund investment transferred to non-distributable reserves (refer to note 26)	–	68	–	(68)	–	–	–
Increase in share-based compensation reserve (refer to note 25)	–	–	125	–	125	–	125
Increase in subsidiaries share-based compensation reserve (refer to note 25)	–	–	10	–	10	–	10
Increase in treasury shares (refer to note 26)	–	(47)	–	–	(47)	–	(47)
Dividend declared (refer to note 10)	–	–	–	(1 780)	(1 780)	–	(1 780)
Contributions by and distributions to non-controlling interest							
Dividend declared*	–	–	–	–	–	(37)	(37)
Balance at 31 March 2019	5 050	1 621	512	22 390	29 573	195	29 768
Balance at 1 April 2019 (as previously reported)	5 050	1 621	512	22 390	29 573	195	29 768
Total comprehensive income	–	65	–	1 381	1 446	5	1 451
Profit for the year	–	–	–	603	603	5	608
Other comprehensive income	–	65	–	778	843	–	843
Exchange gains on translating foreign operations	–	65	–	–	65	–	65
Net defined benefit plan remeasurements	–	–	–	778	778	–	778
Transactions with owners recorded directly in equity							
Fair value movement on the sinking fund investment transferred to non-distributable reserves (refer to note 26)	–	88	–	(88)	–	–	–
Movement on the insurance service result transferred to non-distributable reserves (refer to note 26)	–	41	–	(41)	–	–	–
Increase in share-based compensation reserve (refer to note 25)	–	–	244	–	244	–	244
Increase in subsidiaries share-based compensation reserve (refer to note 25)	–	–	79	–	79	–	79
Escrow shares realised for settlement to employees (refer to note 26)	–	(14)	–	–	(14)	–	(14)
Increase in treasury shares (refer to note 26)	–	(159)	–	–	(159)	–	(159)
Increase in treasury shares from Yellow Pages	–	–	–	(12)	(12)	–	(12)
Disposal of subsidiary (refer to note 11)	–	–	–	–	–	(9)	(9)
Acquisition of non-controlling interest (refer to note 11)	–	–	–	57	57	(217)	(160)
Dividend declared (refer to note 10)	–	–	–	(1 710)	(1 710)	–	(1 710)
Contributions by and distributions to non-controlling interest							
Dividend declared*	–	–	–	–	–	(3)	(3)
Balance at 31 March 2020	**5 050**	**1 642**	**835**	**21 977**	**29 504**	**(29)**	**29 475**

** Dividend declared includes dividends to the non-controlling interest of the BCX Group.*

Statements of changes in equity

for the year ended 31 March 2020

	Attributable to equity holders of Telkom				
Company	**Share capital Rm**	**Non-distributable reserves Rm**	**Share-based compen-sation reserve Rm**	**Retained earnings Rm**	**Total equity Rm**
Balance at 1 April 2018 (as previously reported)	5 050	1 011	362	19 388	25 811
Total comprehensive income	–	–	–	2 712	2 712
Profit for the year	–	–	–	1 433	1 433
Other comprehensive income	–	–	–	1 279	1 279
Net defined benefit plan remeasurements	–	–	–	1 279	1 279
Transactions with owners recorded directly in equity					
Fair value movement on the sinking fund investment transferred to non-distributable reserves (refer to note 26)	–	66	–	(66)	–
Increase in treasury shares (refer to note 26)	–	(47)	–	–	(47)
Sale of shares to BCX	–	3	–	–	3
Increase in share-based compensation reserve (refer to note 25)	–	–	125	–	125
Dividend declared (refer to note 10)	–	–	–	(1 780)	(1 780)
Balance at 31 March 2019	**5 050**	**1 033**	**487**	**20 254**	**26 824**
Balance at 1 April 2019 (as previously reported)	5 050	1 033	487	20 254	26 824
Total comprehensive income	–	–	–	1 234	1 234
Profit for the year	–	–	–	456	456
Other comprehensive income	–	–	–	778	778
Net defined benefit plan remeasurements	–	–	–	778	778
Transactions with owners recorded directly in equity					
Movement on the sinking fund investment transferred to non-distributable reserves (refer to note 26)	–	88	–	(88)	–
Movement on the insurance service result transferred to non-distributable reserves (refer to note 26)	–	41	–	(41)	–
Increase in treasury shares (refer to note 26)	–	(159)	–	–	(159)
Increase in treasury shares from Yellow Pages	–	–	–	(12)	(12)
Escrow shares realised for settlement to employees (refer to note 26)	–	(14)	–	–	(14)
Increase in share-based compensation reserve (refer to note 25)	–	–	323	–	323
Dividend declared (refer to note 10)	–	–	–	(1 638)	(1 638)
Balance at 31 March 2020	**5 050**	**989**	**810**	**19 709**	**26 558**

Statements of cash flows

for the year ended 31 March 2020

	Notes	Group 31 March 2020 Rm	Group 31 March 2019 Rm	Company 31 March 2020 Rm	Company 31 March 2019 Rm
Cash flows from operating activities		8 563	5 706	7 745	3 676
Cash receipts from customers		43 239	40 341	42 551	38 374
Cash paid to suppliers and employees		(30 483)	(31 438)	(31 412)	(32 489)
Cash generated from operations	32	12 756	8 903	11 139	5 885
Interest received		212	441	168	293
Dividend received		–	–	–	116
Finance charges paid	34	(1 374)	(847)	(1 626)	(840)
Taxation paid	35	(1 320)	(945)	(300)	–
Cash generated from operations before dividend paid		10 274	7 552	9 381	5 454
Dividend paid	36	(1 711)	(1 846)	(1 636)	(1 778)
Cash flows utilised for investing activities		(5 961)	(7 522)	(5 642)	(5 643)
Proceeds on disposal of property, plant and equipment and intangible assets		28	35	10	22
Additions to assets for capital expansion		(7 712)	(7 584)	(6 935)	(7 227)
Loans repaid by subsidiaries/(loans advanced to subsidaries)		–	–	(8)	162
Proceeds on disposal of SOX, BCX Nigeria and BCX Tanzania	11	244	–	–	–
Realisation of investments in other financial assets		–	45	–	–
Transfer of funds from subsidiaries for sinking fund (preference share settlement reserve)		–	–	(209)	1 400
Investments made by FutureMakers		(21)	(18)	–	–
Withdrawal from the Absa sinking fund investment	16.2.2	1 500	–	1 500	–
Cash flows from financing activities		696	717	555	755
Loans raised	33	8 660	3 246	8 660	3 246
Loans repaid	33	(6 950)	(2 544)	(6 950)	(2 547)
Other financing activities		(104)	–	(104)	–
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		(172)	(47)	(172)	(47)
Acquisition of non-controlling interest in Yellow Pages	11	(160)	–	–	–
Shares repurchased and cancelled		–	–	–	3
Repayment of lease liability		(780)	(42)	(1 081)	(4)
Repayment of derivatives		(176)	(222)	(176)	(222)
Proceeds from derivatives		378	326	378	326
Net increase/(decrease) in cash and cash equivalents		3 298	(1 099)	2 658	(1 212)
Net cash and cash equivalents at 1 April		1 428	2 527	575	1 787
Net cash and cash equivalents at the end of the year	23	**4 726**	**1 428**	**3 233**	**575**

Notes to the financial statements

for the year ended 31 March 2020

1. Corporate information

Telkom SA SOC Limited (Telkom), the ultimate parent of the Group, is a Company incorporated and domiciled in the Republic of South Africa (South Africa) whose shares are publicly traded on the Johannesburg Stock Exchange (JSE). The main objective of Telkom and its subsidiaries (the Group) and associates is to supply telecommunication, multimedia, technology, information, mobile communication services and other related information technology services to the Group's customers in Africa. Refer to note 2.6.9.1 for a description of the products and services offered by the Group.

2. Significant accounting policies, judgements, estimates and assumptions

2.1 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and in compliance with the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listing Requirements and the requirements of the Companies Act of South Africa 2008.

The financial statements are disclosed in South African Rand, which is also the parent Company's presentation and functional currency. Unless stated otherwise, all financial information presented in Rand has been rounded off to the nearest million.

The financial statements are prepared on the historical cost basis, with the exception of certain financial instruments subsequently measured at fair value. Details of the Group's significant accounting policies are set out below and are consistent with those applied in the previous financial year except for the adopted standards and amendments as listed below.

2.2 Adoption of new accounting standards

2.2.1 Adoption of IFRS 16 *Leases*

The Group adopted IFRS 16 Leases with effect from 1 April 2019. IFRS 16 replaces IAS 17 Leases, along with the following three Interpretations: IFRIC 4 Determining whether an Arrangement Contains a Lease, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The Group has adopted the new standard retrospectively, but has not restated comparatives, as permitted under the specific transitional provisions in the standard. Therefore, prior periods are still reported under IAS 17 along with the three Interpretations. The reclassifications and adjustments arising from the adoption of IFRS 16 are recognised in the opening statement of financial position as at 1 April 2019.

2.2.1.1 Transition

2.2.1.1.1 The Group as a lessee

On the adoption date, for leases classified as operating leases in terms of IAS 17, the Group measured the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate, for the remaining lease terms, as at 1 April 2019.

Right-of-use assets were measured at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments that existed immediately before the date of adoption.

The following practical expedients were applied on adoption of IFRS 16:

Short-term leases	The Group elected to apply the practical expedient to account for leases with a remaining lease term of less than 12 months as at 1 April 2019 in lease expenses. The exemption is applied per class of underlying asset.
Initial direct costs	The Group elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence on adoption of the standard.
Lease term	Telkom benefited from the use of hindsight for determining the lease term when considering options to extend or terminate leases.
Impairment review on right-of-use assets	Instead of performing an impairment review on the right-of-use assets on the adoption date, Telkom has relied on its historical assessment as to whether leases were onerous immediately before the adoption of IFRS 16. There were no onerous provisions as at 1 April 2019.
Discount rate	The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying assets in a similar economic environment and same entity within the Group).

The Group has also elected not to reassess whether a contract is, or contains a lease, on adoption of the standard. Instead, for contracts entered into before the adoption date, the Group relied on its assessment made, applying IAS 17 along with the three Interpretations. The Group has elected to apply the recognition exemption relating to low-value assets.

For finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 April 2019 was determined as the carrying amount of the lease asset and lease liability under IAS 17, immediately before that date.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 8.805% for Group and Company.

2.2.1.1.2 The Group as a lessor

The Group's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor, the Group classifies its leases as either operating or finance leases.

The Group has elected not to reasses whether a contract is, or contains a lease, on adoption of the standard. Instead, for contracts entered into before the adoption date, the Group relied on its assessment made, applying IAS 17 along with the three Interpretations.

2.2.1.2 Impact on the financial statements

The adoption of IFRS 16 *Leases* on 1 April 2019 affected the following line items on the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows:

	Group			Company		
	31 March 2020 Rm	IFRS 16 Rm	31 March 2020 – as presented Rm	31 March 2020 Rm	IFRS 16 Rm	31 March 2020 – as presented Rm
Statement of profit or loss and other comprehensive income (extract)						
Lease expenses	(1 562)	1 084	(478)	(2 152)	1 634	(518)
EBITDA	8 518	1 084	9 602	4 533	1 634	6 167
Depreciation of right-of-use assets	–	(954)	(954)	–	(1 510)	(1 510)
Operating profit/(loss)	2 557	130	2 687	(765)	124	(641)
Net finance charges, hedging costs and fair value movements	(1 435)	(368)	(1 803)	(1 664)	(555)	(2 219)
Net finance charges on lease liabilities	–	(368)	(368)	–	(555)	(555)
Profit/(loss) before taxation	1 212	(238)	974	182	(431)	(250)
Taxation	(433)	67	(366)	585	121	706
Profit for the year	**779**	**(171)**	**608**	**1 008**	**(552)**	**456**

Earnings per share decreased by 34.42 cents per share for the year ended 31 March 2020 as a result of the adoption of IFRS 16.

Statement of financial position (extract)						
Assets						
Non-current assets						
Property, plant and equipment	33 613	(5)	33 608	31 535	(4)	31 531
Right-of-use assets	–	4 502	4 502	–	6 275	6 275
Deferred taxation	755	73	828	462	113	575
Total assets	56 816	4 570	61 386	58 097	6 384	64 481
Equity and liabilities						
Non-current liabilities						
Lease liabilities	3	3 705	3 708	–	4 970	4 970
Current liabilities						
Lease liabilities	14	1 053	1 067	–	1 704	1 704
Total equity and liabilities	**56 628**	**4 758**	**61 386**	**57 807**	**6 674**	**64 481**

Cash from operating activities includes interest paid on lease liabilities of R368 million for Group and R556 million for Company and cash used in financing activities includes R780 million for Group and R1 081 million for Company for the capital portion of lease liability repayments. Refer to the statement of cash flows. The cash flows relating to operating leases under IAS 17 were previously recognised as net cash generated from operations.

	Group	Company
On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities. The recognised right-of-use assets relate to the following categories of assets:	1 April 2019 Rm	1 April 2019 Rm
Vehicles	521	502
Property	1 098	1 643
Network equipment	2 550	4 725
	4 169	**6 870**

Notes to the financial statements continued

for the year ended 31 March 2020

2. Significant accounting policies, judgements, estimates and assumptions continued

2.2 Adoption of new accounting standards continued

2.2.1 Adoption of IFRS 16 *Leases* continued

2.2.1.2 Impact on the financial statements continued

The following is a reconciliation of the total operating lease commitments as at 31 March 2019 to the lease liabilities recognised at 1 April 2019:	Group Reconciled Opening Balance Rm	Company Reconciled Opening Balance Rm
Operating lease commitments disclosed as at 31 March 2019	4 119	2 768
Adjustment to lease commitments as disclosed as at 31 March 2019*	757	4 608
Adjusted opening balance	4 876	7 376
Recognition exemptions:		
(Less): short-term leases recognised on a straight-line basis as an expense (leases ending within 12 months of 1 April 2019)	(140)	(75)
(Less): leases of low-value assets (recognised on a straight-line basis as an expense)	–	–
Add: adjustments relating to changes in the index or rate affecting variable payments (undiscounted)	(263)	(263)
Add: adjustments as a result of a different treatment of extension and termination options (undiscounted)	1 197	1 197
(Less): non-lease components (contracts reassessed as service agreements) (undiscounted)	(143)	(143)
Operating lease liabilities before discounting	5 527	8 092
Discounted using the incremental borrowing rate at the date of initial application (effect of discounting)	(1 316)	(1 363)
IFRS 16 operating lease liability as at 1 April 2019	4 210	6 728
Add: finance lease liabilities recognised as at 31 March 2019	43	–
Total lease liabilities recognised under IFRS 16 at 1 April 2019**	**4 253**	**6 728**

* *On the adoption of IFRS 16, management undertook an extensive data clean-up process which sought to validate and align IAS 17 data to the requirements of IFRS 16, and it was discovered that in the prior period, operating lease commitments amounting to R748 million were erroneously not disclosed in the notes to the financial statements as per requirement of IAS 17. The error had no impact on the statement of profit or loss and other comprehensive income or the statement of financial position.*

** *The lease liability recognised on 1 April 2019 for Group, as previously disclosed in the 2019 interim results, increased as a result of leases, that were previously classified as low-value, being capitalised under IFRS 16 principles. The latter was a result of an assessment being performed to confirm the value of underlying assets for low-value leases.*

2.2.1.3 The Group's leasing activities and significant accounting policies

The Group's leases include network equipment (which includes masts and towers and data equipment), property and vehicles.

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

2.2.1.3.1 The Group as a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

For any new contracts entered into on or after 1 April 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Group assesses whether the contract meets three key evaluations, which are whether:

- the contract contains an asset, which is either explicitly or implicitly identified in the contract
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct how and for what purpose the asset is used throughout the period of use

Recognition of leases

At the commencement date of a lease, the Group shall recognise a right-of-use asset and lease liability for contracts that are, or contains, a lease, except in the case where recognition exemptions are elected.

The Group has elected to apply the following recognition exemptions:

Short-term leases	Leases that, at the commencement date, have a lease term of 12-months or less (after considering lease extension options and management's intention with the use of the leased asset) are expensed on a straight-line basis over the lease term. This is accounted for in the lease expenses line item on the statement of profit or loss and other comprehensive income.
Low-value assets	All leases, where the underlying asset being used is of low value, are assessed on a lease-by-lease basis and expensed on a straight-line basis over the lease term. This is accounted for in the lease expenses line item on the statement of profit or loss and other comprehensive income. Leased assets are classified as low-value if the value of the asset is R73 200, when purchased new, regardless of the age of the asset. The low-value criteria is applied to the underlying asset that can benefit the entity on their own or together with an asset that is readily available in the market and the underlying asset is not highly dependent on, nor highly interrelated with, other assets. As required by IFRS 16, if an asset is sub leased by the Group, the head lease is not accounted for as a low-value lease even when the low-value criteria is met. Although this exemption has been elected, it is not applicable in the current financial year.

Lease and non-lease components:

A number of lease contracts include both lease and non-lease components. The Group allocates the consideration in the contract to each lease and non-lease component based on the amount as stipulated in the lease agreement as the rental for the asset is separate from the operational costs in the majority of the agreements. In lease agreements, where the gross rental amount includes operational cost, an estimate will be made to determine which portion of the gross rental relates to operational costs, which will inform the separation of the operational costs on these contracts. The Group has not elected the practical expedient to account for non-lease components as part of its lease liabilities and right-of-use assets. Therefore, non-lease components are accounted for as operating expenses and are recognised in profit or loss as they are incurred.

Right-of-use assets – initial and subsequent measurement

After the adoption date, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). The right-of-use assets are measured at cost, which is made up of the initial measurement of the lease liabilities, any initial direct costs incurred by the Group, any lease payments made in advance of the lease commencement date, less any lease incentives received. Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of any lease liabilities. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment in accordance with the principles of IAS 36 *Impairment of Assets.*

Lease liabilities - initial and subsequent measurement

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that are based on an index or rate (measured using the index or rate at commencement date) and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the Group is reasonably certain to exercise the option to terminate. The variable lease payments, that do not depend on an index or a rate, are recognised as an expense in the period in which the event or condition, that triggers those payments, occurs.

Subsequent to initial measurement, the lease liability will be reduced for payments made and increased by the interest cost. Interest costs are included in finance charges in the statement of profit or loss and other comprehensive income over the lease period. It is remeasured when there is a change in future lease payments arising from a change in index or rate, a change in the estimate of the amount payable under a residual value guarantee or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. Furthermore, a revision to Telkom's rolling budget/forecast is considered a significant event which would trigger a reassessment of the lease term. Any change to the lease term would result in a remeasurement of the associated lease liability.

Significant judgements

Key judgements and practical expedients have been reassessed since the disclosures in the 31 March 2019 financial statements.

Lease term	*Renewal and termination options* In determining the lease term, all facts and circumstances are considered that create an economic incentive to exercise a renewal option, or not exercise a termination option. Renewal options and periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. The Group applies judgement in assessing whether it is reasonably certain that options will be exercised. Factors considered include the past history of renewing leases, the length of the non-cancellable period of the lease, the Group's rolling budgeting forecast period of 5 years and the importance of the underlying asset to the Group's operations. The Group applied the rolling budgeting forecast period on all its month-to-month leases or leases with indefinite lease periods or strategic asset leases. The lease term will be reassessed at the occurrence of a significant event, which is either a change in the budgeting forecast cycle or other major events not within the Group's control. In March 2020, the Group changed its rolling budgeting forecast from 3 years to 5 years. The change was accounted for by remeasuring the lease liability with a corresponding adjustment to the right-of-use asset. *Month-to-month leases* The Group has leases that continue contractually on a month-to-month basis for an indefinite period or continue automatically on a month-to-month basis after expiry. In these agreements, the Group can terminate the agreement and neither party would incur a contractual penalty payment on termination. However, in determining the lease term, the Group considered the broader economics of the contract including factors such as the strategic importance of the asset, whether alternative suitable locations are available, the budgeting forecast cycle, and that management is not reasonably certain of business decisions that it will take beyond this period. Based on the above, the lease term of all month-to-month leases are aligned to the budgeting forecast cycle.

Notes to the financial statements continued

for the year ended 31 March 2020

2. Significant accounting policies, judgements, estimates and assumptions continued

2.2 Adoption of new accounting standards continued

2.2.1 Adoption of IFRS 16 *Leases* continued

2.2.1.3 The Group's leasing activities and significant accounting policies continued

Lease discount rate	Except where a discount rate implicit in the lease has been stipulated in the lease agreement, the lease payments are discounted using the incremental borrowing rate. The calculation of an incremental borrowing rate requires significant judgement. The incremental borrowing rate is calculated as a function of base rate, plus credit spread, plus other adjustments. Other adjustments take into account the lease period, currency of the lease payments, lease duration, lease-specific adjustments such as asset class and country risk premiums. Base rate is a risk-free rate based on the interest rate swap curve of the country of the lease payments currency and the base is matched to the lease period. The credit spread for Telkom Company is based on Telkom's bond yield spread over the equivalent risk-free rate. The credit spread for other Telkom Group entities (BCX, Gyro and Yellow Pages) is based on their credit risk relative to Telkom Group.
Lease and non-lease components	In lease agreements, where the gross rental amount includes operational cost, the Group applies judgement in allocating the consideration in the contract to each lease and non-lease component based on their relative stand-alone selling prices. The stand-alone selling prices of each component are based on available market prices.

2.2.1.3.2 The Group as a lessor

Where the Group is a lessor, it determines at inception whether the lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not. The land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification unless it is impracticable to do so.

2.2.2 IFRIC 23 and the related agenda decision

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 *Income Taxes* are applied when there is uncertainty over income tax treatment. The Interpretation is effective for annual periods beginning on or after 1 January 2019. The IFRIC agenda decision issued in September 2019 clarifies the presentation requirements in IAS 1 *Presentation of Financial Statements* where there is uncertainty over income tax treatment.

The Telkom Group previously presented uncertain income tax liabilities as part of provisions based on amounts expected to be paid to the tax authorities. Following the IFRIC agenda decision, the Group has adopted the treatment as set out in the IFRIC agenda and has reclassified uncertain income tax related liabilities from provisions to current tax liabilities in the Group's statement of financial position.

This change in accounting policy has been accounted for retrospectively and comparative information has been restated. Refer to note 2.8 and 2.9. No additional current or deferred tax liabilities were recognised as a result of IFRIC 23.

No significant judgements and estimates were applied in determining the uncertain tax positions. The Group's estimates and judgements for uncertain tax positions are based on historical experience and expectation of future events. These will be reviewed periodically based on any changes to the circumstances and legal precedent. A reassessment in future may be triggered due to a change in circumstances, such as if the settlement agreement on bad debt is not reached, or new information that has become available.

2.3 Standards and interpretations in issue not yet adopted and not yet effective

Information on standards issued by the International Accounting Standards Board (IASB), but not effective for the current financial year, has been provided below where it is expected that the new standards will have a material impact on the Group.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments neither adopted nor listed below are not expected to have a material impact on the Group's financial statements.

The following new standards, amendments to standards and interpretations in issue have not yet been adopted and are not yet effective. All standards are effective for annual periods beginning on or after the effective date.

2.3.1 IFRS 17 *Insurance Contracts*

The IASB issued IFRS 17 *Insurance Contracts* which will replace IFRS 4 *Insurance Contracts*. IFRS 17 *Insurance Contracts* establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The standard is effective for financial periods beginning on or after 1 January 2022. The Group anticipates that it will adopt the standard effective 1 April 2022.

The Group has not yet performed an impact assessment.

2.4 Restatements due to prior period errors and reclassifications

2.4.1 Prior period errors

2.4.1.1 Prior period error - expenses classification

In the current financial year, it was identified that certain BCX expenses were incorrectly classified on the statement of profit or loss and other comprehensive income for the year ended 31 March 2019. This was identified through focused accounting records clean-up.

There was no impact on the net operating revenue, EBITDA, profit before tax or basic earnings per share and headline earnings per share. The previous accounting treatment had no impact on the statement of financial position as it only resulted in an overstatement of the other expenses line item and an understatement of the maintenance and cost of handsets, equipment, software and directories line items.

The Group has restated the 31 March 2019 statement of profit or loss and other comprehensive income. Refer to note 2.7 for each materially affected line item as part of the correction of the error.

2.4.1.2 Prior period error – vendor financing

During the current financial year, as part of the process of renegotiating certain vendor payment terms and contractual agreements, existing vendor arrangements in BCX were reassessed in terms of IFRS 9. This is an accounting area which requires managements judgement in assessing the terms and conditions of the arrangement and determining the appropriate accounting treatment. The assessment concluded that certain long-standing vendor arrangements met the IFRS 9 requirements to be classified as vendor financing which should be disclosed as other financial liabilities. In the prior financial year, the obligation related to this supplier financing agreement was incorrectly included in the trade and other payables balance at a Group level.

As a result, a reclassification in the current year from trade and other payables to other financial liabilities has been made. The Group has also restated the 31 March 2019 statement of financial position. Refer to note 2.8 for each materially affected line item as part of the correction of the error.

2.4.1.3 Disaggregation of interest revenue

The split of revenue between operating revenue and interest revenue is now disclosed on the face of the statement of profit or loss and other comprehensive income. It was previously disclosed in the notes. The comparatives have been restated.

2.4.2 Reclassifications

2.4.2.1 Reclassification between contract assets and other current assets

In the prior financial year, contract cost assets (which relate to incremental costs to acquire and costs to fulfil contracts with customers) were included in the contract assets line item on the statement of financial position.

This aggregation has been reassessed in the current financial year as the contract cost assets and contract assets are not of the same nature and the subsequent measurement differs. Contract assets represent assets for accrued revenue in respect of goods or services delivered to customers for which a trade receivable does not yet exist and is subject to impairment in terms of IFRS 9. Contract cost assets relate to assets that are raised for the impact of capitalising commission and incentive costs paid to dealers and sales staff as well as ongoing commission.

To improve the disclosure of contract assets and contract cost assets, an additional line item has been included in the statement of financial position called “other current assets”. Following the above reassessment, the contract cost assets previously included in the contract assets line item has been reclassified to other current assets. There has been no restatement to the amounts disclosed for contract assets and contract cost assets and there has been no change in the accounting policy.

The Group has re-presented the comparative statements of financial position. Refer to note 2.8 and 2.9 for each materially affected line item as part of the reclassification

2.4.2.2 Reclassification of the investment in FutureMakers on Telkom Company

In the prior financial year, the investment in FutureMakers was disclosed in the other investments line item on the statement of financial position for Telkom Company. In the current year, the investment has been reclassified from other investments to investments in subsidiaries as Telkom controls the entity.

Telkom did control the entity in the prior year and it has been correctly accounted for in accordance with the accounting policy for investments in subsidiary. The investment that was included in other investments was not noted to be material for the prior year. There has been no change in the control assessment nor the accounting treatment of the investment.

The Company has re-presented the comparative statements of financial position. Refer to note 2.9 for each materially affected line item as part of the reclassification.

2.5 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Although these estimates and assumptions are based on management’s best knowledge of current events and actions that the Group may undertake in the future, actual results may ultimately differ from those judgements, estimates and assumptions.

The presentation of the results of operations, financial position and cash flows in the financial statements of the Group is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these financial statements. Management has made certain judgements in the process of applying the Group’s accounting policies. These, together with the key judgements, estimates and assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, are as follows:

2.5.1 Estimation of useful lives and residual values for property, plant and equipment (PPE) and intangible assets (IA)

The useful lives of assets are based on management’s estimation. Management considers the impact of changes in technology, customer service requirements and availability of capital funding to determine the optimum useful life expectation for each of the individual categories of property, plant and equipment and intangible assets. Due to the rapid technological advancement in the telecommunications industry, the estimation of useful lives could differ significantly on an annual basis due to unexpected changes in the roll-out strategy. The impact of the change in the expected useful life of property, plant and equipment is described more fully in note 6. The measurement of residual values of assets is also based on management’s judgement whether the assets will be sold or used to the end of their economic lives and the estimation of what their condition will be like at that time. Changes in the useful lives and/or residual values are accounted for as a change in accounting estimate.

For intangible assets that incorporate both a tangible and intangible portion, management uses judgement to assess which element is more significant to determine whether it should be treated as property, plant and equipment or intangible assets.

Notes to the financial statements continued

for the year ended 31 March 2020

2. Significant accounting policies, judgements, estimates and assumptions continued

2.5 Significant accounting judgements, estimates and assumptions continued

2.5.2 Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Judgement is involved in determining whether inventories need to be written off to its net realisable value. Factors considered include the age of the stock, inventory turnover, exchange rates, new phone models released and the ability to bundle devices with other value added services, such as voice, data, SMSs, etc).

Inventory write-downs related to slow moving stock, short cables and faulty equipment are determined by considering the following:

Slowing moving stock

For network build stock, the identification of obsolete and excess warehouse stock for build stock entails the running of quarterly reports by management detailing obsolete and excess stock:

- Obsolete stock: all material items per material Group with no movement for the last 12 months.
- Excess stock: all material items per material Group with more than 12 months stock on hand, with 5 years stock cover consideration.

New items not used yet and items planned for projects are excluded. The balance is then taken through the write-off process.

The identification of obsolete and excess stock for maintenance spares entails the running of quarterly reports by management detailing obsolete and excess spares:

- Obsolete stock: all material items per material Group with no movement for the last 24 months.
- Excess stock: all material items per material Group with more than 24 months stock on hand.

New items not used yet and items planned for projects are excluded. The balance is then taken through the write-off process.

Short cables

When a customer requests a cable of a specific length, the required length is cut upon request and delivered to the customer. The remaining short length cable remains in stock.

Faulty stock

This category includes equipment that is faulty. This equipment is stored in an area in the warehouse referred to as the National Repair Centre.

2.5.3 Asset retirement obligations

Where an asset retirement obligation exists, estimation is applied in determining the expected future cash flows and the discount rate used to determine its present value when the legal or constructive obligation to dismantle or restore the site arises, as well as the estimated useful life of the related asset.

IAS 37 requires concluded lease agreements that have a contractual restoration obligation to be provided for if those obligations will have to be settled at the expiry of the lease agreement, should the lease not be renewed. The vast majority of Telkom leases contain a rehabilitation clause which contractually binds the tenant to maintain the property in a good condition, along with the need for them to redecorate, remove any additions they have made to the property, or re-install any parts of the property they have removed when the lease comes to an end.

Lease obligation data and determination is managed by the service provider, who determines the rehabilitation costs per square meter based on current market costs for restoring similar properties. The service provider then provides the data to Telkom for capturing. The split between current and non-current is done based on the lease end date.

2.5.4 Impairments of property, plant and equipment and intangible assets

Management is required to make judgements concerning the cause as well as the amount of impairment as indicated in notes 12 and 14. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services, market changes, legal changes, operating environments and other circumstances that could indicate that an impairment exists. The Group applies the impairment assessment to its cash-generating units. This requires management to make significant judgements concerning the existence of impairment indicators, identification of cash-generating units, and estimating the remaining useful lives of assets as well as projected cash flows to determine fair value less costs of disposal or value in use. Management's analysis of cash-generating units involves an assessment of a Group of assets' abilities to independently generate cash inflows and involves analysing the extent to which different products make use of the same assets. Management's judgement is also required when assessing whether there are indicators that a previously recognised impairment loss should be reversed.

Where impairment indicators exist, the determination of the recoverable amount of a cash-generating unit requires management to make assumptions to determine the value in use. Value in use is calculated using the discounted cash flow valuation method. The determination of value in use is based on a number of factors which include the weighted average cost of capital, revenue growth, EBITDA margins and capital expenditure. The judgements, assumptions and methodologies used can have a material impact on the recoverable amount and ultimately the amount of impairment loss recognised.

In calculating value in use, consideration is also given to the completion of a network that is still partially completed at the date of performing the impairment test. Significant judgement is applied in determining if network expansion should be treated as the completion of a partially completed asset or the enhancement of an asset (which cash flows are not allowed to be considered in calculation of value in use).

2.5.5 Impairment of trade and other receivables, finance lease receivables and contract assets

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans, trade receivables, other receivables, cash and cash equivalents and finance lease receivables, either on a 12-month or lifetime basis.

The Group has elected the simplified approach to recognise lifetime expected losses for its trade and other receivables and contract assets as permitted by IFRS 9. The historical loss rates are adjusted when their impact is material to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the contract asset. The Group has historically been raising provisions for bad debt based on incurred losses.

Impairment losses calculated using the simplified approach are calculated using a provision matrix. The provision matrix is a probability-weighted model which applies an expected loss percentage, based on the net write-off history experienced on receivables, to each ageing category of receivables at the end of each month in order to calculate the total provision to be raised on the receivable balances.

Receivables have been Grouped together based on similar credit characteristics and a separate expected loss provision matrix has been calculated for each of the categories based on the net loss history associated to the specific category of receivables.

Following the adoption of IFRS 9, the Group has implemented a process whereby trade receivable balances are only written off at the point where there is no longer any probable recovery on a trade receivable balance.

Telkom recognises lifetime expected credit losses on finance lease receivables in terms of the simplified approach. Whenever a finance lease receivable is billed, the amount is moved from finance lease receivables to trade receivables and forms part of the trade receivables balance. To determine an expected credit loss for the outstanding lease receivables, the total outstanding amounts are proportioned into the various ageing buckets based on the proportions experienced in trade receivables. The same loss rates that are used for the fixed-line trade receivables segment are then applied to the outstanding lease receivables balance to derive the expected loss on finance lease receivables over the lifetime of the instrument. The underlying assumption attached to this is that the exposure to the finance lease balance will realise as the balance is billed to the customer over the lifetime of the instrument and will thus follow the same pattern of expected loss as the trade receivable balance.

The impact of COVID-19 on the expected credit loss recognised in the current financial year has been disclosed in note 15.3.

Twelve month expected credit losses are calculated for cash and cash equivalents using the general approach.

Impairments of all other financial assets that are not measured using the simplified approach will be calculated as the difference between the carrying value of the asset and the present value of the expected cash flows, discounted at the original effective interest rate of the instrument.

2.5.6 Recognition and measurement of revenue

2.5.6.1 Stand-alone selling prices and transaction price

The stand-alone selling prices for mobile devices are based on the standard list prices at which the Group sells them separately (without a service contract). Stand-alone selling prices for communication services are set based on prices for non-bundled offers with the same range of services. The transaction price is calculated as the total consideration receivable from the customer over the contract term.

2.5.6.2 Significant financing component

The Group applies the practical expedient in IFRS 15 paragraph 63 to not recognise a significant financing component for any contract when the goods and services provided, compared to when the payment is received, is 12 months or less. A model was designed to determine whether a significant financing component exists. This model calculates the financing component on a contract-by-contract basis. If the financing component is less than 5% of the total transaction price allocated to the customer premises equipment (CPE), it is deemed not to be significant and the finance component will not be recognised separately.

2.5.6.3 Material right considerations

The Group considers installation fees on month-to-month contracts to provide a material substantive right to the customer as the customer can extend/renew the contract each month without paying an additional installation fee. This installation fee is a separate performance obligation and is capitalised and expensed over an estimated customer relationship period where it is concluded that the installation fee gives rise to a material substantive right.

2.5.6.4 Customer relationship periods

The average customer relationship periods for wholesale, voice and non-voice services are utilised to expense the capitalised installation revenue and cost. Management applies judgements about the data used to determine the customer relationship period estimate. The estimate is based on the historical churn information (refer to note 4). The churn is determined by considering the service installation and disconnection dates, the weighted customer base ageing and the service connection status of the customers. Changes in average customer relationship periods are accounted for as a change in accounting estimate.

2.5.6.5 Agent vs principal considerations in relation to co-operation with third-party dealers

Dealers

The Group utilises a network of dealers to sell contract services (including these bundled with mobile devices), pre-paid services and mobile devices (without bundling them with a Telkom services contract). Telkom accounts for device sales through the dealers as a principal as Telkom can unilaterally redirect the handsets between dealers without the approval of the dealer in order to best realise the handset.

In terms of IFRS 15, Telkom has identified the specified goods or services being provided to the customer - the handset in this instance. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) that will be transferred to the customer. An entity is the principal in a transaction if it obtains control of the specified goods or services before they are transferred to the customer. An entity is an agent if it does not control the specified goods or services before they are transferred to the customer. We have assessed whether Telkom is a principal or agent for the device obligation on a contract-by-contract basis using the relevant indicators, taking into account the right of return policy with third party dealers.

Enterprise revenue

Telkom SA SOC Ltd recognises gross revenue for the Enterprise customer contracts which were sold to BCX, but not contractually ceded. Management has assessed that the primary obligation for service delivery to the Enterprise clients remains with Telkom. Similarly, price risk owing to the contracts not ceded is deemed to reside with Telkom. Cognisance is given to the fact that mechanisims exist for a transfer of credit risk between Telkom and BCX. It is on this basis that management has concluded that revenue from such contracts should be recognised in the accounting records of Telkom as a principal with the customers.

2.5.7 Deferred taxation asset

Management's judgement is exercised when determining the probability of future taxable profits which will determine whether deferred taxation assets should be recognised or derecognised (refer to note 18). The realisation of deferred taxation assets will depend on whether it is possible to generate sufficient taxable income, taking into account any legal restrictions on the length and nature of the taxation asset. When deciding whether to recognise unutilised deferred taxation credits as deferred tax assets, management needs to determine the extent that the future obligations are likely to be available for set-off against the deferred taxation asset. In the event that the assessment of the future obligation and future utilisation changes, the change in the recognised

Notes to the financial statements continued

for the year ended 31 March 2020

2. Significant accounting policies, judgements, estimates and assumptions continued

2.5 Significant accounting judgements, estimates and assumptions continued

2.5.7 Deferred taxation asset continued

deferred taxation asset is recognised in profit or loss. The carrying amount of the deferred tax asset is reviewed at each reporting date and adjusted to reflect changes in the probability that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2.5.8 Taxation

Management determines the income tax charge in accordance with the applicable tax laws and rules which are subject to interpretation. The calculation of the Group's total tax charge involves judgements and estimations, in respect of certain items whose tax treatment cannot be finalised until resolution has been reached with the involved parties. The resolution of some items may give rise to material profits, losses and/or cash flows. Where the effect of tax is not certain, taxation liability estimates are made by management based on the available information, using either the most likely outcome approach or the expected value approach. Tax assets are only recognised when amounts receivable are virtually certain. The resolution of taxation issues is not always within the control of the Group and, as a result, there can be substantial differences between the taxation charge in the statement of profit or loss and other comprehensive income and the current tax payments.

2.5.9 Employee benefits

The Group provides defined benefit plans for certain post-employment benefits. The obligation and assets related to each of the post-retirement benefits are determined through an actuarial valuation. The actuarial valuation relies heavily on assumptions as disclosed in note 30. The assumptions determined by management make use of information obtained from the Group's employment agreements with staff and pensioners, market related returns on similar investments, market related discount rates and other available information. The assumptions concerning the interest on assets and expected change in liabilities are determined on a uniform basis, considering long-term historical returns and future estimates of returns and medical inflation expectations. In the event that further changes in assumptions are required, the future amounts of post-employment benefits may be affected materially.

The discount rate reflects the average timing of the estimated defined benefit payments. The discount rate is based on long-term South African Government bonds with the longest maturity period as reported by the JSE debt market. The discount rate is expected to follow the trend of inflation.

The interest cost on the defined benefit obligation and the interest on assets are accounted for through the net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year.

The forfeitable share incentives are allocated to employees based on vesting conditions linked to time and performance measures. The total shareholder return is considered in estimating the fair value of the grant at grant date. The Group allocates the number of shares per employee, based on a formula taking into account the annual guaranteed package, percentage of gross profit and share price at grant date. The shares to be allocated are limited to approximately 5% of issued share capital and vest between three and five years. The additional share scheme award provides for the granting of shares to eligible participating employees, equivalent in value to the increase in share price from the grant date (based on the specific grant price) to the vesting date.

2.5.10 Provisions

For other provisions, estimates are made of legal or constructive obligations resulting in the raising of provisions, and the expected date of probable outflow of economic benefits to assess whether the provision should be discounted (refer to note 28). Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the reporting date.

2.5.11 Contingent liabilities

On an ongoing basis, the Group is party to various legal disputes, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognised where, based on the Group's legal views, advice and application of professional judgement, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably. Disclosure of other contingent liabilities is made in note 38 unless the possibility of a loss arising is considered remote.

2.5.12 The assessment of COVID-19 as part of accounting judgements and sources of estimation uncertainty

The World Health Organisation (WHO) announced that COVID-19 was a global pandemic on 11 March 2020 which subsequently resulted in the President of South Africa declaring a national state of disaster on 15 March 2020. Many measures were implemented by the national government, such as immediate travel restrictions and the closure of schools effective from 18 March 2020. These measures resulted in a significant impact on the local and global markets as well as share prices.

As the Group is in the Information Communication Technology ("ICT") sector in South Africa and since the declaration of the national state of disaster in South Africa, in response to the COVID-19 pandemic, and the subsequent announcement of the national lockdown, all telecommunication services have been recognised as an essential service which has allowed our businesses to continue operating during the lockdown. Management has considered the potential impact on the Group by taking a variety of risk elements into account which included considering macro-economic factors, contractual obligations and supply chain impacts. In addition, management performed a scenario analysis on the business prospects going forward and stress tested forecasts considering its "business unusual" impacts.

Management has considered all the possible financial effects the virus could have on the measurement, presentation and disclosure in the annual financial statements. Key areas are considered in the table below:

COVID-19 Consideration	Assessment	Potential impact	Note reference
Subsequent events >	COVID-19 was assessed as being a condition that existed in the Group's markets as at 31 March 2020. Recognised assets and liabilities at reporting date are therefore presented, measured and disclosed after taking into account the effect or impact of material adjusting subsequent events as these provide further information about the COVID-19 condition which existed at 31 March 2020.	High	Note 43
Financial asset impairment (expected credit losses) > **Contract assets and trade receivables**	The Group has based the measurement of expected credit losses ("ECL") on an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes and reflecting time value of money. IFRS 9 requires ECL provisions to be measured in a way that incorporates information available at the reporting date about past events, current conditions and forecasts of future economic conditions. All of these were used in calculating the ECL on financial assets. The total ECL provision increased by R626 million as a result of incorporating the impacts of COVID-19 into the model.	High	Note 15.3
IFRS 16 - Leases in which the Group/ Company is the lessee >	The incremental borrowing rate applied to calculate the present value of the lease liability decreased for leases with lease periods between 1 and 5 years due to the increase in the South African risk-free rate. This is applicable to leases entered into from 1 March 2020 onwards as well as on the leases that were remeasured in March 2020 due to the change in the lease term from 3 to 5 years.	Medium	Note 13
Non-financial asset impairment >	Goodwill is tested for impairment annually and whenever there are indicators of impairment. In determining the recoverable amount of the Telkom cash generating unit ("CGU") and investment in BCX, the Group considered several sources of estimation uncertainty and made certain assumptions or judgements about the future. Management also considered various scenario analysis with respect to the impact of COVID-19 on the cash flow projections, given the evidence available at the time of finalising the annual financial statements.	Low	Note 14
Inventories >	There was a low impact of COVID-19 on inventories due to limited disruptions in operations as Telkom was an essential service. There was no indication of losses suffered due to damage, contamination or write-off due to slow moving inventory.	Low	N/A
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. The Group's fixed and IT services revenue has however been impacted by COVID-19 post the reporting date.	Medium	N/A
Onerous contracts >	The Group does not engage in services that may lead to material onerous contracts.	Low	N/A
Credit risk >	The Group's maximum exposure to credit risk is represented by the carrying amount of the Group's financial assets. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There was a material change in the Group's exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the 2020 financial year due to the impact of COVID-19. To support the credit transmission mechanism of the South African economy, given the impact of COVID-19, the South African Reserve Bank (SARB) announced reductions in the Repo (Repurchase) rate. In addition, facilitated by the SARB, the government has also implemented a bond purchase programme to provide liquidity to banks and enable a well-functioning credit transmission mechanism. The fiscal profile of South Africa has resulted in sovereign credit rating downgrades.	Medium	Note 15.3
Liquidity risk >	There was a change in the Group's objectives, policies and processes for managing and measuring liquidity risk during the 2020 financial year due to the impact of the COVID-19 pandemic. The Group has maintained elevated levels of liquidity in response to the potential impact of the pandemic. This will also mitigate the risk of the Group's credit rating downgrade.	Low	Note 15.4
Going concern >	The Group continues to operate as a going concern, with a strong balance sheet and solid cash flow position. There has also been a limited disruption on operations.	Low	Note 42

Notes to the financial statements continued

for the year ended 31 March 2020

2. Significant accounting policies, judgements, estimates and assumptions continued

2.5 Significant accounting judgements, estimates and assumptions continued

2.5.13 Significant judgements and estimates - CGU and goodwill impairment assessment

IAS 36 *Impairment of Assets,* requires assets to be assessed for impairment when impairment indicators are evident. This standard also requires goodwill to be assessed for impairment on an annual basis.

Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or Groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit, or Group of units, to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense. Impairment losses relating to goodwill are not subsequently reversed.

Goodwill of the Telkom Group is allocated as follows:

Entity/CGU	Amount (Rm)	Assessment method
Telkom	63	IAS 36 - Discounted cash flow ("DCF")
BCX	1 196	IAS 36 - Discounted cash flow ("DCF")

The goodwill in the Telkom CGU arose from the acquisition of Yellow Pages. The goodwill for the BCX CGU arose on acquisition of BCX in August 2015 and subsequent acquisitions made by the BCX Group.

In determining the recoverable amount of the Telkom Group CGUs, the Group considered several sources of estimation uncertainty and made certain assumptions or judgements about the future.

Management used cash flow projections per Board-approved business plans. These cash flow projections changed from a 3-year outlook to a 5-year outlook for the year end. Management applied the following key assumptions in the DCF valuation model:

- Revenue growth;
- EBITDA margins;
- Fair value charge contributory asset income or charge*;
- Discount rates; and
- Terminal growth rates.

**BCX uses Telkom's network assets for its Enterprise business. An assumption was made that a fair value contributory asset income or charge could be derived for use of the network asset between Telkom Company and BCX, which informed the identification of BCX as a separate CGU.*

Refer to note 14 for details of the impairment testing.

2.6 Summary of significant accounting policies

2.6.1 Basis of consolidation

The financial statements incorporate the financial statements of Telkom and entities (including special purpose entities) controlled by Telkom, its subsidiaries and associates.

Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring the accounting policies used in line with those used by the Group.

2.6.2 Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group consolidates the financial statements of subsidiaries from the date the control of the subsidiary commences until the date that control ceases.

2.6.3 Transactions with non-controlling interests

Non-controlling interests in subsidiaries are identified separately from the Group's equity. The interests of non-controlling shareholders are initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquirer's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.6.4 Associates

An associate is an entity over which the Group has significant influence. The Group has significant influence over an associate when it has the power to participate in the financial and operating policy decisions of the investee. The Group recognises its interests in associates by applying the equity method.

2.6.5 Investments in subsidiaries and associates

Investments in subsidiaries and associates are carried at cost at Company level and adjusted for any impairment losses.

2.6.6 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree and non-controlling interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Any transaction costs that the Group incurs in connection with the business combination such as legal fees, due diligence fees and other professional and consultation fees are expensed as incurred.

Business combinations in which all of the combining entities or businesses are ultimately controlled by the same party/parties both before and after the business combinations (and where control is not transitory) are referred to as common control business combinations. The carrying amounts of the acquired entity are the consolidated carrying amounts as reflected in the consolidated financial statements of the selling entity. The excess of the cost of the transaction over the acquirer's proportionate share of the net asset value acquired in common control transactions is allocated to equity. This is in accordance with the predecessor value method.

2.6.7 Foreign currencies

Functional and presentation currency

The consolidated financial statements are presented in South African rand, which is the functional and presentation currency of the parent Company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign operations

For the purpose of presenting consolidated annual financial statements, assets and liabilities have been translated to rand at the closing rate on the reporting date. Income and expenses have been translated to rand at the average rate over the reporting period.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated to rand at the closing rate.

Exchange differences are charged or credited to other comprehensive income and recognised in the foreign currency translation reserve (FCTR) in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

The functional currencies of entities within the Group have remained unchanged during the reporting period.

2.6.8 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date of acquisition.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net fair value of the acquiree's identifiable net assets.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

Goodwill is tested for impairment annually.

2.6.9 Revenue recognition and measurement

2.6.9.1 Nature of goods and services

The Group has elected to apply the IFRS 15 practical expedient on the significant financing component that allows the Group not to adjust the transaction price for the significant financing component for contracts where the time difference between customer payment and transfer of goods or services is expected to be within 12 months or less.

Notes to the financial statements continued

for the year ended 31 March 2020

2. Significant accounting policies, judgements, estimates and assumptions continued

2.6 Summary of significant accounting policies continued

2.6.9 Revenue recognition and measurement continued

2.6.9.1 Nature of goods and services continued

Revenue from contracts with customers

Product and Service:
Mobile devices and customer premises equipment revenue

Segment >	Openserve, Consumer and BCX
Timing of revenue recognition >	The Group recognises revenue at a point in time, when a customer takes possession of the communication equipment or products.
Nature of goods and services and significant payment terms >	The total transaction price is allocated to the mobile device or CPE equipment on a relative stand-alone selling price basis. The relevant stand-alone selling prices are based on the market prices (as indicated in the Group's device catalogues and trade lists) of the individual performance obligations identified in the contract. The total consideration noted above is determined based on the assessed contract term. Some contracts include an early renewal clause. Based on the assessment of historical data, the Group has determined that there is not a significant number of contracts that are renewed on an earlier basis and have therefore applied the total contractual term in the calculation of the total consideration receivable under a contract. The amount of revenue recognised for devices is adjusted for expected returns, which are estimated based on the historical data. For devices sold separately (i.e. without the telecommunications contract), customers pay full price at the point of sale. For devices sold in bundled packages, customers usually pay monthly in equal instalments over the contract term. The Group assessess whether a significant financing component exists for all contracts in excess of 12 months. A financing element of greater than 5% of the portion of the transaction price allocated to the mobile device or customer equipment has been deemed to represent a significant financing component. The significant financing component is determined using a discount representative of the risk associated to the specific customer. The transaction price is reduced with the financing component and the financing component is recognised over the contract period. The Group does not provide separate warranties on equipment delivered to customers and therefore no performance obligations are identified associated to this.

Product and Service: **Mobile and fixed-line telecommunication services**

Segment >	Openserve, Consumer and BCX. The Openserve business unit provides the following services: *Broadband solutions* This includes next generation access, across fibre and copper networks enabling high-speed internet connectivity. *Optical and carrier solutions* Services constitute the provision of client-specific backhaul and managed connectivity, assuring world-class quality and reliability. *Enterprise solutions* Products include business-to-business connectivity, underpinned primarily by Ethernet-based products. *Global solutions* Interconnect-based services connecting South Africa and the rest of the global market. The Consumer business unit provides the following services to customers: *Broadband data* *Voice* *Content* *Gaming* *Small Medium Entity Information, Communication and Technology solutions* The BCX business unit provides fixed telecommunication voice and data services to customers including: *Business mobility* *Global telecommunication services* *Broadband* *Internet and value-added services*
Timing of revenue recognition >	The Group recognises revenue over time as and when telecommunication services are provided.
Nature of goods and services and significant payment terms >	Services purchased by a customer beyond the contract are treated as a separate contract and recognition of revenue from such services is based on the actual voice or data usage, or is made upon the expiration of the Group's obligation to provide the services. For pre-paid services, the customer pays the full price at the point of sale. For post-paid contracts, customers usually pay monthly in equal instalments over the contract term together with the additional billing for out-of-bundle usage. Where the payment of an installation fee attributable to a fixed telecommunication service on a month-to-month contract provides the customer with a material substantive right, the installation fee is a separate performance obligation and is recognised over an estimated customer relationship period. The customer usually pays the fee upfront when the installation has been completed. Refer to note 4 for the customer relationship periods per customer type. Interconnection revenue is derived from calls and other traffic that originate in other operators' networks but use the Telkom network. The Group receives interconnection fees based on agreements entered into with other telecommunication operators. These revenues are recognised in the period in which these services are rendered.

Notes to the financial statements continued

for the year ended 31 March 2020

2. Significant accounting policies, judgements, estimates and assumptions continued

2.6 Summary of significant accounting policies continued

2.6.9 Revenue recognition and measurement continued

Product and Service:
Information technology revenue

Segment >	BCX BCX provides Information Technology goods and services to customers within the Group. The diversified technology product portfolio provides a wide range of services including: *Solutions* Cloud computing, unified communications and collaboration, security, big data analytics and mobility. *IT products* Enterprise and applications solutions, IT-managed services and infrastructure and cloud solutions.
Timing of revenue recognition >	Revenue from a contract to provide a service is recognised over time in the accounting period in which the services are rendered. Revenue for the provision of IT hardware and software is recognised at a point in time, once control of the goods have been transferred to the customer.
Nature of goods and services and significant payment terms >	Installation fees are a separate performance obligation and is recognised based on the actual services provided, determined as the proportion of the total time expected to install to the time that has elapsed at the reporting date. Servicing fees included in the price of products sold are recognised by reference to the proportion of the cost to the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold. Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Product and Service:
Directory services and advertising revenue

Segment >	Other These services are rendered through the Yellow Pages subsidiary and includes the following products and services: *Advertising* *Digital and social media advertising, across a number of platforms* *E-commerce* *Omni-channel offerings*
Timing of revenue recognition >	Revenue from printed directories is recognised at a point in time when the directories are released for distribution. Electronic directory and advertising revenue is recognised over the contract term as the performance obligations are met based on the total transaction price agreed for the contract.
Nature of goods and services and significant payment terms >	The relevant stand-alone selling prices are based on market prices. The contract term for the services in this revenue stream is usually 12 months or less and therefore no significant financing element has been included in the revenue recognition for this revenue stream.

Revenue from other contracts

Property and mast and tower rental income is generated by the Group through its Gyro subsidiaries. The revenue is recognised as part of the Gyro segment. All revenues are presented net of Value Added Tax, rebates and discounts. Invoice and payment terms are set out in note 20 of the financial statements.

2.6.9.2 Contract costs

Contract costs eligible for capitalisation as incremental costs of obtaining a contract comprise commission and connection incentives paid on new contracts entered into. Contract costs are capitalised unless the practical expedient per IFRS 15 paragraph 94 is applied, which states that incremental costs to obtain a contract can be recognised as an expense when incurred if the amortisation period of the asset, that the entity otherwise would have recognised, is one year or less. Contract costs are capitalised in the month of service activation if the Group expects to recover these costs and is amortised over the contract term.

The amortisation of the contract asset is included in sales commission, incentives and logistical costs based on the nature of the costs being deferred.
In all other cases, contract costs are expensed as incurred.

2.6.9.3 Contract assets

Contract assets represent the Group's right to consideration in exchange for mobile devices and CPE equipment. The contract asset is recognised at the point where the Group transfers control of the device or CPE equipment to the end customer.

2.6.10 Contract liabilities

Deferred installation fees and revenue billed in advance represent customer payments received in advance of performance (contract liabilities). This is included in deferred revenue on the statement of financial position.

2.6.11 Payments to other operators

Payments to other operators relate to payments made to service providers who are in the same line of business as Telkom. The amounts included in this line item are directly related to the offering of products and services to customers.

2.6.12 Cost of handsets, equipment, software, directories, sales commission, incentives and logistical costs

The costs of handsets, equipment, software and directories represent the acquisition cost of the items sold, net of any supplier rebates and discounts. This line item does not include any allocated overhead costs.

Sales commission and incentives are costs paid to Telkom's independent sales channels. Logistical costs represent costs incurred with third parties outside the Group for the delivery of handsets to customers and stores. This line item does not include the allocation of any other expense classified by nature in the financial statements.

2.6.13 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

At initial recognition, acquired property, plant and equipment is recognised at its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Subsequent costs are included in the carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Depreciation is charged from the date the asset is available for use on a straight-line basis over the estimated useful life and ceases at the earlier of the date that the asset is classified as held for sale and the date the asset is derecognised. Idle assets continue to attract depreciation.

The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Assets under construction represent freehold buildings, operating software, network and support equipment and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour or other resources incurred in the production of self-constructed assets.

Repairs and maintenance expenses are charged to profit or loss during the reporting period in which they are incurred.

The estimated useful lives applied are provided in note 6.6.

2.6.14 Intangible assets

At initial recognition, acquired intangible assets are recognised at their purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. The recognised cost includes any directly attributable costs for preparing the asset for its intended use. Internally generated intangible assets are recognised at cost comprising all directly attributable costs necessary to create and prepare the asset to be capable of operating in the manner intended by management. These costs do not include the costs incurred in the research phase related to the intangible asset. Licences, software, trademarks, copyrights and other intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation commences when the intangible assets are available for their intended use and is recognised on a straight-line basis over the assets' expected useful lives. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The residual value of intangible assets is the estimated amount that the Group would currently obtain from the disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Due to the nature of the asset, the residual value is assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life or when there is an active market that is likely to exist at the end of the asset's useful life, which can be used to estimate the residual values. The residual values of intangible assets, the amortisation methods used and their useful lives are reviewed on an annual basis at reporting date and adjusted prospectively as required.

Assets under construction represent application and other non-integral software and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour or other resources incurred in the production of self-constructed assets.

Repairs and maintenance expenses are charged to profit or loss during the reporting period in which they are incurred. The expected useful lives applied are provided in note 6.6.

Notes to the financial statements continued

for the year ended 31 March 2020

2. Significant accounting policies, judgements, estimates and assumptions continued

2.6 Summary of significant accounting policies continued

2.6.15 Asset retirement obligations

Asset retirement obligations related to property, plant and equipment are recognised at the present value of expected future cash flows when the obligation to dismantle or restore the site arises. The increase in the related asset's carrying value is depreciated over its estimated useful life. The unwinding of the discount is included in net finance charges. Changes in the measurement of an existing liability that result from changes in the estimated timing or amount of the outflow of resources required to settle the liability, or a change in the discount rate, are accounted for as increases or decreases to the original cost of the recognised assets. If the amount deducted exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

2.6.16 Impairment of property, plant and equipment and intangible assets (including goodwill)

The Group regularly reviews its non-financial assets and cash-generating units for any indication of impairment. When indicators, including changes in technology, market, economic, legal and operating environments, availability of funding or discontinuance of services occur and could result in changes of the asset's or cash-generating unit's estimated recoverable amount, an impairment test is performed. Goodwill, intangible assets with indefinite useful lives and intangible assets under construction are tested for impairment annually regardless of whether an indicator of impairment has been identified.
Previously recognised impairment losses, other than goodwill, are reviewed annually for any indication that they may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. Such impairment losses are reversed in profit or loss if the recoverable amount has increased as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

2.6.17 Inventories

Merchandise, installation material and maintenance material and network equipment inventories are stated at the lower of cost, determined on a weighted average basis and estimated net realisable value. Inventory is assessed for write-down to the net realisable value at each reporting date. The reversal of any write-downs is also considered where increases in the net realisable value have been identified.

2.6.18 Financial instruments

2.6.18.1 Recognition and initial measurement

All financial instruments are initially recognised at fair value plus, in the case of financial assets and liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue. Financial instruments are recognised when the Group becomes a party to the contractual arrangements. All regular way transactions are accounted for on settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.6.18.2 Classification and measurement

The Group classifies financial assets on initial recognition as measured at amortised cost or fair value through profit and loss (FVTPL) on the basis of the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset. Refer to note 15 for the categories of financial instruments.

Financial assets are subsequently measured at amortised cost where they are held with the objective to collect contractual cash flows that are solely payments of principal amount outstanding and interest on the outstanding amount. These include cash and cash equivalents, trade and other receivables and loans to subsidiaries.

All other financial assets not measured at amortised cost, as described above, are subsequently measured at fair value through profit or loss. These include other investments.

The fair value of financial assets and liabilities that are actively traded in financial markets are determined by reference to quoted market prices at the close of business on the reporting date. The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the event or change in circumstances that caused the transfer has occurred.

Financial liabilities: classification and subsequent measurement

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured at fair value and net gains and losses, including any interest expense. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

2.6.18.3 Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2.6.18.4 Derecognition of financial instruments

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risk and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in finance charges and fair value movements for the year.

2.6.18.5 Hedge accounting

The Group uses derivative financial instruments, such as forward currency contracts, cross currency swaps and options, to hedge its foreign currency risks, variability in cash flows and interest rate risks.

Derivative financial instruments including forward currency contracts that are designated as hedging instruments in an effective hedge are initially recognised at fair value on the date on which a derivative contract is entered into. Telkom applies fair value hedge accounting for firm commitments.

For fair value hedges, the designated hedging instruments and firm commitments are subsequently remeasured at fair value at each reporting date. The gain or loss relating to both the effective and ineffective portion of hedging instruments is recognised immediately in profit or loss on remeasurement. When a firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

2.6.19 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call and short-term deposits with an initial maturity of less than three months when entered into.

2.6.20 Treasury shares

Where the Group acquires shares for purposes of its employee share scheme, such shares are measured at acquisition cost and disclosed as a reduction of equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such shares are not remeasured for changes in fair value. Any difference between the historic par value of the shares acquired and the consideration transferred for the acquisition of the share is accounted for as an adjustment to retained earnings.

Where the Group chooses or is required to buy equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement by delivery of its own shares, the transaction is accounted for as equity-settled. This applies regardless of whether the employee's rights to the equity instruments were granted by the Group itself, or by its shareholders, or was settled by the Group itself or its shareholders.

2.6.21 Employee benefits

Post-employment benefits

The Group provides defined benefit and defined contribution plans for the benefit of employees. These plans are funded by the employees and the Group, taking into account recommendations of the independent actuaries. The post-retirement telephone rebate liability is unfunded.

Defined benefit plans

The Group provides defined benefit plans for pension, retirement, post-retirement medical aid benefits and telephone rebates to qualifying employees. The Group's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered.

The amount reported in the statement of financial position represents the present value of the defined benefit obligations, using the projected credit unit method, reduced by the fair value of the related plan assets. To the extent that there is uncertainty as to the entitlement to the surplus, no asset is recognised. The effects of this asset limitation and actuarial gains and losses are recognised in other comprehensive income. Interest, service cost, settlement gains or losses and curtailment gains or losses related to the defined benefit plan are recognised in the statement of profit or loss.

Telkom Retirement Fund Reserves

In terms of its rules, Telkom Retirement Fund operates a number of reserve accounts, namely member share account, risk and expense reserve account, processing error account, pension reserves account and solvency reserve account.

The risk and expense reserve account comprises the funds required to support fluctuations in the payment of the in-service death and disability benefits and administration expenses. The processing error reserve account comprises the balance as identified at 31 March 2008 plus all investment returns and appreciation earned by the fund less investment related expenses, taxation and all amounts allocated to members, pensioners and reserve accounts. The member surplus account comprises the actuarial surplus allocated to members and pensioners. Solvency reserve is held within the pensions account to act as a buffer against worse-than-expected experience and equal to an amount set by the actuary of the fund from time to time to ensure a prudent funding level that is subject to affordability. The pensions account comprises the funds required to pay each pension that has been granted in terms of the rules. All these reserves are taken into account by the actuaries on determining the net value of the fund (fund assets less the fund obligation).

2.6.22 Share-based payments

The Group has a share-based payment compensation plan. The plan is an equity-settled plan, consisting of the long-term incentive plan (LTIP), the employee share ownership plan (ESOP) and additional share award (ASA).

The expense relating to the services rendered by the employees, and the corresponding increase in equity, is measured at the fair value of the equity instruments at their date of grant based on the market price at grant date. This compensation cost is recognised over the vesting period, based on the best available estimate at each reporting date of the number of equity instruments that are expected to vest.

During the vesting period, participants have all the shareholders rights, including the right to vote and share in the dividend distribution.

2.6.23 Sinking fund investment

The sinking fund is an investment portfolio with Absa. The sinking fund investment is accounted for at fair value and all fair value movements are accounted for in the statement of profit or loss. As the fair value movements are unrealised gains/losses, they are transferred from retained earnings to non-distributable reserves.

2.6.24 Investment in insurance cell captive

Telkom has entered into a cell captive arrangement with Mutual and Federal, a licensed insurance Company. The cell is a ring-fenced insurance business established to serve the insurance needs of Telkom's customers, which is the insurance of mobile handset devices. The customers are responsible for paying the premium. The Group concluded that its cell captive arrangement does not satisfy the criteria to be a deemed separate entity and accordingly is not subject to consolidation.

The cell captive arrangement is considered to have transferred significant insurance risk to the Group due to the contractual requirement imposed on the Group to maintain the solvency of the cell. The cell captive arrangement therefore meets the definition of an insurance contract contained in IFRS 4 Insurance Contracts.

Initial recognition

Telkom recognised its initial investment in the cell based on the cost price of the shares at acquisition date. The cell captive is disclosed as a non-current asset in the statement of financial position as "Investment in insurance cell captive".

Notes to the financial statements continued

for the year ended 31 March 2020

2. Significant accounting policies, judgements, estimates and assumptions continued

2.6 Summary of significant accounting policies continued

2.6.24 Investment in insurance cell captive continued

Subsequent measurement

The results of the insurance business are determined in accordance with the shareholders agreement. In accordance with IFRS 4, the underwriting activities are determined on an annual basis whereby the earned premiums and incurred costs of claims and related expenses are recognised as an insurance service result in the statement of profit or loss and other comprehensive income.

The results of the cell captive arrangement are presented on a net basis in the statement of financial position as either a net receivable from, or net payable to, the Group as an investment in insurance cell captive.

The value of the investment in insurance cell captive is determined based on the net asset value of the insurance cell captive at the reporting date.

Movements during the year, which are included in the net returns of the investment in insurance cell captive, comprise the following:

- Premiums earned;
- Claims recovered;
- Investment and other income earned from the cell captive assets;
- Claims paid; and
- Other operational expenses

Telkom does not incur or recognise any commission from this existing insurance contract.

Telkom will derecognise the cell captive asset from its statement of financial position in the event that the contract is cancelled, expired or upon liquidation of the insurer.

The detailed movement in the investment in insurance cell captive has been included in note 16.2.

The cell captive arrangement exposes Telkom to insurance risk. This insurance risk relates to the risk that there will be insufficient capital available to honour the claims made by the policyholders in the cell captive arrangement.

Telkom manages the risk through ensuring that there is proper screening of the applicant during the insurance application, insurance premiums takes into consideration the value of the phone that is covered and that the fund used is well managed and reputable.
In addition, Telkom also reviews the financial statements of the cell to stay abreast of the financial performance and position.

2.6.25 Asset finance receivables and asset finance payables

The Group leases equipment to certain customers. In BCX, the business model for managing finance lease receivables is to collect contractual cash flows. The finance lease receivables are also securitised to financial institutions. If the derecognition criteria is not met and the Group does not transfer all risks and rewards (i.e. credit risk), the lease receivable is not derecognised. Refer to note 22.

2.7 Restatements to the consolidated statements of profit or loss and other comprehensive income

	Group		
	For the year ended 31 March 2019		
Extract from the consolidated statement of profit or loss and other comprehensive income	As previously reported Rm	Restatement* Rm	Restated Rm
Revenue	41 774	–	41 774
Other income	719	–	719
Payments to other operators	(2 940)	–	(2 940)
Cost of handsets, equipment, software and directories	(5 205)	(15)	(5 220)
Sales commission, incentives and logistical costs	(1 457)	–	(1 457)
Employee expenses	(10 777)	–	(10 777)
Other expenses	(3 153)	1 150	(2 003)
Maintenance	(3 074)	(1 135)	(4 209)
Marketing	(806)	–	(806)
Impairment of receivables and contract assets	(384)	–	(384)
Service fees	(2 934)	–	(2 934)
Lease expenses	(1 182)	–	(1 182)
EBITDA	10 581	–	10 581

* *Refer to note 2.4.1*

Notes to the financial statements continued

for the year ended 31 March 2020

2.8 Restatements to the consolidated statement of financial position

	Group									
	As at 31 March 2019					As at 1 April 2018				
	As previously reported Rm	Reclassification* Rm	Vendor financing ** Rm	Adoption of IFRIC 23 *** Rm	Restated Rm	As previously reported Rm	Reclassification* Rm	Vendor financing ** Rm	Adoption of IFRIC 23 *** Rm	Restated Rm
Assets										
Non-current assets	37 961	–	–	–	37 961	36 359	–	–	–	36 359
Property, plant and equipment	32 035	–	–	–	32 035	30 324	–	–	–	30 324
Intangible assets	4 521	–	–	–	4 521	4 492	–	–	–	4 492
Other investments	78	–	–	–	78	100	–	–	–	100
Employee benefits	729	–	–	–	729	627	–	–	–	627
Other financial assets	133	–	–	–	133	60	–	–	–	60
Finance lease receivables	210	–	–	–	210	262	–	–	–	262
Deferred taxation	255	–	–	–	255	494	–	–	–	494
Current assets	14 783	–	–	–	14 783	13 778	–	–	–	13 778
Inventories	1 267	–	–	–	1 267	1 341	–	–	–	1 341
Income tax receivable	76	–	–	–	76	54	–	–	–	54
Finance lease receivables	108	–	–	–	108	112	–	–	–	112
Trade and other receivables	7 425	–	–	–	7 425	6 370	–	–	–	6 370
Contract assets	2 518	(357)	–	–	2 161	1 672	(247)	–	–	1 425
Other current assets	-	357	–	–	357	–	247	–	–	247
Other financial assets	388	–	–	–	388	163	–	–	–	163
Other investments	1 573	–	–	–	1 573	1 509	–	–	–	1 509
Cash and cash equivalents	1 428	–	–	–	1 428	2 557	–	–	–	2 557
Assets classified as held for sale	200	–	–	–	200	204	–	–	–	204
Total assets	**52 944**	**–**	**–**	**–**	**52 944**	**50 341**	**–**	**–**	**–**	**50 341**

	Group									
	As at 31 March 2019					As at 1 April 2018				
	As previously reported Rm	Reclassification* Rm	Vendor financing ** Rm	Adoption of IFRIC 23 *** Rm	Restated Rm	As previously reported Rm	Reclassification* Rm	Vendor financing ** Rm	Adoption of IFRIC 23 *** Rm	Restated Rm
Equity and liabilities										
Equity attributable to owners of the parent	29 573	–	–	–	29 573	26 957	–	–	–	26 957
Share capital	5 050	–	–	–	5 050	5 050	–	–	–	5 050
Share-based compensation reserve	512	–	–	–	512	377	–	–	–	377
Non-distributable reserves	1 621	–	–	–	1 621	1 579	–	–	–	1 579
Retained earnings	22 390	–	–	–	22 390	19 951	–	–	–	19 951
Non-controlling interests	195	–	–	–	195	194	–	–	–	194
Total equity	29 768	–	–	–	29 768	27 151	–	–	–	27 151
Non-current liabilities	6 740	–	–	–	6 740	10 268	–	–	–	10 268
Interest-bearing debt	4 840	–	–	–	4 840	7 158	–	–	–	7 158
Provisions****	–	1 193	–	–	1 193	–	2 427	–	–	2 427
Employee related provisions	1 186	(1 186)	–	–	–	2 388	(2 388)	–	–	–
Non-employee related provisions	7	(7)	–	–	–	39	(39)	–	–	–
Other financial liabilities	79	–	–	–	79	–	–	–	–	–
Deferred revenue	466	–	–	–	466	502	–	–	–	502
Deferred taxation	162	–	–	–	162	181	–	–	–	181
Current liabilities	16 436	–	–	–	16 436	12 922	–	–	–	12 922
Trade and other payables	7 406	–	(107)	(763)	6 536	6 898	–	(106)	(1 021)	5 771
Shareholders for dividend	29	–	–	–	29	58	–	–	–	58
Interest-bearing debt	5 401	–	–	–	5 401	2 239	–	–	–	2 239
Provisions****	–	1 316	–	–	1 316	–	1 489	–	–	1 489
Employee related provisions	1 175	(1 175)	–	–	–	1 325	(1 325)	–	–	–
Non-employee related provisions	141	(141)	–	–	–	164	(164)	–	–	–
Deferred revenue	1 396	–	–	–	1 396	1 597	–	–	–	1 597
Income tax payable	572	–	–	763	1 335	361	–	–	1 021	1 382
Other financial liabilities	316	–	107	–	423	250	–	106	–	356
Credit facilities utilised	–	–	–	–	–	30	–	–	–	30
Total liabilities	23 176	–	–	–	23 176	23 190	–	–	–	23 190
Total equity and liabilities	**52 944**	**–**	**–**	**–**	**52 944**	**50 341**	**–**	**–**	**–**	**50 341**

* *Refer to note 2.4.2.*
** *Restated. Refer to note 2.4.1.2.*
*** *Refer to note 2.2.2.*
**** *In the prior year, this line item was split between employee related provisions and non-employee related provisions. This has been aggregated into one line to improve disclosure in the current financial year as the non-employee related provisions are not material.*

Notes to the financial statements continued

for the year ended 31 March 2020

2.9 Restatements to the Company statement of financial position

	Company							
	As at 31 March 2019				As at 1 April 2018			
	As previously reported Rm	Reclassification* Rm	Adoption of IFRIC 23 ** Rm	Restated Rm	As previously reported Rm	Reclassification* Rm	Adoption of IFRIC 23 ** Rm	Restated Rm
Assets								
Non-current assets	41 784	–	–	41 784	39 463	–	–	39 463
Property, plant and equipment	30 171	–	–	30 171	28 092	–	–	28 092
Intangible assets	2 830	–	–	2 830	2 808	–	–	2 808
Investment in subsidiaries	2 846	140	–	2 986	2 856	140	–	2 996
Loans and preference share investment in subsidiaries	4 801	–	–	4 801	4 361	–	–	4 361
Other investments	140	(140)	–	–	140	(140)	–	–
Employee benefits	729	–	–	729	627	–	–	627
Other financial assets	–	–	–	–	–	–	–	–
Finance lease receivables	210	–	–	210	262	–	–	262
Deferred taxation	57	–	–	57	317	–	–	317
Current assets	14 445	–	–	14 445	13 310	–	–	13 310
Inventories	862	–	–	862	944	–	–	944
Income tax receivable	–	–	–	–	–	–	–	–
Loans to subsidiaries	152	–	–	152	152	–	–	152
Finance lease receivables	108	–	–	108	112	–	–	112
Trade and other receivables	8 427	–	–	8 427	6 970	–	–	6 970
Contract assets	2 518	(357)	–	2 161	1 672	(247)	–	1 425
Other current assets	–	357	–	357	–	247	–	247
Other financial assets	229	–	–	229	163	–	–	163
Other investments	1 574	–	–	1 574	1 509	–	–	1 509
Cash and cash equivalents	575	–	–	575	1 788	–	–	1 788
Assets classified as held for sale	–	–	–	–	–	–	–	–
Total assets	56 229	–	–	56 229	52 773	–	–	52 773

	Company							
	As at 31 March 2019				As at 1 April 2018			
	As previously reported Rm	Reclassifica-tion* Rm	Adoption of IFRIC 23 ** Rm	Restated Rm	As previously reported Rm	Reclassific-ation* Rm	Adoption of IFRIC 23 ** Rm	Restated Rm
Equity and liabilities								
Equity attributable to owners of the parent	26 824	–	–	26 824	25 617	–	–	25 617
Share capital	5 050	–	–	5 050	5 050	–	–	5 050
Share-based compensation reserve	487	–	–	487	362	–	–	362
Non-distributable reserves	1 033	–	–	1 033	1 011	–	–	1 011
Retained earnings	20 254	–	–	20 254	19 194	–	–	19 194
Non-controlling interests	–	–	–	–	–	–	–	–
Total equity	26 824	–	–	26 824	25 617	–	–	25 617
Non-current liabilities	6 469	–	–	6 469	9 986	–	–	9 986
Interest-bearing debt	4 824	–	–	4 824	7 109	–	–	7 109
Provisions***	–	1 179	–	1 179	–	2 375	–	2 375
Employee related provisions	1 164	(1 164)	–	–	2 368	(2 368)	–	–
Non-employee related provisions	15	(15)	–	–	7	(7)	–	–
Other financial liabilities	–	–	–	–	–	–	–	–
Deferred revenue	466	–	–	466	502	–	–	502
Deferred taxation	–	–	–	–	–	–	–	–
Current liabilities	22 936	–	–	22 936	17 170	–	–	17 170
Trade and other payables	11 704	–	(763)	10 941	10 494	–	(1 021)	9 473
Shareholders for dividend	29	–	–	29	27	–	–	27
Interest-bearing debt	5 370	–	–	5 370	2 204	–	–	2 204
Provisions***	–	890	–	890	–	1 121	–	1 121
Employee related provisions	860	(860)	–	–	1 069	(1 069)	–	–
Non-employee related provisions	30	(30)	–	–	52	(52)	–	–
Deferred revenue	1 338	–	–	1 338	1 510	–	–	1 510
Income tax payable	568	–	763	1 331	346	–	1 021	1 367
Other financial liabilities	3 037	–	–	3 037	1 467	–	–	1 467
Credit facilities utilised	–	–	–	–	1	–	–	1
Total liabilities	29 405	–	–	29 405	27 156	–	–	27 156
Total equity and liabilities	56 229	–	–	56 229	52 773	–	–	52 773

* *Refer to note 2.4.2.*
** *Refer to note 2.2.2.*
*** *In the prior year, this line item was split between employee related provisions and non-employee related provisions. This has been aggregated into one line to improve disclosure in the current financial year as the non-employee related provisions are not material.*

3. Segment information

The executive Committee (Exco) is the Group's chief operating decision maker (CODM). Management has determined the operating segments based on the reports reviewed by Exco that are used to make strategic decisions, allocate resources and assess performance of each reportable segment.

The reportable segments have been determined as Openserve, Consumer, BCX, Gyro and "Other". "Other" includes Yellow Pages and other business units.

The CODM reviews the performance of the operating segments on an EBITDA basis.

The EBITDA is defined as earnings before finance income and finance cost (which includes gains and losses on foreign exchange transactions), tax, depreciation and amortisation, and is also presented inclusive of the following items:

- Interest revenue; and
- Interest on overdue accounts

In the current year, for comparability purposes, the CODM also reviewed EBITDA excluding the IFRS 16 impact on IAS 17 operating leases that are capitalised under IFRS 16. The current year EBITDA has been normalised for voluntary severance, retirement and retrenchment package expenses of R1 186 million and expected credit losses of R626 million arising from the expected impact of COVID-19. The comparative year has been normalised for voluntary severance and retirement expenses of R728 million.

The CODM views this as a normalised EBITDA measure. Adjustments are made for significant non-recurring items such as restructurings, adoption of new accounting statements and, for the current year, the expected impact of COVID-19.

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for the year ended 31 March 2020

3. Segment information continued

March 2020	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	Consolidated Rm
Revenue from external customers*	3 990	21 460	16 462	651	480	–	43 043
Revenue from contracts with customers recognised over time	3 990	19 015	14 111	–	1	–	37 117
Voice	–	6 970	4 749	–	–	–	11 719
Interconnection	537	420	–	–	–	–	957
Data	3 216	11 333	3 490	–	1	–	18 040
Information technology services	–	–	5 823	–	–	–	5 823
Interest revenue	–	279	–	–	–	–	279
Sundry revenue	237	13	49	–	–	–	299
Revenue from contracts with customers recognised at a point in time	–	2 445	2 351	–	479	–	5 275
Customer premises equipment	–	2 445	1 319	–	–	–	3 764
Information technology hardware	–	–	1 032	–	–	–	1 032
Sundry revenue	–	–	–	–	479	–	479
Operating lease revenue	–	–	–	651	–	–	651
Intersegmental operating revenue	11 145	259	2 280	863	1 403	(15 950)	–
Other income	274	550	88	10	772	(1 018)	676
Insurance service result	–	–	–	–	41	–	41
Total expenses	(11 596)	(20 687)	(15 814)	(327)	(1 974)	16 968	(33 430)
Cost of handsets, equipment, software and directories	–	(3 189)	(2 258)	–	(178)	–	(5 625)
Sales commission, incentives and logistical costs	–	(1 778)	(228)	–	–	–	(2 006)
Payments to other operators	(915)	(2 689)	(619)	–	–	540	(3 683)
Employee expenses	(3 858)	(859)	(4 203)	(113)	(499)	5	(9 527)
Selling, general and administrative expenses	(3 929)	(10 493)	(7 802)	(115)	(931)	15 517	(7 753)
Service fees	(1 866)	(583)	(510)	(97)	(314)	96	(3 274)
Lease expenses	(1 028)	(1 096)	(194)	(2)	(52)	810	(1 562)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions**	3 813	1 582	3 016	1 197	722	–	10 330
IFRS 16 impact on lease expenses	731	832	134	–	80	(693)	1 084
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions							11 414
Reconciliation of operating profit to profit before tax							
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments							11 414
Normalisations							
Voluntary severance, retirement and retrenchment package expenses							(1 186)
Expected credit losses							(626)
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments							9 602
Depreciation, amortisation, impairments and write-offs							(6 915)
Operating profit							2 687
Investment income							79
Income from associates							11
Net finance charges, hedging costs and fair value movements							(1 803)
Profit before taxation							**974**
Other segment information							
Capital expenditure of property, plant and equipment and intangible assets	2 992	3 742	552	203	266	–	7 755

Restated March 2019***	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	Consolidated Rm
Revenue from external customers*	4 207	18 866	17 426	609	666	–	41 774
Revenue from contracts with customers recognised over time	4 207	16 219	15 251	–	–	–	35 677
Voice	–	6 845	5 637	–	–	–	12 482
Interconnection	792	270	–	–	–	–	1 062
Data	3 415	8 913	3 685	–	–	–	16 013
Information technology services	–	–	5 889	–	–	–	5 889
Interest revenue	–	191	–	–	–	–	191
Sundry revenue	–	–	40	–	–	–	40
Revenue from contracts with customers recognised at a point in time	–	2 647	2 175	–	666	–	5 488
Customer premises equipment	–	2 635	1 329	–	–	–	3 964
Information technology hardware	–	–	846	–	–	–	846
Sundry revenue	–	12	–	–	666	–	678
Operating lease revenue	–	–	–	609	–	–	609
Intersegmental operating revenue	12 733	348	2 154	560	1 349	(17 144)	–
Other income	378	615	117	–	809	(1 200)	719
Total expenses	(11 026)	(18 799)	(16 457)	(484)	(2 762)	18 344	(31 184)
Cost of handsets, equipment, software and directories	–	(2 959)	(2 136)	–	(244)	119	(5 220)
Sales commission, incentives and logistical costs	(6)	(1 250)	(213)	–	–	12	(1 457)
Payments to other operators	(954)	(1 958)	(729)	–	–	701	(2 940)
Employee expenses	(3 628)	(735)	(4 538)	(104)	(1 032)	(12)	(10 049)
Selling, general and administrative expenses	(4 009)	(10 951)	(8 110)	(88)	(1 083)	16 839	(7 402)
Service fees	(1 721)	(416)	(490)	(185)	(335)	213	(2 934)
Lease expenses	(708)	(530)	(241)	(107)	(68)	472	(1 182)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	6 292	1 030	3 240	685	62	–	11 309
Reconciliation of operating profit to profit before tax							
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions							11 309
Normalisations							
Voluntary severance, retirement and retrenchment package expenses							(728)
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments							10 581
Depreciation, amortisation, impairments/(reversals) and write-offs							(5 814)
Operating profit							4 767
Investment income							185
Income/(loss) from associates							2
Net finance charges, hedging costs and fair value movements							(947)
Profit before taxation							**4 007**
Other segment information							
Capital expenditure of property, plant and equipment and intangible assets	4 034	3 070	304	60	206	–	7 674

Notes to the financial statements continued

for the year ended 31 March 2020

3. Segment information continued

Entity wide disclosures

All material non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts related to the segments above are located in South Africa. Assets belonging to the subsidiaries of BCX outside of South Africa are not considered material to the Group as a whole.

No single customer contributes more than 10% of the revenue from external customers and thus no specific information relating to major customers is included in the segment information above.

For the purpose of assessing revenue contribution per customer, management does not treat Government as a single customer.

* *Revenue includes balances generated by subsidiaries of BCX in countries outside of South Africa. These are however not considered material to the Group and are thus not disclosed separately.*

** *EBITDA before IFRS 16 has been included for comparability purposes.*

*** *Subsequent to the publication of the March 2019 annual financial statements, the Group has aligned its revenue streams in the BCX segment. This has resulted in the reallocation of revenue streams and certain expenses. All revenue line items, as well as cost of handsets, equipment, software and directories and selling, general and administrative expenses were impacted. The comparative numbers have been restated.*

4. Revenue

4.1 Disaggregation of revenue

	Company	
	31 March 2020 Rm	31 March 2019 Rm
Revenue from contracts with customers	**39 251**	39 029
Revenue recognised over time	**35 030**	34 354
Voice	**12 850**	14 718
Interconnection	**956**	1 065
Data	**18 906**	16 217
Information technology	**2 039**	2 163
Interest revenue	**279**	191
Revenue recognised at a point in time	**4 221**	4 675
Customer premises equipment	**3 944**	4 464
Sundry revenue	**277**	211

Refer to note 3 for the disaggregated revenue per segment for the Group.

Included in Telkom Company revenue is revenue, to the value of R9 471 million (31 March 2019: R10 658 million), which relates to Enterprise customer contracts which were sold to BCX in previous financial years, which have been retained in the name of Telkom SA SOC Ltd. Refer to note 2.5.6.5 for the significant judgements and estimates considered in determining that Telkom is the principal in relation to these transactions.

4.2 Transaction price allocated to the remaining performance obligations

The tables below include revenue expected to be recognised in the future, related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	Group					
	31 March 2020			31 March 2019		
	2021 Rm	2022 Rm	Beyond 2022 Rm	2020 Rm	2021 Rm	Beyond 2021 Rm
Voice	439	131	7	257	43	–
Data	2 752	973	111	3 141	1 570	1 142
Information technology	158	23	–	195	–	–

	Company					
	31 March 2020			31 March 2019		
	2021 Rm	2022 Rm	Beyond 2022 Rm	2020 Rm	2021 Rm	Beyond 2021 Rm
Voice	439	131	7	257	43	–
Data	2 752	973	111	3 141	1 570	1 142

All revenue from contracts with customers is included in the amounts presented above.

The Group and Company apply the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

4.3 Customer relationship periods

The customer relationship periods (CRP) in the current financial year are determined as follows:

- Voice revenue: 5 to 6.5 years (31 March 2019: 6.5 years)
- Wholesale revenue: 4 years (31 March 2019: 4 years)
- Non-voice revenue: 4 to 5.5 years (31 March 2019: 5.5 years)

The average customer relationship period in respect of non-voice changed from 5.5 years to 4 years in March 2020. The voice CRP changed from 6.5 years to 5 years in March 2020. This is a change in an accounting estimate in terms of IAS 8 and accounted for prospectively. The change in the CRP resulted in an accelerated rate of deferred installation revenue recognition with the effect being an increase in revenue of R32 million in the 2020 financial year. Revenue recognition in respect of deferred installation fees for the future periods is expected to decrease by R32 million due to these changes in accounting estimates.

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 thus 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 still enforceable at the end of the reporting date.

The Group's fixed and IT services revenue has been impacted by COVID-19 post the reporting date. Even though the telecommunications and IT industries were declared essential services in South Africa which has allowed the Group to continue to connect businesses during the national lockdown period, working from home has resulted in a decrease in fixed data and voice usage.

The Group's IT business has seen a decrease in project-related revenue, as companies have been re-evaluating and deferring their IT capital expenditure. IT services revenue streams have also been at lower levels than budgeted owing to a reduction in the levels of services that were possible during the lockdown period. The realisation of new revenue has been lower than budgeted as engagement with customers were not at the expected levels during the lockdown period.

Notes to the financial statements continued

for the year ended 31 March 2020

5. Other income

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	676	719	1 577	1 762
Interest received from trade receivables*	128	250	78	117
Sundry income**	530	467	1 493	1 623
Profit on disposal of property, plant and equipment (PPE) and intangible assets (IA)	18	2	6	22

* *Interest received on trade receivables relates to interest on overdue trade receivable 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.*
** *Sundry income for Telkom Company includes income from management fees charged to subsidiaries.*

6. Expenses

6.1 Employee expenses

	Group		Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	(10 713)	(10 777)	(6 311)	(5 451)
Salaries and wages	(8 563)	(8 766)	(4 329)	(4 233)
Post-retirement pension and retirement fund (refer to note 30)	(623)	(517)	(474)	(517)
Post-retirement medical aid (refer to note 30)	70	62	70	62
Post-retirement telephone rebates (refer to note 30)	(40)	(41)	(40)	(41)
Share-based compensation expense (refer to note 25)	(328)	(135)	(323)	(126)
Other benefits*	(1 620)	(1 843)	(1 606)	(1 057)
Employee expenses capitalised to capital projects	391	463	391	461

* *Other benefits include, amongst 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 2020 is a R1 186 million (31 March 2019: R728 million) expense for voluntary severance, retirement and retrenchment packages.*

6.2 Other expenses

Other expenses	(2 688)	(2 002)	(877)	(559)
Included in the other expenses line item are the following expenses:				
Operating expenses	(2 380)	(1 721)	(584)	(308)
Sundry expenses	(207)	(16)	(36)	(5)
License fees	(292)	(255)	(281)	(249)
Subsistence and travel	(87)	(78)	(44)	(47)
Cost for third-party services	(1 431)	(1 220)	–	–
Image building and market research costs	(73)	(64)	(73)	(63)
Commission	(106)	–	(105)	–
Data procedure expenses	(87)	(70)	–	–
Other	(97)	(19)	(45)	55
Non-operating expenses	(308)	(282)	(293)	(250)
Donations	(45)	(65)	(44)	(63)
Losses	(248)	(184)	(248)	(184)
Other	(15)	(32)	(1)	(2)

6.3 Maintenance

	Group		Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Maintenance cost has decreased due to the cost-saving initiatives that have been implemented in the current financial year.	(3 880)	(4 209)	(4 855)	(4 878)

6.4 Service fees

	(3 274)	(2 934)	(2 753)	(2 461)
Facilities and property management	(1 990)	(1 674)	(1 776)	(1 551)
Consultancy, security and other services	(1 284)	(1 260)	(977)	(910)

6.5 Lease expenses*

	(478)	(1 182)	(518)	(1 271)
Land and buildings	(121)	(822)	(159)	(915)
Transmission and data lines	(6)	–	–	–
Equipment	(33)	(32)	(36)	(31)
Vehicles	(318)	(328)	(323)	(325)

* *For the year ended 31 March 2020, this amount represents low-value and short-term leases as defined by IFRS 16. Refer to note 13 for the detail on expenses recognised for low-value and short-term leases. The comparative amount represents operating leases as defined by IAS 17. Operating lease commitments are disclosed in note 37.*

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

	Group		Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	(6 915)	(5 814)	(6 808)	(5 167)
Depreciation of property, plant and equipment	(4 863)	(4 842)	(4 512)	(4 450)
Depreciation of right-of-use assets	(954)	–	(1 510)	–
Amortisation of intangible assets	(679)	(702)	(579)	(567)
Write-offs, impairments and losses of property, plant and equipment and intangible assets	(414)	(270)	(207)	(150)

The estimated useful lives assigned to Groups of property, plant and equipment are:	Years	Years	Years	Years
Freehold buildings	5 to 43	10 to 50	10 to 40	10 to 40
Network equipment				
Cables	4 to 30	2 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	3 to 13	5 to 13	5 to 13
Furniture and office equipment	5 to 15	3 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

Notes to the financial statements continued

for the year ended 31 March 2020

6. Other expenses continued

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

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

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 and amortisation expense at a Company level by R288 million (31 March 2019: R530 million) and decreased the depreciation and amortisation expense at a Group level by R307 million (31 March 2019: R537 million). Refer to note 2.5.1 and note 2.6.13 for the related accounting policies.

The depreciation for the remaining useful life of the Group's assets will be increased by this amount.

7. Investment income

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	79	185	2 610	818
Interest income	79	185	691	760
Dividend income from subsidiaries	–	–	1 919	58

Interest income relates to interest earned from financial assets (cash and cash equivalents and loans at amortised cost and preference shares (Telkom Company) 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 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	(1 803)	(947)	(2 219)	(1 093)
Net finance charges	(1 570)	(885)	(1 989)	(1 016)
Net finance charges on lease liabilities	(368)	–	(555)	–
Net finance charges on local debt*	(1 254)	(944)	(1 486)	(1 075)
Less: Finance charges capitalised**	52	59	52	59
Foreign exchange, fair value movements and costs of hedging	(233)	(62)	(230)	(77)
Foreign exchange gain	(549)	(490)	(562)	(504)
Cost of hedging	(205)	(88)	(205)	(88)
Fair value adjustments	521	516	537	515
Capitalisation rate for borrowing costs (%)	9.8	10.2	9.8	10.2

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

* *For interest-bearing debt movement, refer to note 27.*
** *Finance charges on general borrowings are capitalised to qualifying assets (property, plant and equipment and intangible assets).*

9. Taxation

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	(366)	(1 176)	706	(306)
South African normal Company taxation	(1 230)	(1 057)	(115)	(153)
Current taxation	(1 118)	(928)	–	–
Underprovision for prior year	(112)	(129)	(115)	(153)
Deferred taxation (refer to note 18)	879	(119)	821	(153)
Capital allowances	(1 971)	(229)	(2 017)	(229)
Provisions and other allowances	2 176	14	2 165	(5)
Tax losses	337	81	337	81
Acquisition of BCX*	9	13	–	–
Overprovision for prior year	328	2	336	–
Securities transfer tax	(14)	–	–	–
Common control transaction	(1)	–	–	–
Reconciliation of taxation rate	%	%	%	%
Effective rate	37.6	29.4	281.4	17.6
South African normal rate of taxation	28.0	28.0	28.0	28.0
Adjusted for:	9.6	1.4	253.4	(10.4)
Exempt income	(3.7)	(2.2)	295.4	(14.6)
Dividends received	–	–	214.2	(0.9)
Cell captive fair value	(3.7)	–	14.3	–
Other exempt income**	–	(2.2)	66.9	(13.7)
Disallowable expenditure	18.7	5.3	(72.0)	5.8
Capital expenditure	7.7	0.3	(24.5)	1.8
IFRS 2	10.0	–	(27.0)	–
Other disallowed expenditure***	1.0	5.0	(20.5)	4.0
Foreign tax	0.2	–	–	–
Tax losses not utilised	–	–	(58.1)	–
Tax losses utilised	15.4	–	–	–
Recognition of prior year unrecognised deferred tax asset	–	(0.8)	–	(1.8)
Deferred tax asset limitation	–	0.1	–	–
Securities transfer tax	1.4	–	–	–
Other	(1.0)	(0.5)	–	–
Net (overprovision)/underprovision for prior year	(21.4)	(0.5)	88.1	0.2

* *The movement for the year relates to the amortisation of intangible assets acquired as part of the BCX acquisition.*
** *Other exempt income includes profit on disposal on assets.*
*** *Other disallowed expenditure comprises mainly of professional fees, donations and legal fees which are not tax deductible.*

Notes to the financial statements continued

for the year ended 31 March 2020

10. Earnings and dividend per share

	Group 31 March 2020 Rm	Restated 31 March 2019 Rm
Total operations		
Basic earnings per share (cents)	121.1	561.9
Diluted earnings per share (cents)	119.5	551.8
Headline earnings per share (cents)*	208.1	619.2
Diluted headline earnings per share (cents)*	205.3	608.1

Reconciliation of weighted average number of ordinary shares:	Number of shares	Number of shares
Weighted ordinary shares in issue	511 140 239	511 140 239
Weighted average number of treasury shares	(13 288 103)	(13 759 299)
Weighted average number of shares outstanding	**497 852 136**	**497 380 940**

Reconciliation of diluted weighted average number of ordinary shares:	Number of shares	Number of shares
Weighted average number of shares outstanding	497 852 136	497 380 940
Expected future vesting of shares related to Group share scheme incentive plans (refer to note 25)	6 781 658	9 146 285
Diluted weighted average number of shares outstanding	**504 633 794**	**506 527 225**

* *The disclosure of headline earnings is a requirement of the JSE Limited and is not a recognised measure under IFRS. It has been calculated in accordance with the South African Institute of Chartered Accountants' circular 1/2019 issued in this regard.*

	31 March 2020 Rm		Restated 31 March 2019 Rm	
Total operations	**Gross**	**Net****	**Gross**	**Net****
Reconciliation between earnings and headline earnings:				
Profit for the year		608		2 831
Non-controlling interests		(5)		(36)
Profit attributable to owners of Telkom		603		2 795
Profit on disposal of property, plant and equipment and intangible assets	(18)	(18)	(2)	(2)
Profit on disposal of subsidiaries and associates	(9)	(9)	–	–
Write-offs, impairments and losses of property, plant and equipment and intangible assets	414	392	270	257
Gain on remeasurement of non-current assets held for sale	(23)	(23)	–	–
Translation of net investment in a foreign operation	91	91	–	–
Remeasurement of associates		–	30	30
Headline earnings		1 036		3 080
Dividend per share (cents)		**320.93**		349.11

The dividend per share is based on a dividend of 249.40 cents per share declared on 27 May 2019 and 71.53 cents per share declared on 8 November 2019 (31 March 2019: 236.97 cents per share declared on 28 May 2018 and 112.14 cents per share declared on 13 November 2018). 511 140 239 number of ordinary shares were outstanding on the dates of the dividend declaration (31 March 2019: 511 140 239).

** *The taxation impact consists of a R22 million increase (31 March 2019: R13 million) in tax expense related to recoupment of tax on write-offs of property, plant and equipment and intangible assets.*

11. Business combinations and disposals

11.1 Subsidiaries disposed of in the current year

11.1.1 BCX ICT Services Limited ('Nigeria')

BCX ICT Services Limited ('Nigeria'), a 100% subsidiary of Business Connexion International Group Holding Proprietary Limited, was sold for a purchase consideration of USD 640 599.70 (approximately R10 million). The effective date of sale is 31 January 2020.

The net cash flows attributable to the operating, investing and financing activities of discontinued operations:	2020 Rm
Net assets disposed of	26
Remeasurement	(16)
Net asset value	10
Consideration	10
Profit on disposal	–
FCTR – Investment in foreign operation	(91)
FCTR – Reclassified from equity to profit or loss	41
Net loss on sale	**(50)**

11.1.2 BCX Tanzania Limited ('Tanzania')

Business Connexion Tanzania Limited ('Tanzania') is a subsidiary of BCX (Pty) Ltd. The subsidiary was sold for a purchase consideration of USD 1 000 000 (approximately R15 million). The effective date of the sale is 1 September 2019.

The net cash flows attributable to the operating, investing and financing activities of discontinued operations:	2020 Rm
Net assets disposed of	39
Remeasurement	(15)
Non-controlling interest	(9)
Net asset value	15
Consideration	15
Profit on disposal	–
FCTR – Investment in foreign operation	(9)
FCTR – Reclassified from equity to profit or loss	14
Net gain on sale	**5**

11.2 Associates disposed of in the current year

Smart Office Connexion Group Holdings (Pty) Ltd ('SOX')

In May 2019, an agreement was entered into to dispose of BCX's interest in SOX. The effective date of the disposal was 13 September 2019, being the date that all conditions precedent were met. The proceeds on disposal were received on 18 September 2019. The consolidated profit on disposal was calculated as follows:

	2020 Rm
Carrying amount of the investment	200
BCX equity accounted earnings for the period ended 30 September 2019	10
Proceeds on sale	(219)
Profit on disposal	**9**

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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, Trumancon 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 Cost Rm	2020 Accumulated depreciation and write-offs Rm	2020 Carrying value Rm	2019 Cost Rm	2019 Accumulated depreciation and write-offs Rm	2019 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 Cost Rm	2020 Accumulated depreciation and write-offs Rm	2020 Carrying value Rm	2019 Cost Rm	2019 Accumulated depreciation and write-offs Rm	2019 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: Company	Carrying value at the beginning of the year Rm	Additions Rm	Transfers 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	2 153	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.

13. Right-of-use assets and lease liabilities

The Group leases three asset categories, namely vehicles, property and network equipment. Vehicle leases mainly include a fleet of vehicles that are used by the technicians as part of the network operations. Property leases mainly relate to the lease of land and buildings/sites used for office purposes as well as property where masts and towers are erected. Network equipment mainly relates to the co-location on mast and towers and the lease of exchange assets.

The lease agreements do not impose any covenants on the Group. The existing leases do not have residual value guarantees.

At 31 March 2020, the Group has not committed to leases which have not yet commenced. There were no sale and leaseback transactions for the Group in the current or prior year.

Generally, the lease term is fixed but there is also a number of leases that run on month-to-month basis. The Group applies judgement in assessing whether extension or termination options will be exercised and these options are only included in the lease term if the lease is reasonably certain to be extended or terminated.

In the current year, the lease calculation assumes that the Group will continue to use the month-to-month contract for the next 5 years (current forecast period). Additionally, the Group concluded that is reasonable that it will exercise available renewal options for all leases of strategic need, except in the case that there is evidence that it will not. For the rest of the assets, the lease calculation is based on the fixed term per the contract.

Some leases allow for earlier termination. In this case, the Group is required to serve a certain notice period and there is no financial penalty.

At 31 March 2020, a number of leases contracts relating to network equipment and properties include renewal options for various renewal periods. Due to the judgement exercised in relation to the determination of the lease period as outlined in our accounting policy, the Group is exposed to potential future cash outflows relating to an indefinite period which have not been included in the lease liability because it is not reasonably certain that the lease will be extended beyond the estimated lease period.

13.1 Right-of-use assets

The associated right-of-use assets for vehicles, properties and network equipment leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

	2020		
Group	**Cost Rm**	**Accumulated depreciation and write-offs Rm**	**Carrying value Rm**
Vehicles	521	(164)	358
Property	1 123	(206)	917
Network equipment	3 795	(570)	3 227
	5 439	**(939)**	**4 502**
Company			
Vehicles	494	(155)	339
Property	1 308	(347)	961
Network equipment	5 969	(992)	4 975
	7 771	**(1 495)**	**6 275**

Notes to the financial statements continued

for the year ended 31 March 2020

13. Right-of-use assets and lease liabilities continued

The carrying amounts for the right-of-use assets as at 31 March 2020 can be reconciled as follows: **Group**	Opening balance Rm	Cancelled Leases Rm	New leases entered into Rm	Lease remeasure-ment Rm	Depreciation Rm	Closing Balance Rm
Vehicles	521	–	8	(8)	(164)	358
Property	1 098	(10)	27	9	(206)	917
Network equipment	2 550	(198)	690	754	(570)	3 227
	4 169	(208)	725	755	(939)	4 502
Company						
Vehicles	502	–	–	(8)	(155)	339
Property	1 643	(10)	9	(334)	(347)	961
Network equipment	4 725	(198)	687	753	(992)	4 975
	6 871	(209)	696	412	(1 495)	6 275

13.2 Lease liabilities

Group The closing balances for non-current lease liabilities as at 31 March 2020 can be reconciled as follows:	Closing Balance Rm
Vehicles	(193)
Property	(854)
Network equipment	(2 661)
	(3 708)

The closing balances for current lease liabilities as at 31 March 2020 can be reconciled as follows:	Closing Balance Rm
Vehicles	(176)
Property	(223)
Network equipment	(668)
	(1 067)

Company The closing balances for non-current lease liabilities as at 31 March 2020 can be reconciled as follows:	Closing Balance Rm
Vehicles	(185)
Property	(820)
Network equipment	(3 965)
	(4 970)

The closing balances for current lease liabilities as at 31 March 2020 can be reconciled as follows:	Closing Balance Rm
Vehicles	(167)
Property	(373)
Network equipment	(1 164)
	(1 704)

The total cash outflow for leases in 2020 was R1 148 million for the Group and R1 637 million for the Company. Finance charges on lease liabilities of R368 million for Group and R555 million for Company has been recognised in the statement of profit or loss and other comprehensive income for the year ended 31 March 2020.

Refer to note 15.4 for the maturity analysis on lease liabilities.

Impact of COVID-19 on lease liabilities

The incremental borrowing rate applied to calculate the present value of the lease liability decreased for leases with lease periods between 1 and 5 years due to the increase in the South African risk-free rate. This is applicable to leases entered into from 1 March 2020 onwards, as well as leases that were remeasured in March 2020 due to the change in the lease term from 3 to 5 years.

13.3 Low-value assets, short-term leases, variable lease payments

The following amounts, relating to low-value leases, short-term leases and variable lease payments, were recognised in the statement of profit or loss and other comprehensive income: **Group**	Short- term lease expense (All leases <12 months) Rm	Total expense Rm
Vehicles	1	1
Property	39	39
Network equipment	128	128
	168	**168**
Company		
Vehicles	–	–
Property	32	32
Network equipment	71	71
	103	**103**

Telkom Group and Company does not earn any subleasing income.

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14. Intangible assets

Group	2020 Cost Rm	2020 Accumulated amortisation and write-offs Rm	2020 Carrying value Rm	2019 Cost Rm	2019 Accumulated amortisation and write-offs Rm	2019 Carrying value Rm
Goodwill	1 268	(9)	1 259	1 268	(9)	1 259
Trademarks, copyrights and other	591	(381)	210	769	(512)	257
Software	12 932	(9 882)	3 050	12 030	(9 284)	2 746
Under construction	220	–	220	259	–	259
	15 011	(10 272)	4 739	14 326	(9 805)	4 521
Company						
Trademarks, copyrights and other	42	(39)	3	37	(37)	–
Software	12 322	(9 402)	2 920	11 601	(8 974)	2 627
Under construction	216	–	216	203	–	203
	12 580	(9 441)	3 139	11 841	(9 011)	2 830

The carrying amounts of intangible assets can be reconciled as follows: Group	Carrying value at the beginning of the year Rm	Additions Rm	Business combi-nation Rm	Transfers Rm	Disposals Rm	Amortisa-tion Rm	Write-offs and impair-ments Rm	Carrying value at the end of the year Rm
2020								
Goodwill	1 259	–	–	–	–	–	–	1 259
Trademarks, copyrights and other	257	10	4	6	(7)	(54)	(6)	210
Software	2 746	897	–	191	(2)	(625)	(157)	3 050
Under construction	259	78	–	(107)	(2)	–	(8)	220
	4 521	985	4	90	(11)	(679)	(171)	4 739
2019								
Goodwill	1 253	–	15	–	–	–	(9)	1 259
Trademarks, copyrights and other	242	15	4	65	–	(57)	(12)	257
Software	2 845	492	(3)	120	(30)	(645)	(33)	2 746
Under construction	152	117	–	(7)	–	–	(3)	259
	4 492	624	16	178	(30)	(702)	(57)	4 521

The carrying amounts of intangible assets can be reconciled as follows: Company	Carrying value at the beginning of the year Rm	Additions Rm	Transfers Rm	Amortisation Rm	Write-offs, impairments and impairment reversals Rm	Carrying value at the end of the year Rm
2020						
Trademarks, copyrights and other	–	1	3	(1)	–	3
Software	2 627	792	75	(578)	4	2 920
Under construction	203	72	(56)	–	(3)	216
	2 830	865	22	(579)	1	3 139
2019						
Software	2 726	409	79	(567)	(20)	2 627
Under construction	82	100	24	–	(3)	203
	2 808	509	103	(567)	(23)	2 830

The goodwill in Group is attributable to Yellow Pages, goodwill that arose on acquisition of BCX in August 2015 and subsequent acquisitions made by the BCX Group.

Intangible assets that are material to the Group consist of software, trademarks and other, whose average remaining amortisation period is 4 years (31 March 2019: 2.2 years).

No other intangible asset apart from goodwill has been assessed as having an indefinite useful life.

Intangible assets under construction are included for testing in the impairment testing for the Telkom CGU. No impairment was identified.

Approximately R428 million (31 March 2019: R265 million) and R314 million (31 March 2019: R165 million) of additions relate to externally acquired intangible assets for Group and Company, respectively, while R548 million (31 March 2019: R357 million) relates to internal developments for Group and R547 million (31 March 2019: R345 million) relates to internal developments for Company.

Changes to the estimated useful lives of intangible assets resulted in a decrease in amortisation to the value of R17 million (31 March 2019: R21 million) for Company and R23 million (31 March 2019: R25 million) for Group. Refer to note 6 for the useful lives.

Where assets have become technologically obsolete or can no longer contribute towards the Group and Company's revenue generating capacity, the assets are written off or impaired. The total impairment and write-off balance is not considered significant to the financial statements as a whole in the current or prior financial year.

	Group	
The Group's goodwill balance is reconciled as follows:	2020 Rm	2019 Rm
Opening balance	1 259	1 253
Acquisition of NGA (Pty) Ltd	–	15
Impairment of African Arete	–	(9)
Closing balance	**1 259**	**1 259**

Description	Telkom CGU Rm	BCX CGU Rm	Total goodwill recognised Rm
Carrying amount	63	1 196	1 259

Impairment considerations - including the impact of COVID-19

Management has performed an annual impairment assessment for all goodwill balances as at 31 March 2020 in line with the requirements of IAS 36 *Impairment of Assets*, and performed impairment assessments for assets where impairment indicators were identified. Management also tested the investments in BCX for impairment.

The following key indicators of impairment were identified:

- Market capitalisation fell below the net asset value;
- The budget was not achieved in 2020 due to a decline in fixed-line revenue, additional impairment recognised for trade receivables and contract assets, as well as the significant staff retrenchment costs; and
- COVID-19 trigger for impairment of the underlying assets.

COVID-19 implications on the cash flow forecast

Management completed a scenario analysis with respect to the impact of COVID-19. Scenarios associated with the potential impact of COVID-19 on future cash flow projections have been considered given the evidence available at the time of finalising the annual financial statements.

These scenarios considered the following:

- the length of the lockdown and the potential impacts;
- macro-economic and industry factors;
- global trends;
- the impact of rating agencies downgrades on the South African market;
- Telkom credit rating downgrade;
- impact of job losses and limited resources to further squeeze low-income consumers;
- GDP;
- inflation; and
- growth rates.

Further, several macro trends emerging, that will shape the face of the telecoms industry and the evaluation of industries that are expected to experience differing demand profiles based on the lifting of COVID-19 lockdown restrictions, regardless of disease outcome, were factored into management's assessment.

IFRS 16 impact on the cash flow forecasts

As a right-of-use ("ROU") asset does not generate cash inflows largely independent from other assets, the ROU asset will be tested for impairment together with the CGU to which such asset belongs.

From an IFRS 16 perspective, the assumptions assume the reinvestment of the ROU asset, that is cash flows to replace the ROU have been included in the model.

Due to the adoption of IFRS 16, management adjusted the value-in-use model by excluding the cash outflows in respect of the lease payments as it relates to financing and including the cash outflows to replace the ROU asset. The discount rate has been adjusted to include the lease liability and the cost of leasing.

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14. Intangible assets continued

BCX CGU

Value in use, using the discounted cash flow method, was adopted as the valuation basis. Based on this, the income approach was used. A five-year period is used for the discounted cash flows, approved by senior management and/or the Board of directors of the Group.

The valuation was performed on an Enterprise value basis.

The value in use calculation took into consideration the following key assumptions:

Fair value charge

BCX cash flows are generated using Telkom's network assets. A fair value contributory asset charge was derived for the use of the network asset between Telkom Company and BCX, which informed the identification of BCX as a separate CGU. This was based on the products Telkom Company sells to BCX. A fair value charge was derived on the margin BCX earns through the external sale of its products.

EBITDA margin

The budgeted EBITDA margin was used based on past experience and management's future expectations of business performance. The valuation was performed using cash flows which incorporated the impact of COVID-19.

Growth rates

The growth rates were consistent with publicly available information relating to long-term average growth rates for the market in which the CGU operated. The compound annual growth rate used is 4.5%.

Terminal growth rates

A terminal growth rate of 5% was applied. The growth rate considered steady state of growth rates to extrapolate revenue beyond the forecast period cash flows.

Discount rate

Discount rates used reflect both time value of money and other specific risks relating to the entity were used. The discount rate was calculated based on comparable companies in the industry.

In the valuation, a WACC range of 16.2% to 17.1% has been applied as a discount rate. A perpetuity calculation was also included after 5 years as per the terminal growth rate disclosure above.

Based on the value in use calculation, the estimated value in use of BCX significantly exceeds the carrying amount of the BCX CGU. As such, there is no impairment loss to be recognised.

Sensitivity to changes in assumptions

Given the significant headroom computed, no further sensitivity analysis has been performed.

Telkom CGU

Value in use, using the discounted cash flow method, was adopted as the valuation basis. Based on this, the income approach is used as the primary valuation approach, with the market approach as a cross check. The latter involves calculating multiples of comparable listed companies and comparing the results to the implied Telkom multiple from the income approach valuation. A five-year period is used for the discounted cash flows, approved by senior management and/or the Board of directors of the Group.

The Telkom CGU was then valued using a sum-of-the-parts approach. The valuation was performed on an Enterprise value basis.

The value in use calculation took into consideration the following key assumptions:

Fair value charge

BCX cash flows are generated using Telkom's network assets. A fair value income was derived for the use of the network asset between Telkom Company and BCX, which informed the identification of BCX as a separate CGU. This was based on the products Telkom Company sells to BCX. A fair value income was derived on the margin BCX earns through the external sale of its products.

EBITDA margin

The budgeted EBITDA margin is based on experience and management's future expectations of business performance. The valuation was performed using cash flows which incorporated the impact of COVID-19.

Growth rates

The growth rates were consistent with publicly available information relating to long-term average growth rates for the market in which the CGU operated. The compound annual growth rate used is 4.5%.

Terminal growth rates

A terminal growth rate of 5% was applied. The terminal value was determined at the end of year 5 of the cash flow forecasts. The growth rate considered steady state of growth rates to extrapolate revenue beyond the forecast period cash flows.

Discount rate

In the valuation, a WACC range of 12% to 12.4% has been applied as a discount rate. No specific risk premiums applied, as potential forecast risks were modelled as scenarios. A perpetuity calculation was also included after 5 years as per the terminal rate disclosure above.

Based on the value in use calculation, the estimated value in use of Telkom exceeded its carrying amount by R 1 867 million. As the indicated value in use range exceeds the carrying amount of the Telkom CGU, there is no impairment loss to be recognised.

Sensitivity to changes in assumptions

The recoverable amount is most sensitive to the discount rate and long-term growth rate. The following specific change in the discount rates or long-term growth rates of the Telkom CGU would result in the recoverable amount being equal to the carrying amount of the net assets of the CGU:

31 March 2020	Absolute change in the discount rate %	Absolute change in the terminal growth rate %
Telkom cash-generating unit	**0.12**	**0.4**

15. Financial instruments and risk management

15.1 Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing debt, lease liabilities and trade and other payables. The Group's financial liabilities are subjected to fair value measurements and adjustments.

The Group has finance lease receivables, trade and other receivables, contract assets, cash receivables and short-term deposits that arise directly from its operations. The main purpose of the interest-bearing debt is to raise finance for the Group's operations.

The Group is exposed to liquidity, credit and market risk. The Group's senior management oversees the management of these risks.

Risk management

Treasury policies, risk limits and control procedures are continuously monitored by the Board of directors through its Audit Committee and Risk Committee.

The Group holds or issues financial instruments to finance its operations, for the investment of short-term funds and to manage currency and interest rate risks. In addition, financial instruments such as trade receivables and payables arise directly from the Company's operations.

The Group finances its operations primarily by a mixture of issued share capital, retained earnings, long-term and short-term loans. The Group uses derivative financial instruments to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps and forward exchange contracts and the Group does not speculate in derivative instruments. The Group applied fair value hedge accounting in the current and prior financial year.

		Group	
The table below sets out the Group's classification of financial assets and liabilities.	Notes	**At fair value through profit or loss Rm**	**At amortised cost Rm**
2020			
Classes of financial instruments per statement of financial position			
Assets		745	14 039
Other investments*	16.2	212	–
Trade and other receivables**	20	–	6 661
Contract asset	20	–	1 979
Other financial assets	22	533	418
Forward exchange contracts		533	–
Asset finance receivables		–	418
Finance lease receivables	17	–	253
Cash and cash equivalents	23	–	4 728
Liabilities		(673)	(20 685)
Interest-bearing debt	27	–	(12 005)
Trade and other payables	31	–	(8 339)
Shareholders for dividend	36	–	(31)
Other financial liabilities	22	(673)	–
Firm commitments		(530)	–
Interest rate swaps		(143)	–
Asset finance payables	22	–	(119)
Financial guarantees		–	(13)
Vendor financing	22	–	(176)
Credit facilities utilised	23	–	(2)

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15. Financial instruments and risk management continued

15.1 Financial risk management objectives and policies continued

	Notes	At fair value through profit or loss Rm	At amortised cost Rm
2019			
Classes of financial instruments per statement of financial position			
Assets		1 873	10 935
Other investments***	16.2	1 642	–
Trade and other receivables**	20	–	6 738
Contract assets***	20	–	2 161
Other financial assets	22	231	290
Forward exchange contracts		161	–
Firm commitments		70	–
Asset finance receivables		–	290
Finance lease receivables	17	–	318
Cash and cash equivalents	23	–	1 428
Liabilities		(281)	(16 921)
Interest-bearing debt	27	–	(10 241)
Trade and other payables***	31	–	(6 536)
Shareholders for dividend	36	–	(29)
Other financial liabilities	22	(281)	–
Forward exchange contracts		(13)	–
Firm commitments		(237)	–
Interest rate swaps		(31)	–
Vendor financing***	22	–	(107)
Asset finance payables	22	–	(115)

The table below sets out the Company's classification of financial assets and liabilities.

	Notes	Company At fair value through profit or loss Rm	Company At amortised cost Rm
2020			
Classes of financial instruments per statement of financial position			
Assets		668	11 408
Other investments	16.2	161	–
Trade and other receivables**	20	–	6 072
Contract assets	20	–	1 850
Other financial assets	22	507	–
Forward exchange contracts		507	–
Finance lease receivables	17	–	253
Cash and cash equivalents	23	–	3 233
Liabilities		(673)	(25 505)
Interest–bearing debt	27	–	(12 005)
Trade and other payables	31	–	(10 716)
Shareholders for dividend	36	–	(31)
Other financial liabilities	22	(673)	(2 753)
Firm commitments		(530)	–
Interest rate swaps		(143)	–
BCX Treasury fund		–	(2 753)

	Notes	At fair value through profit or loss Rm	At amortised cost Rm
2019			
Classes of financial instruments per statement of financial position			
Assets		1 803	14 732
Other investments***	16.2	1 574	–
Trade and other receivables**	20	–	7 946
Contract assets***	20	–	2 161
Other financial assets	22	229	–
Forward exchange contracts		159	–
Firm commitments		70	–
Loans and preference share investments in subsidiaries	16.1	–	3 732
Finance lease receivables	17	–	318
Cash and cash equivalents	23	–	575
Liabilities		(280)	(23 921)
Interest–bearing debt	27	–	(10 194)
Trade and other payables***	31	–	(10 941)
Shareholders for dividend	36	–	(29)
Other financial liabilities	22	(280)	(2 757)
Forward exchange contracts		(13)	–
Firm commitments		(237)	–
Interest rate swaps		(30)	–
BCX treasury fund		–	(2 757)

* *Other investments are disclosed net of investments accounted for using the equity method of R11 million (31 March 2019: R9 million).*
** *Trade and other receivables are disclosed excluding prepayments of R125 million (31 March 2019: R481 million) for the Company and R358 million (31 March 2019: R687 million for the Group).*
*** *Restated. Refer to note 2.4.*

15.2 Fair value of financial instruments

15.2.1 Valuation techniques and assumptions applied for the purposes of measuring fair value

Fair value of all financial instruments noted in the statement of financial position approximates carrying value except as disclosed below.

The fair value of financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. The fair value of cash and short-term deposits, trade and other receivables, contract assets, finance leases, shareholders for dividend and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments and market related interest rates included in finance lease receivables. Long-term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country factors and the individual creditworthiness of the customer. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at the reporting date, the carrying amount of such receivables, net of allowances, are not materially different from their calculated fair values. Fair values of quoted bonds are based on price quotations at the reporting date. Refer to note 15.2 for the fair values of financial instruments measured at fair value and financial instruments where the fair value materially differs from the carrying amount.

The carrying amount of financial instruments approximates fair value, with the exception of interest-bearing debt (at amortised cost) for Telkom Company which has a fair value of R12 097 million (31 March 2019: R10 327 million) and a carrying amount of R12 005 million (31 March 2019: R10 194 million).

The fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

For financial assets and liabilities not traded in an active market, a valuation technique is applied to derive the fair value, which takes into account quoted prices for similar or identical liabilities in active markets using observable inputs where necessary.

The impact of COVID-19 has resulted in the volatility of prices on various markets which has a direct or an indirect impact on the fair values at the reporting date.

Notes to the financial statements continued

for the year ended 31 March 2020

15. Financial instruments and risk management continued

15.2 Fair value of financial instruments continued

Type of financial instrument – Group	Fair value at 31 March 2020 Rm	Valuation technique	Significant inputs
Derivative assets	533	Discounted cash flows	Yield curves
Derivative liabilities	(673)		Market interest rates
Investment in Absa sinking fund	161	Quoted market prices adjusted for counterparty credit risk	Market prices
Investment in FutureMakers entities	51	Discounted cash flows	Cash flow forecasts and market related discount rates
Interest-bearing debt	(12 097)	Discounted cash flows and quoted bond prices	Market interest rates

15.2.2 Fair value hierarchy

The following table presents the Group's assets and liabilities that are measured at fair value at reporting date. The different levels have been defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices, that are observable for the asset or liability.
Level 3: Inputs for the asset or liability that are not based on observable market data.

There were no transfers between levels in the current financial year.

		Group			
	Notes	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
2020					
Assets measured at fair value					
Forward exchange contracts	22	533	–	533	–
Investment made by FutureMakers	16.2	51	–	–	51
Investment in Absa sinking fund	16.2	161	–	161	–
Liabilities measured at fair value					
Firm commitments	22	(530)	–	(530)	–
Interest rate swaps	22	(143)	–	(143)	–
Liabilities measured at amortised cost					
Interest-bearing debt	27	(12 097)	–	(12 097)	–
2019					
Assets measured at fair value					
Forward exchange contracts	22	161	–	161	–
Firm commitments	22	70	–	70	–
Investment made by FutureMakers	16.2	69	–	–	69
Investment in Absa sinking fund	16.2	1 573	–	1 573	–
Liabilities measured at fair value					
Forward exchange contracts	22	(13)	–	(13)	–
Firm commitments	22	(237)	–	(237)	–
Interest rate swaps	22	(30)	–	(30)	–
Liabilities measured at amortised cost					
Interest-bearing debt	27	(10 327)	–	(10 327)	–

	Notes	Company Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
2020					
Assets measured at fair value					
Forward exchange contracts	22	**507**	**–**	**507**	**–**
Investment in Absa sinking fund	16.2	**161**	**–**	**161**	**–**
Liabilities measured at fair value					
Firm commitments	22	**(530)**	**–**	**(530)**	**–**
Interest rate swaps	22	**(143)**	**–**	**(143)**	**–**
Liabilities measured at amortised cost					
Interest-bearing debt	27	**(12 097)**	**–**	**(12 097)**	**–**
2019					
Assets measured at fair value					
Forward exchange contracts	22	159	–	159	–
Firm commitments	22	70	–	70	–
Investment in Absa sinking fund	16.2	1 573	–	1 573	–
Liabilities measured at fair value					
Forward exchange contracts	22	(13)	–	(13)	–
Firm commitments	22	(237)	–	(237)	–
Interest rate swaps	22	(30)	–	(30)	–
Liabilities measured at amortised cost					
Interest-bearing debt	27	(10 327)	–	(10 327)	–

15.3 Credit risk

15.3.1 Credit risk management

Credit risk, or the risk of financial loss, is the risk that a counterparty will not meet its contractual obligations as they fall due per the stipulated contractual terms. The Group is exposed to credit risk from its operating activities and from investing activities, including deposits with banks and financial institutions. Telkom Company is not exposed to significant concentrations of credit risk as credit limits are set on an individual basis and reviewed annually.

The Group's maximum exposure to credit risk is represented by the gross carrying amount of the financial assets that are exposed to credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each type of customer. Management reduces the risk of irrecoverable debt by improving credit management through credit checks and limits. To reduce the risk of counterparty failure, limits are set based on the individual ratings of counterparties by well-known rating agencies. Trade receivables comprise a large widespread customer base, covering residential, business, government, wholesale, global and corporate customer profiles.

Credit checks are performed on all customers, other than pre-paid customers, on application for new services on an ongoing basis, where appropriate.

There was a material change in the Group's exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the 2020 financial year, due to the impact of COVID-19 which resulted in a national lockdown of the country for an initial period of 21 days from 26 March 2020, which was subsequently extended.

To support the credit transmission mechanism of the South African economy, given the impact of COVID-19, the South African Reserve Bank (SARB) announced reductions in the Repo (repurchase) rate. In addition, facilitated by the SARB, the government has also implemented a bond purchase programme to provide liquidity to banks and enable a well-functioning credit transmission mechanism. The fiscal profile of South Africa has resulted in sovereign credit rating downgrades. The Group's credit rating was also affected by this based om the link of the Group to the sovereign.

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed annually or when the need arises. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

The Group has the following types of financial assets that are subject to the expected credit loss model:

- trade receivables from the Group's ordinary activities
- contract assets
- finance lease receivables
- loans to subsidiaries
- asset finance receivables
- cash and cash equivalents

Notes to the financial statements continued

for the year ended 31 March 2020

15.3 Credit risk

15.3.1 Credit risk management continued

The maximum exposure to credit risk for financial assets at the reporting date by type of instrument and counterparty was:	Group – Carrying amount 2020 Rm	Group – Carrying amount 2019 Rm	Company – Carrying amount 2020 Rm	Company – Carrying amount 2019 Rm
Trade receivables (refer to note 20)	4 867	5 884	4 678	5 278
Telkom SA	6 627	6 968	5 871	6 283
Business and residential	2 948	1 970	2 947	1 970
Global, corporate and wholesale	3 567	3 498	2 980	3 132
Government	794	1 153	794	1 153
Other customers	(682)	347	(850)	28
South African subsidiaries	117	123	–	–
Impairment of trade receivables (refer to note 20)	(1 877)	(1 207)	(1 193)	(1 005)
Contract assets (refer to note 20)	1 979	2 161	1 849	2 161
Gross contract assets	2 411	2 331	2 281	2 331
Impairment of contract assets (refer to note 20)	(432)	(170)	(432)	(170)
Subtotal for trade receivables and contract assets	6 846	8 045	6 527	7 439
Other receivables	1 794	854	1 394	2 668
Derivatives	533	231	507	229
Other investments*	212	1 642	161	1 574
Finance lease receivables	253	318	253	318
Net cash and cash equivalents	4 726	1 428	3 233	575
	14 364	12 518	12 075	12 803

** Restated. Refer to note 2.4.*

15.3.2 Impairment of financial assets

The approach and methodology applied by Telkom when calculating expected credit losses under IFRS 9 is shown in the sub-sections below. Refer to note 20 for the reconciliation of the expected credit loss balances recognised.

15.3.2.1 Trade receivables and contract assets

The Group's receivables are split between different customer segments. Lifetime expected credit losses are calculated, per segment, for trade receivables using the simplified approach, as the instruments do not contain a significant financing component. This is calculated using a provision matrix which has been derived from the Group's historic ageing and write-off data by considering the expected provision of a debtor based on its age at the end of the reporting period, as well as a provision being raised for the debtor based on the likelihood of it ending up in the ageing category where the instrument is likely to be written off.

Where a customer's service has been suspended or cancelled, an additional impairment is raised based on the historical write-off amount for trade receivables which have been included in the suspended/cancelled category.

For device debtors, Telkom uses loss rates from the trade receivables ageing analysis. These aren't applied at a segment level, but an average loss rate is calculated per ageing bucket, evenly weighting the various segments and applying these across the whole.

Application of forward-looking information as a result of COVID-19 – Provision matrix

COVID-19 was assessed as a condition which existed as at 31 March 2020. As such, events after 31 March 2020 were assessed to determine if they provide further information about the COVID-19 condition.

Impairment losses were calculated using the simplified approach, with historical losses used as an input to parameterise the expected loss percentage. The methodology considers expected losses over the average remaining life, with the historical calibration period selected to adequately capture the risk of the portfolio.

Management included an overlay to consider the expected impact of the current COVID-19 stress. The changes in percentage movements in the default rates within the credit ratings were analysed at reporting date at a customer profile level and these changes were then applied to existing ECL ratios.

Based on this, the ECL for trade receivables has increased by R419 million under the provision matrix method which is material to the Group.

Segments	Recognised COVID-19 impact R'000	2% Increase on COVID-19 stress R'000	5% Increase on COVID-19 stress R'000
Consumer	108 349	111 068	114 109
Openserve	116	121	127
Gyro	12 721	12 727	12 737
BCX	288 120	289 467	290 925
Other	9 506	10 205	10 878
	418 812	423 589	428 776

By applying the 2% and 5% increase on the COVID-19 overlay, Telkom Company's trade receivable ECL would increase by R2.4 million and R5.2 million, respectively, which is not material to Telkom Company.

By applying the 2% and 5% increase on the COVID-19 overlay, the Telkom Group's trade receivable ECL would increase by R4.8 million and R10 million, respectively, which is not material to the Group.

Post write-off recoveries

Telkom Company receivable books debtor shows that a significant proportion of recoveries come through subsequent to an account being written off. In the fixed-line book, for example, accounts are written off fairly quickly, as the collection strategy after write-off is more effective than before. Post write-off recoveries are taken into account in the expected credit loss model.

	Group – Carrying amount			Company – Carrying amount		
	2020			2020		
The ageing of trade receivables at the reporting date was:	Trade receivables ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %	Trade receivables ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %
Current	3 624	224	6.2	3 380	76	2.2
21 to 60 days	698	110	15.8	544	73	13.5
61 to 90 days	213	98	46.0	155	64	41.1
91 to 120 days	117	57	48.9	70	45	64.8
120+ days	2 092	1 387	66.3	1 722	935	54.3
	6 744	1 877	27.8	5 871	1 193	20.3

	Group - Carrying amount			Company - Carrying amount		
	2019			2019		
The ageing of trade receivables at the reporting date was:	Trade receivables ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %	Trade receivables ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %
Current	3 340	61	1.8	3 154	49	1.6
21 to 60 days	912	42	4.6	766	38	5.0
61 to 90 days	397	38	9.6	306	34	11.1
91 to 120 days	226	41	18.1	174	32	18.4
120+ days	2 216	1 025	46.3	1 883	852	45.2
	7 091	1 207	17.0	6 283	1 005	16.0

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 20.

Included in the allowance for doubtful debts for Telkom Company, are individually impaired receivables with a balance of R89 million (31 March 2019: R211 million) which have been identified as being unable to service their debt obligation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the future cash flows. The Group does not hold any collateral over these balances.

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for the year ended 31 March 2020

15.3 Credit risk continued

15.3.2 Impairment of financial assets continued

15.3.2.1 Trade receivables and contract assets continued

	Group & Company – Carrying amount			Group & Company – Carrying amount		
	2020			2019		
The ageing of contract assets at the reporting date was:	Contract asset ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %	Contract asset ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio %
Current	480	68	14.3	247	4	1.6
21 to 60 days	308	58	18.9	219	11	5.0
61 to 90 days	389	72	18.6	247	27	10.9
91 to 120 days	274	52	18.9	384	71	18.5
120+ days	960	181	18.8	1 234	57	4.6
	2 411	**432**	**17.9**	**2 331**	**170**	**7.3**

COVID-19 impact on contract assets

Impairment losses were calculated using the simplified approach, with historical losses used as an input to parameterise the expected loss percentage. The methodology considers expected losses over the average remaining life, with the historical calibration period selected to consider expert judgement on the portfolio's performance going forward.

The Group has based the measurement of expected credit losses ("ECL") on an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes and reflecting the time value of money.

Management included an overlay to consider the expected impact of the current COVID-19 stress. The methodology for this overlay was aligned to the approach used for trade receivables, which used the 2008 crisis for calibration purposes.

The Group has adjusted the loss rates used to calculate the ECL on contract assets. Based on this approach, the ECL has increased by R207 million.

Management has analysed the impact of COVID-19 on contract assets, assuming a 2% and 5% increase on the COVID-19 overlay. The results of the analysis have been summarised as follows:

	Current rate incl COVID-19	2% Increase on COVID-19 stress	5% Increase on COVID-19 stress
Expected loss rate	4.24% to 23.60%	4.40% to 23.76%	4.67% to 24%

By applying the 2% and 5% increase on the COVID-19 overlay, the Company's and Group's existing contract asset ECL would increase by R4.6 million and R12 million respectively, which is not material to the Group.

15.3.2.2 Finance lease receivables and asset finance receivables

The Group recognises lifetime expected credit losses on finance lease receivables and asset finance receivables in terms of the simplified approach. Whenever an amount receivable is billed, the amount is moved from finance leases or asset finance receivables to trade receivables and forms part of the trade receivables balance. To determine an expected credit loss for the outstanding lease receivables, the total outstanding amounts are proportioned into the various ageing buckets based on the proportions experienced in trade receivables, specifically the fixed-line segment. The same loss rates that are used for the trade receivables segment are then applied to the outstanding lease receivables balance to derive the expected loss on finance lease receivables over the lifetime of the instrument.

The underlying assumption attached to this is that the exposure to the finance lease balance will realise as the balance is billed to the customer over the lifetime of the instrument and will thus follow the same pattern of expected loss as the trade receivable balance.

15.3.2.3 Cash and cash equivalents

Twelve month expected credit losses are calculated for cash and cash equivalents using the general approach. Due to the fact that the Group's cash and cash equivalents are noted as being current assets, the twelve month and lifetime expected losses are expected to be equivalent. In addition, given that these amounts are invested with South Africa's largest four banks, management's expectation is that the impact on the total impairment is negligible.

As at the reporting date, the Group has not recognised any expected credit losses for cash and cash equivalents. This approach will only be reconsidered should there be a future downgrade of the banks with which the amounts are invested.

15.3.2.4 Intercompany loans

Telkom Company has intercompany loans with BCX. The exposure to this entity is R128 million. All the loans made by Telkom SA SOC Limited in its subsidiaries are accounted for at amortised cost. Loans to subsidiaries are considered to have low credit risk as the subsidiaries are performing well and there has been no deterioration of credit risk since the loans were originated. Therefore, the expected credit loss allowance recognised during the period was limited to the 12-month expected credit loss. No material expect credit loss was accounted for on any of these instruments. Refer to note 16.1.2 for key assumptions applicable to intercompany loans.

15.4 Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group is exposed to liquidity risk as a result of variable cash flows as well as capital commitments of the Group.

Liquidity risk is managed by the Group's treasury department in accordance with policies and guidelines formulated by the Group's executive Committees. There was a material change in the Group's exposure to liquidity risk and its objectives, policies and processes for managing and measuring the risk during the 2020 financial year due to the impact of the COVID-19 pandemic. The Group has maintained elevated levels of liquidity, is response to the potential impact and pandemic. This will also mitigate the risk of credit ratings downgrades. In terms of its borrowing requirements, the Group ensures that sufficient facilities exist to meet its immediate obligations. Short-term liquidity shortfalls may be funded through undrawn committed facilities.

The table below summarises the maturity profile of the Group's financial liabilities based on undiscounted contractual cash flows at the reporting date.

		Group					
	Note	Carrying amount Rm	Contractual cash flows Rm	0 - 12 months Rm	1 - 2 years Rm	2 - 5 years Rm	>5 years Rm
2020							
Non-derivative financial liabilities							
Interest-bearing debt	27	12 005	13 457	2 052	314	2 245	8 845
Credit facilities utilised	23	2	2	2	–	–	–
Lease liabilities	13	4 775	6 064	1 101	1 089	2 403	1 471
Trade and other payables	31	8 339	8 339	8 339	–	–	–
Shareholders for dividend	36	31	31	31	–	–	–
Asset finance payables	22	119	202	102	33	67	–
Financial guarantees	22	13	47	47	–	–	–
Vendor financing	22	176	176	176	–	–	–
Derivative financial liabilities							
Interest rate swaps	22	143	143	143	–	–	–
Firm commitments	22	530	530	530	–	–	–
		26 133	28 991	12 523	1 436	4 715	10 316
2019							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	27	10 198	10 379	5 554	801	1 746	2 278
Trade and other payables*	31	6 536	6 536	6 536	–	–	–
Finance lease liabilities	27	43	45	29	15	1	–
Shareholders for dividend	36	29	29	29	–	–	–
Asset finance payables**	22	115	115	36	40	39	–
Vendor financing	22	107	107	107	–	–	–
Derivative financial liabilities							
Interest rate swaps	22	30	30	30	–	–	–
Firm commitments	22	237	237	237	–	–	–
Forward exchange contracts	22	13	13	13	–	–	–
		17 308	17 491	12 571	856	1 786	2 278

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15.4 Liquidity risk management continued

		Company					
	Note	Carrying amount Rm	Contractual cash flows Rm	0 - 12 months Rm	1 - 2 years Rm	2 - 5 years Rm	>5 years Rm
2020							
Non-derivative financial liabilities							
Interest-bearing debt	27	12 005	12 109	1 900	193	1 881	8 135
Lease liabilities	13	6 674	8 023	1 775	1 738	3 640	870
Trade and other payables	31	10 716	10 716	10 716	–	–	–
Shareholders for dividend	36	31	31	31	–	–	–
Derivative financial liabilities							
Interest rate swaps	22	143	143	143	–	–	–
Firm commitments	22	530	530	530	–	–	–
		30 099	31 552	15 095	1 931	5 521	9 005
2019							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	27	10 194	10 374	5 550	800	1 746	2 278
Trade and other payables*	31	10 941	10 941	10 941	–	–	–
Shareholders for dividend	36	29	29	29	–	–	–
Derivative financial liabilities							
Interest rate swaps	22	30	30	30	–	–	–
Firm commitments	22	237	237	237	–	–	–
Forward exchange contracts	22	13	13	13	–	–	–
		21 444	21 624	16 800	800	1 746	2 278

* *Restated. Refer to note 2.4.*

** *In the prior year financial statements, asset finance payables were incorrectly disclosed as part of derivative financial liabilities. This was immaterial for the prior year. This has been corrected in the current year and the prior year has been restated for comparability.*

15.5 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective of market risk management is to manage and control market risk exposure. Market risks comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk.

Changes in the market prices have an impact on the values of the underlying derivatives and an analysis has been prepared on the basis of changes in one variable and all other variables remaining constant.

There has been significant changes in the levels of market risk in the current period due to the impact of COVID-19. This has given rise to increased levels of volatility in both local and global markets. The associated impact and volatility were experienced in the foreign currency markets, levels and interest rates and commodity prices.

Given Telkom's conservative approach to foreign currency risk and the combination of fixed versus floating ratio of debt has largely mitigated the impact of COVID-19 on its financial profile.

Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the repricing of the Group's forward cover and floating rate debt as well as incremental funding or new borrowings and refinancing of existing borrowings.

The Group's policy is to manage interest cost through the utilisation of a mix of fixed and floating rate debt. In order to manage this mix in a cost efficient manner and to hedge specific exposure in the interest rate repricing profile of the existing borrowings, the Group makes use of interest rate swaps. Fixed rate debt represents approximately 48% (2019: 70%) of the total debt. The debt has been maintained to limit the Group's exposure to interest rate increases.

The guideline is to target a fixed/floating debt ratio of 65% fixed, but adjusted to market conditions. In a scenario of low interest rates, a higher ratio may be established.

15.5 Market risk continued

The table below summarises the interest rate swaps outstanding as at the reporting date:	Group Average maturity	Group Notional amount Rm	Company Average maturity	Company Notional amount Rm
2020				
Interest rate swaps outstanding				
Pay fixed and receive floating	3.4 years	3 519	3.4 years	3 519
2019				
Interest rate swaps outstanding				
Pay fixed and receive floating	4 years	2 982	4 years	2 982

The floating rate is based on the three-month JIBAR, and is settled quarterly in arrears. The interest rate swaps are used to manage the interest rate risk on debt instruments.

Foreign currency exchange rate risk management

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's foreign currency exposure arises in its procurement environment where OPEX and CAPEX items are procured from international suppliers. The Group manages its foreign currency exchange rate risk by hedging all identifiable exposures via various financial instruments suitable to the Group's risk exposure.

The Group enters into forward exchange contracts to hedge foreign currency exposure of the Group's operations and liabilities.

Refer to note 22 for the balances recognised relating to hedging instruments and hedged items.

The following table details the forward exchange contracts outstanding at the reporting date:	Group Foreign contract value m	Group Contract value Rm	Company Foreign contract value m	Company Contract value Rm
Purchased				
2020				
Currency				
USD	449	3 388	200	3 111
Euro	13	233	13	233
Other	5	14	1	10
		3 635		3 354
2019				
Currency				
USD	415	5 982	386	5 560
Euro	14	241	14	239
Other	5	97	5	92
		6 320		5 891
Sell				
2020				
Currency				
USD	12	15	–	–
		15		–
2019				
Currency				
USD	5	79	–	–
Euro	–	–	–	–
GBP	4	80	4	80
		159		80

The Group has various monetary assets and liabilities in currencies other than the parent Company's functional currency. The following table represents the net currency exposure (net carrying amount of foreign denominated monetary assets and liabilities) of the Group according to the different foreign currencies.

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for the year ended 31 March 2020

15. Financial instruments and risk management continued

15.5 Market risk continued

	Group			Company		
	Euro Rm	United States Dollar Rm	Other Rm	Euro Rm	United States Dollar Rm	Other Rm
2020						
Net foreign currency monetary assets/(liabilities)						
Functional currency of Company operation						
South African Rand	(46)	(1 076)	1	(47)	(1 077)	–
2019						
Net foreign currency monetary assets/(liabilities)						
Functional currency of Company operation						
South African Rand	(170)	(856)	1	(171)	(864)	–

Sensitivity analysis

Interest rate risk

An interest rate sensitivity analysis is based on an increase or decrease of 1% (100 basis points) in the South African market interest rates and the prevailing information as at the reporting date.

The analysis assumes that all other variables remain constant. The analysis and changes in interest rates is performed on the same basis as was used in prior years.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's and Company's profit for the year ended 31 March 2020 would decrease/increase by R109 million (31 March 2019: decrease/increase by R102 million) and R100 million, respectively.

The following table illustrates the sensitivity to a 100 basis points change in the interest rates on profit before taxes, with all other variables held constant:

	Group movement		Company movement	
Classes of financial instruments per statement of financial position	+ 1% Profit Rm	– 1% Profit Rm	+ 1% Profit Rm	– 1% Profit Rm
2020				
Assets				
Other financial assets	7	(7)	7	(7)
Forward exchange contracts	7	(7)	7	(7)
Liabilities				
Other financial liabilities	93	(93)	93	(93)
Interest rate swaps	93	(93)	93	(93)
Interest-bearing debt	9	(9)	–	–
	109	**(109)**	**100**	**(100)**
2019				
Assets				
Other financial assets	22	(22)	22	(22)
Forward exchange contracts	22	(22)	22	(22)
Liabilities				
Other financial liabilities	80	(80)	80	(80)
Interest rate swaps	80	(80)	80	(80)
	102	**(102)**	**102**	**(102)**

Foreign exchange currency risk

The foreign currency sensitivity analysis is based on a 10% strengthening or weakening of the rand against all currencies, from the rates applicable and prevailing information as at the reporting date.

If foreign exchange rates had been 10% higher/lower and all other variables were held constant, the Group's and Company's profit for the year ended 31 March 2020 would increase/decrease by R94 million for Group (31 March 2019: increase/decrease by R38 million) and R96 million for Company (31 March 2019: increase/decrease by R22 million).

The following table illustrates the sensitivity to a 10% change in the exchange rates before taxes, with all other variables held constant:

Classes of financial instruments per statement of financial position	Group + 10% movement (Deprecia-tion) Rm	Group – 10% movement (Apprecia-tion) Rm	Company + 10% movement (Deprecia-tion) Rm	Company – 10% movement (Apprecia-tion) Rm
2020				
Assets				
Other financial assets	385	(335)	382	(332)
Forward exchange contracts	385	(335)	382	(332)
Foreign trade receivables	1	(1)	–	–
Liabilities				
Other financial liabilities	(272)	222	(272)	222
Firm commitments	(272)	272	(272)	272
Forward exchange contracts	–	(50)	–	(50)
Interest–bearing debt	(14)	14	(14)	14
Financial guarantees	(1)	1	–	–
Foreign trade payables	(5)	5	–	–
	94	**(94)**	**96**	**(96)**
2019				
Assets				
Other financial assets	578	(578)	578	(578)
Forward exchange contracts	578	(578)	578	(578)
Liabilities				
Other financial liabilities	(588)	588	(588)	588
Firm commitments	(588)	588	(588)	588
Forward exchange contracts	–	–	–	–
Interest–bearing debt	(28)	28	(12)	12
	(38)	**38**	**(22)**	**22**

15.6 Equity price risk

The Group's investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. Changes in the fair value of equity securities held by the Group will fluctuate because of changes in market prices, caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded on the market. The Group is not exposed to commodity price risk. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of directors reviews and approves all equity investment decisions above R100 million.

At the reporting date, the total amount for local equity investments was R212 million (31 March 2019: R1 642 million). A 10% increase (31 March 2019: 5% increase) in the local equity portfolios at the reporting date would have increased profit or loss by R21 million (31 March 2019: R82 million) before tax. An equal and opposite change would have decreased profit or loss. A 10% fluctuation represents management's assessment of the reasonably possible changes in equity prices.

There will be no other impact on equity as the equity securities are classified as at fair value through profit or loss. The analysis assumes that all other variables remain constant and is performed on the same basis as the prior year.

15.7 Capital management

The Group's policy is to manage the capital structure to ensure maximisation of shareholders' return, growth and ability to meet its obligations. Capital comprises equity and net debt which is monitored using, inter alia, a net debt to EBITDA ratio. The Group's guidance is to keep the ratio below 1.5 times (excluding IFRS 16).

Net debt is defined as interest-bearing debt and credit facilities utilised, less cash and cash equivalents. EBITDA is defined as earnings before depreciation, amortisation, impairment and losses, investment income, finance charges and fair value movements and taxation and includes significant financing revenue recognised under IFRS 15 *Revenue from Contracts with Customers*.

The Group's dividend policy, of an annual dividend of 60 percent of headline earnings with an interim dividend of 40 percent of interim headline earnings, aims to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to achieve its strategy. The determination to pay dividends, and the amount of dividends, will be based on a number of factors, including the consideration of the financial results, capital and operating requirements, net debt levels and growth opportunities.

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for the year ended 31 March 2020

15. Financial instruments and risk management continued

15.7 Capital management continued

	Group		Company	
The net debt (excluding lease liabilities) at reporting date was as follows:	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Non-current portion of interest-bearing debt	10 105	4 840	10 105	4 824
Current portion of interest-bearing debt	1 900	5 401	1 900	5 370
Credit facilities utilised	2	–	–	–
Less: Cash and cash equivalents	(4 728)	(1 428)	(3 233)	(575)
Net debt	7 279	8 813	8 772	9 619

16. Investments

16.1 Investment in subsidiaries and loans and preference share investment in subsidiaries

16.1.1 Investment in subsidiaries

	Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm
	8 418	2 986
Yellow Pages (formerly known as TDS Directory Operations/Trudon) Proprietary Limited		
100% shareholding at cost	326	167
Swiftnet Proprietary Limited (Gyro Masts and Towers)		
100% shareholding at cost	1 239	25
Business Connexion Group Limited (BCX)		
100% shareholding at cost	6 579	2 654
Gyro Properties Proprietary Limited*		
100% shareholding at cost (R100)	129	–
Gyro Solutions Proprietary Limited*		
100% shareholding at cost (R100)	5	–
Investment in FutureMakers fund	140	140

16.1.2 Loans and preference share investment in subsidiaries

	Carrying value	
	31 March 2020 Rm	31 March 2019 Rm
Loans to BCX*	–	3 615
1. An interest-bearing loan was granted to assist BCX in acquiring the Cybernest business unit. The loan accrues interest at a prevailing six-month JIBAR rate plus 200 basis points. The loan term is five years, payable in equal bi-annual repayments commencing after the first anniversary following the effective date. The other loan to BCX relates to the repayment of the RMB loan as well as a revolving facility to assist BCX with working capital requirements. These loans accrue interest at rates linked to the three-month JIBAR with variables of 1.9%.	–	128
2. Telkom also holds preference shares relating to the sale of the Enterprise business in November 2016 to BCX at a fixed interest rate of 13.5% over a 15-year period.	–	3 487
Current portion of Cybernest and RMB loans	128	152
Gyro preference shares*		
Telkom held preference shares to the value of R1 186 million in the Gyro Group. All preference shares were issued effective 1 April 2017 and are repayable in 15 years. In the current financial year, these preference shares were converted to equity. The preference shares are split as follows:	–	1 186
Gyro Properties: The preference share carries interest at a fixed rate of 15.3%	–	113
Gyro Solutions: The preference share carries interest at a fixed rate of 15.3%	–	4
Gyro Masts and Towers: The preference share carries interest at a fixed rate of 14.9%	–	1069

* *In the current financial year, the BCX and Gyro preference shares liability was waived. The waiver was accounted for as capital contribution because the waiver arises from Telkom acting in its capacity as parent/shareholder. As a result, the waiver has been reflected as an additional investment in the subsidiary.*

Loans key assumptions

All the loans made by Telkom SA SOC Limited in its subsidiaries are accounted for at amortised cost. Loans to subsidiaries are considered to have low credit risk as the subsidiaries are performing well and there has been no deterioration of credit risk since the loans were originated. Therefore, the loss allowance recognised during the period was limited to the 12-month expected credit loss. No material expected credit loss was accounted for on any of these instruments. The carrying value of loans and preference shares approximate the fair value as the instruments have been granted on market related terms.

Notes to the financial statements continued

for the year ended 31 March 2020

16. Investments continued

16.2 Other investments

16.2.1 Non–current other investments

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	Restated 31 March 2019 Rm
Non-current other investments				
Unlisted investment	62	78	–	–
FutureMakers Fund	51	69	–	–
Investment	61	79	–	–
Devaluation/Impairment	(10)	(10)	–	–
Investment in associates	11	9	–	–

16.2.2 Current other investments

	Group 31 March 2020 Rm	Group 31 March 2019 Rm	Company 31 March 2020 Rm	Company Restated 31 March 2019 Rm
Current other investments	207	1 573	207	1 574
At fair value through profit or loss	161	1 573	161	1 574
ABSA sinking fund investment	161	1 573	161	1 574
Investment in insurance cell captive	46	–	46	–
Initial investment	5	–	5	–
Insurance service result	41	–	41	–
Insurance service result				
At 1 April	–	–	–	–
Net insurance revenue	41	–	41	–
Premiums earned	189	–	189	–
Claims paid	(119)	–	(119)	–
Investment income	8	–	8	–
Other expenses	(20)	–	(20)	–
Taxation paid	(17)	–	(17)	–
At 31 March	41	–	41	–

FutureMakers Fund

This fund is an Enterprise and Supplier Development (ESD) programme. In partnership with Identity FutureFund (Pty) Ltd, the fund was created in terms of the Department of Trade and Industry's Code of Good Practice on Black Economic Empowerment 2007, as amended, and specifically in terms of the Information and Technology Charter.

Telkom Company accounts for this at cost as an investment in a subsidiary. Telkom Group consolidates the fund and holds the investments within the fund at fair value. The underlying investments in the fund has been designated as at fair value through profit or loss as this more appropriately reflects the basis on which management measures and monitors the performance of the investment. No change was made to this designation following the adoption of IFRS 9. In 2018, the partnership agreement was amended to also include BCX. BCX invested an amount of R100 million which is reflected as a financial asset in the BCX stand-alone financial statements and included in cash and cash equivalents in the Group financial statements.

Investment in associate

The Number Portability Company (NPC) was incorporated in response to Regulations of 2005 that required a national centralised database of ported numbers for mobile numbers. The investment has been classified as an associate in line with the requirements of the revised IAS 28 *Investments in Associates*. The year end of the associate, 31 December, is different to that of the Company and the impact is not material.

Absa sinking fund investment

The Absa sinking fund investment is accounted for at fair value through profit or loss. The investment is a part of the Absa cell captive which is held in the form of a 100% preference share. The cell captive is divided into two ringfenced funds. The annuity fund, which serves as the fund asset for Telkom's Post Retirement Medical Aid liability (refer to note 30) and the sinking fund. The investment above relates to the sinking fund and represents the fair value of the underlying investments made by the fund. The sinking fund is invested in highly liquid instruments and is classified as a current asset as it is management's intention to liquidate portions of the asset in the short term.

The significant decrease in the Absa sinking fund investment was due to a withdrawal of R1.5 billion that took place in the current financial year.

Investment in insurance cell captive

Telkom has entered into a cell captive agreement with Mutual and Federal, to allow Telkom's customers to insure their devices. This cell captive arrangement is accounted for in terms of IFRS 4 *Insurance Contracts*. The detailed accounting treatment has been set out in note 2.6.24.

Fair value

Refer to note 15.2 for the respective fair value disclosures related to the investments noted above.

16.3 Impairment considerations

The Company holds a 100% interest in BCX and accounts for this investment as a subsidiary in terms of IAS 27 *Separate Financial Statements*. Under IAS 36, the Group is required to test investments in subsidiaries carried at cost for impairment if there is an indicator of impairment.

Management identified an impairment indicator regarding the material investment in BCX due to the matters noted in the goodwill section and performed impairment tests as a result (refer to note 14).

Notes to the financial statements continued

for the year ended 31 March 2020

17. Lease receivables

17.1 Finance lease receivables

The Group provides voice and non-voice services to its customers, which make use of router and PABX equipment that is dedicated to specific customers. The disclosed information relates to those arrangements which were assessed to be finance leases in terms of IFRS 16.

Group	Total Rm	<1 year Rm	1 - 5 years Rm	>5 years Rm
2020				
Minimum lease payments receivable				
Lease payments receivable	293	128	165	–
Unearned finance income	(40)	(22)	(18)	–
Present value of minimum lease income (Lease receivables)	**253**	**106**	**147**	**–**
2019				
Minimum lease payments receivable				
Lease payments receivable	374	137	237	–
Unearned finance income	(56)	(29)	(27)	–
Present value of minimum lease income (Lease receivables)	318	108	210	–

Company	Total Rm	<1 year Rm	1 - 5 years Rm	>5 years Rm
2020				
Minimum lease payments receivable				
Lease payments receivable	293	128	165	–
Unearned finance income	(40)	(22)	(18)	–
Present value of minimum lease income (Lease receivables)	**253**	**106**	**147**	**–**
2019				
Minimum lease payments receivable				
Lease payments receivable	374	137	237	–
Unearned finance income	(56)	(29)	(27)	–
Present value of minimum lease income (Lease receivables)	318	108	210	–

17.2 Operating lease receivables

Group operating leases	Total Rm	<1 year Rm	1 - 5 years Rm	>5 years Rm
2020				
Rental receivable on buildings	(137)	(35)	(67)	(35)
Exchanges	(215)	(56)	(159)	–
Mast and towers	(1 506)	(531)	(974)	(1)
Total	**(1 858)**	**(622)**	**(1 200)**	**(36)**
2019				
Rental receivable on buildings	(2 193)	(691)	(1 445)	(57)
Customer premises equipment receivables	(20)	(14)	(6)	–
Total	(2 212)	(705)	(1 451)	(57)

Company operating leases	Total Rm	<1 year Rm	1 - 5 years Rm	>5 years Rm
2020				
Rental receivable on buildings	(58)	(26)	(33)	–
Exchanges	(176)	(48)	(128)	–
Total	**(234)**	**(73)**	**(161)**	**–**
2019				
Rental receivable on buildings	(2 114)	(682)	(1 419)	(13)
Customer premises equipment receivables	(20)	(14)	(6)	–
Total	(2 134)	(697)	(1 425)	(13)

18. Deferred taxation

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	675	93	575	57
Opening balance	93	313	57	317
Profit or loss and opening balance movements	879	(158)	821	(193)
Capital allowances	(1 971)	(229)	(2 017)	(229)
IFRS 9 adjustment	–	(39)	–	(39)
Provisions and other allowances*	2 176	14	2 165	(6)
Tax losses	337	81	337	81
Overprovision prior year**	328	2	336	–
Other	–	2	–	–
Common control transactions/business combinations	9	11	–	–
Other comprehensive income deferred tax impact	(297)	(67)	(303)	(67)
Other equity movements	–	5	–	–
The balance comprises:	675	93	575	57
Capital allowances	(3 091)	(1 190)	(3 068)	(1 121)
Provisions and other allowances*	3 763	1 328	3 530	1 099
Business combination	(48)	(57)	–	–
Common control transaction	(32)	(32)	–	–
Tax losses	485	148	482	146
Over provision prior year	3	3	–	–
Other comprehensive income tax impact	(405)	(107)	(369)	(67)
Deferred taxation balance is made up as follows:	675	93	575	57
Deferred taxation assets	828	255	575	57
Deferred taxation liabilities	(153)	(162)	–	–

* *The significant increase in provisions and other allowances is mainly attributable to once-off costs relating to the restructuring programme, the additional impairments due to COVID-19, the increase in provisions following the adoption of IFRS 9, implementation of IFRS 16, as well as in the prior year, the timing differences on mobile handset revenue resulted in a deferred tax liability.*

** *The overprovision for prior year deferred tax relates mainly to the reversal of the deferred tax liability recognised in prior years on one of the uncertain tax positions provided for in the current year.*

The increase in the deferred tax asset is mainly attributable to the following:

- The once-off costs that will give rise to future tax deductions;
- The prior year overprovision of tax;
- Current year tax losses and the adoption of IFRS 16 *Leases* which did not impact deferred tax in prior years due to the prospective application of the standard.

The deferred tax balance in the current year is reduced by an additional liability of R297 million (31 March 2019: R67 million) relating to the movement in other comprehensive income including actuarial gains recognised on the post-employment benefit plans, accounted for in other comprehensive income.

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for the year ended 31 March 2020

19. Inventories

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	972	1 267	640	862
Gross inventories	1 130	1 497	764	1 003
Write-down of inventories to net realisable value	(158)	(230)	(124)	(141)
Inventories consist of the following categories:	1 130	1 497	764	1 003
Installation material, maintenance material and network equipment	382	468	383	468
Merchandise	748	1 029	381	535
Write-down of inventories to net realisable value	158	230	124	141
Opening balance	230	208	141	179
Charged to selling, general and administrative expenses	63	117	10	14
Inventories written off	(135)	(95)	(27)	(52)

The Groups' inventory decreased in the current financial year largely due to working capital optimisation and merchandise sold to new customers.

Impact of COVID-19 on inventories

There was no significant impact of COVID-19 on inventories at the end of the reporting period. Inventory tests were performed and it was confirmed that there were no indications of any losses suffered due to damage or contamination that occurred. Therefore, management did not require an adjustment to the carrying value of inventory to bring it to its net realisable value.

20. Trade and other receivables and contract assets

20.1 Trade and other receivables

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	7 019	7 425	6 197	8 427
Trade receivables	4 867	5 884	4 678	5 278
Gross trade receivables	6 744	7 091	5 871	6 283
Impairment of receivables	(1 877)	(1 207)	(1 193)	(1 005)
Other receivables	1 794	854	1 394	2 668
Prepayments	358	687	125	481

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. The repayment terms of trade receivables vary between 21 days and 90 days from date of invoice. Interest charged on overdue accounts varies between a rate of prime and a rate of 18%, depending on the contract terms.

Trade receivables are recognised initially at the transaction price, unless they contain significant financing components, in which case they are recognised at fair value.

Other receivables generally arise from transactions outside the usual operating activities of the Group.

Allowance account for credit losses - trade receivables	1 877	1 207	1 193	1 005
Opening balance as previously reported	1 207	827	1 005	602
Adoption of IFRS 9 *Financial Instruments* - Adjustment to allowance account measurement	–	(61)	–	(48)
Adoption of IFRS 9 *Financial Instruments* - Change to write-off criteria	–	559	–	559
Charged to statement of profit or loss and other comprehensive income	795	184	418	208
Enterprise loss allowance movement	–	–	(18)	(105)
Receivables written off	(125)	(302)	(212)	(211)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period ranging between 90 days past due and 180 days past due, based on the customer segment.

Refer to note 15.3 for detailed credit risk analysis.

20.2 Contract assets

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Contract assets	1 979	2 161	1 850	2 161
Gross contract assets	2 411	2 331	2 281	2 331
Impairment of contract assets	(432)	(170)	(432)	(170)
Allowance account for credit losses - contract assets	432	170	432	170
Opening balance as previously reported	170	95	170	95
Charged to statement of profit or loss and other comprehensive income	345	200	345	200
Contract assets written off	(83)	(125)	(83)	(125)

Contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period ranging between 90 days past due and 180 days past due, based on the customer segment.

Refer to note 15.3 for detailed credit risk analysis.

Significant changes in contract assets

The decrease in the net contract assets is due to an increased impairment amount recognised in the current financial year.

21. Other current assets

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Other current assets	536	357	536	357
Contract costs capitalised	299	226	299	226
Ongoing commission capitalised assets	237	131	237	131
Contract cost capitalised	299	226	299	226
Opening balance	226	149	226	149
Contract costs capitalised during the year	323	255	323	255
Amortisation recognised as cost of providing services during the year	(250)	(178)	(250)	(178)

Contract costs capitalised relate to commission and incentive costs paid to dealers and sales staff, which are considered incremental to the acquisition and fulfilment of the contract. The contract costs capitalised are amortised as an expense over the term of the contract to which the commission relates. Management expects that the full cost will be recovered through the revenue recognised on these contracts and has consequently not recognised any impairment on the contract costs capitalised. Contract costs capitalised have increased as the Group incurred more costs to obtain contracts.

Ongoing commission capitalised assets				
Contract asset - ongoing commission	237	131	237	131
Ongoing commission (included in trade and other payables)	(237)	(131)	(237)	(131)
Opening balance	131	98	131	98
Expense amortised in the current year	(114)	(79)	(114)	(79)
New contracts entered into	286	143	286	143
Contracts cancelled during the year	(66)	(31)	(66)	(31)
Closing balance	237	131	237	131

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for the year ended 31 March 2020

22. Other financial assets and liabilities

22.1 Other financial assets

	Group		Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm	**31 March 2020 Rm**	31 March 2019 Rm
Non-current other financial assets	192	133	–	–
Other financial assets at amortised cost				
Asset finance receivables	192	133	–	–
Current other financial assets	759	388	507	229
Other financial assets at amortised cost				
Asset finance receivables	226	157	–	–
Other financial assets at fair value through profit or loss				
Derivative instruments used for hedging	533	231	507	229
Forward exchange contracts	533	161	507	159
Firm commitments	–	70	–	70

22.2 Other financial liabilities

	Group		Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm	**31 March 2020 Rm**	31 March 2019 Rm
Non–current other financial liabilities	(62)	(79)	–	–
Other financial liabilities at amortised cost				
Asset finance payables	(62)	(79)	–	–
Current other financial liabilities	(919)	(423)	(3 426)	(3 037)
Other financial liabilities at amortised cost	(246)	(143)	(2 753)	(2 757)
Asset finance payables	(57)	(36)	–	–
Financial guarantees	(13)	–	–	–
Vendor financing	(176)	(107)	–	–
BCX Treasury fund	–	–	(2 753)	(2 757)
Other financial liabilities at fair value through profit or loss				
Derivative instruments used for hedging	(673)	(280)	(673)	(280)
Forward exchange contracts	–	(13)	–	(13)
Firm commitments	(530)	(237)	(530)	(237)
Interest rate swaps	(143)	(30)	(143)	(30)

The South African Rand depreciated sharply in March 2020 against the USD. This resulted in significant gains in the fair value of FEC's and corresponding losses in the firm commitments.

The losses in the interest rate swaps is due to the deterioration of the South African economy and the impact of the lower interest rate environment. The Group pays the fixed interest leg of the swap and receives the floating interest leg. The current fixed rates are higher than the floating rate. The interest rate swaps are used to hedge the debt which is predominately floating rate debt.

Financial guarantee

The sale of Business Connexion ICT Services ("BCX Nigeria"), previously a wholly owned subsidiary of Business Connexion International Group Holdings, was concluded on 31 January 2020. BCX has, in the prior years, provided Stanbic Bank with a financial guarantee in respect of BCX Nigeria's banking facility with Stanbic Bank to the value of USD 3 million. As part of the disposal agreement, BCX Nigeria needs to contractually reduce BCX's guaranteed exposure by an average amount of USD 375 000 per quarter, starting on 31 March 2020, and then quarterly thereafter. The guarantee period ends 31 December 2022.

The financial guarantee has been valued and a liability amounting to R13 million has been recorded. The maximum exposure as at 31 March 2020 is R46 million. A contingent liability has been disclosed in relation to the balance of the financial guarantee obligation not provided for. Refer to note 38.

Derivatives

Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Derivatives that do not meet the hedge accounting requirements:

The Group uses forward exchange contracts and interest rate swaps to economically hedge its foreign exchange and interest rate exposures. This relates to the "Other" category of forward exchange contracts as referred to in note 15.5. These derivative instruments are measured at fair value through profit or loss.

Derivatives that meet the hedge accounting requirements:

The Group uses forward exchange contracts to hedge its exposure to changes attributable to movements in the spot exchange rate of its firm commitments. These derivatives are designated as fair value hedges.

Fair value hedge

The foreign forward exchange contracts, designated as fair value hedges, are being used to hedge the exposure to changes attributable to movement in the spot exchange rate of its firm commitments.

The Group implements fair value hedge accounting where the hedging relationship meets the requirements of IAS 39.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period end through the assessment of the hedged items and hedging instrument to determine whether there is still an economic relationship between the two.

The critical terms of the hedging instrument entered into exactly match the terms of the hedged item. As such, the economic relationship and hedge effectiveness are based on the qualitative factors and the use of a hypothetical derivative where appropriate.

Group

Derivatives that meet the hedge accounting requirements:	Nominal amount of the hedging instrument Rm	Carrying amount of the hedging instrument Assets Rm	Carrying amount of the hedging instrument Liabilities Rm	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge effectiveness Rm
2020					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	**3 621**	**533**	**–**	**Other financial assets and other financial liabilities**	**619**
2019					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	6 223	161	(13)	Other financial assets and other financial liabilities	509

Company

	Nominal amount of the hedging instrument Rm	Carrying amount of the hedging instrument Assets Rm	Carrying amount of the hedging instrument Liabilities Rm	Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge effectiveness Rm
2020					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	**3 344**	**507**	**–**	**Other financial assets and other financial liabilities**	**619**
2019					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	5 799	159	(13)	Other financial assets and other financial liabilities	509

A decrease in fair value of the forward exchange contracts, designated as fair value hedges, of R619 million (31 March 2019: R509 million) has been recognised in finance charges and fair value movements and offset with a similar gain on the hedged items (property, plant and equipment and inventory). The ineffective portion recognised in the current financial year was immaterial.

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for the year ended 31 March 2020

23. Net cash and cash equivalents

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Cash disclosed as current assets	4 728	1 428	3 233	575
Cash and bank balances	2 208	1 308	713	573
Short-term deposits	2 520	120	2 520	2
Credit facilities utilised	(2)	–	–	–
Net cash and cash equivalents	4 726	1 428	3 233	575
Undrawn borrowing facilities	6 634	6 402	5 750	6 050

The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 31 March 2020, R5.5 billion (31 March 2019: R5.3 billion) of these undrawn facilities were committed.

Short-term deposits

Short-term deposits are made mostly for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Borrowing powers

Telkom's directors may mortgage or encumber Telkom's property, or any part thereof, and issue debentures, whether secured or unsecured, whether outright or as security for debt, liability or obligation of Telkom or any third party. For this purpose, the borrowing powers of Telkom are unlimited, but are subject to the restrictive financial covenants as well as specific restrictive clauses in the current funding arrangements.

24. Share capital

	Group		Company	
Authorised and issued share capital is made up as follows:	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Authorised				
1 000 000 000 ordinary shares of R10 each	10 000	10 000	10 000	10 000
Issued				
504 975 439 (31 March 2019: 504 975 439) ordinary shares of R10 each	5 050	5 050	5 050	5 050
6 164 800 (31 March 2019: 6 164 800) shares at no consideration	–	–	–	–

The following table illustrates the movement within the number of shares issued:	Number of shares		Number of shares	
Shares in issue at the beginning of the year	511 140 239	511 140 239	511 140 239	511 140 239
Shares repurchased and cancelled during the year	–	–	–	–
Shares in issue at the end of the year	511 140 239	511 140 239	511 140 239	511 140 239

There is only one class of shares, ordinary shares. Each share has the same right to receive dividends and the repayment of capital and represents one vote at shareholders' meetings of Telkom SA SOC Limited. Other than voting rights, there are no other preferences attached to the shares.

The unissued shares are under the control of the directors until the next annual general meeting. The directors have been given the authority by the shareholders to buy back Telkom's own shares up to a limit of 10% of the current issued share capital.

Capital management

Refer to note 15.7 for detailed capital management disclosure.

25. Share-based compensation reserve

Telkom's shareholders approved the Telkom Group share plan at the September 2013 Annual General Meeting. The scheme covers certain operational and management employees and is aimed at giving shares to Group employees, at a Rnil exercise price, at the end of the vesting period. Although the number of shares awarded to employees was communicated at the grant date, the ultimate number of shares that vest may differ based on certain performance conditions being met. Refer to note 30.

	Group		Company	
The movement within the share-based compensation reserve is:	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Balance at the beginning of the year	512	377	487	362
Net increase/(decrease) in equity	323	135	323	125
Employee cost (refer to note 6)	328	135	323	125
Vesting of shares	(5)	–	–	–
Balance at the end of the year	835	512	810	487

The increase in share-based payment reserve relates to the accelerated vesting of shares due to the voluntary severence, retirement and retrenchment packages in the current year.

Impact of COVID-19 on the share-based compensation reserve

There was no significant impact of COVID-19 at the end of the reporting period.

26. Non-distributable reserves

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	1 642	1 621	989	1 033
Opening balance	1 621	1 579	1 033	1 011
Movement during the year	21	42	(44)	22
Increase/(decrease) in foreign currency translation reserve	65	23	–	–
Increase in Treasury shares for Telkom Company share plan	(159)	(47)	(159)	(47)
Escrow shares realised for settlement to employees	(14)	–	(14)	–
Sale of Treasury shares to BCX	–	–	–	3
Revaluation of the sinking fund investment reserve	88	66	88	66
Insurance service result	41	–	41	–

The fair value gains from the sinking fund investment are recognised in profit or loss. The fair value gains are transferred to the non-distributable reserves until the date that the investment and the corresponding fair value gains are realised. On this date, the fair value gains are transferred back to retained earnings.

The reserve also represents amounts paid by Telkom to subsidiary, Rossal No 65 Proprietary Limited, for the acquisition of Telkom's shares to be utilised in terms of the Telkom Share Plan.

	2020		2019	
Fair value of ordinary shares in Telkom are held as follows:	Number of shares	Rm	Number of shares	Rm
Treasury shares in Escrow	12 414 814	231	13 084 228	954
Rossal No 65 Proprietary Limited	–	–	–	–
Total	**12 414 814**	**231**	**13 084 228**	**954**

All shares will be allocated to employees as part of the share plan.

Impact of COVID-19 on non-distributable reserves

There was no significant impact of COVID-19 at the end of the reporting period.

Notes to the financial statements continued

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27. Interest-bearing debt

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Total interest-bearing debt	12 005	10 241	12 005	10 194
Non-current interest-bearing debt	10 105	4 840	10 105	4 824
Local debt	9 184	4 700	9 184	4 700
Foreign debt	921	123	921	124
Finance leases*	–	17	–	–
Current portion of interest-bearing debt	1 900	5 401	1 900	5 370
Local debt	1 900	5 370	1 900	5 370
Bond	250	2 320	250	2 320
Commercial paper bills	600	1 200	600	1 200
Other loans**	1 050	1 850	1 050	1 850
Foreign debt	–	5	–	–
Finance leases*	–	26	–	–

* *Finance lease liabilities were included in interest-bearing debt until 31 March 2019, but were reclassified to lease liabilities on 1 April 2019 on adoption of IFRS 16.*
** *Other loans relate to loans from Absa, Standard Bank and Future Growth. These are local bank loans.*

Total interest-bearing debt is made up as follows:	12 005	10 241	12 005	10 194
(a) Local debt	11 084	10 070	11 084	10 070
Telkom debt instruments				
Name, maturity, rate p.a., nominal value	11 084	10 070	11 084	10 070
TL20, 2020, 15% (fixed) (2019:15%), R2 500 million (2019: R2 500 million)	–	2 320	–	2 320
TL22, 2021, 7.938%	250	250	250	250
TL23, 2022, 8.182%	592	592	592	592
TL24, 2022, 9.04% (fixed)	423	423	423	423
TL25, 2024, 9.57% (fixed)	835	835	835	835
TL26, 2024, 8.542%	400	400	400	400
TL27, 2023, 8.108%	500	500	500	500
TL28, 2025, 9.28% (fixed)	1 000	500	1 000	500
TL29, 2025, 8.398%	500	500	500	500
TL30, 2024, 7.927%	877	–	877	–
TL31, 2026, 8.137%	623	–	623	–
TL32, 2027, 8.208%	1 000	–	1 000	–
Commercial paper bills, 2019, 7.75%	–	400	–	400
Commercial paper bills, 2020, 7.242%	600	800	600	800
Export Credit Agreement (ECA) loan, 2022 - 2030, 9.3%	773	–	773	–
Export Credit Risk Agreement - insurance premium (unamortised cost)	(104)	–	(104)	–
Loans, 2020 - 2026, 6.1% - 8.417%	2 815	–	2 815	–
Loans, 2019 - 2021, 8.00% - 9.33%	–	2550	–	2550
Total interest-bearing debt is made up of R12 005 million debt at amortised cost (31 March 2019: R10 241 million debt at amortised cost). Finance costs accrued on debt are included in trade and other payables.				
Other loans are repayable quarterly and have maturities ranging from 2020 to 2026.				
Commercial paper bills are repayable at maturity with twelve months settlement periods.				
All other loans, bonds and commercial paper bills are priced based on the three-month JIBAR plus a margin except as indicated above.				

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	**31 March 2020 Rm**	31 March 2019 Rm
(b) Foreign debt	921	128	921	124
Telkom	921	124	921	124
Maturity, rate p.a., nominal value				
ECA ZAR loan: 2022 - 2030, 9.3%	772	–	772	–
Euro: 2022 - 2025, 0.14% (2019: 0.14%), €7.6 million (2019: €7.6 million)	149	124	149	124
BCX	–	4	–	–
Stanbic Tanzania	–	4	–	–
US Dollar denominated loan, repayable over 36 months at an interest rate of 9%.				
(c) Finance leases	–	43	–	–
BCX various leases	–	39	–	–
Yellow Pages various leases	–	4	–	–
The amounts are repayable within five years at an interest rate linked to the prime rate.				
Included in non-current and current debt is:				
Debt guaranteed by the South African Government	149	124	149	124

The Company may issue or re-issue locally registered debt instruments in terms of the Post Office Amendment Act 85 of 1991. The borrowing powers of the Company are set out as per note 23.

Interest-bearing debt

Interest-bearing debt is at amortised cost and finance cost accrued on debt are included in trade and other payables. The debts are unsecured but limits the Group's ability to create encumbrances on revenue or assets and secure any indebtedness without securing the outstanding debts equally and rateably with such indebtedness.

Debt covenants applicable to Telkom syndicated loans require the following for the Group:

- Net debt to EBITDA of at least 3:1
- EBITDA to finance charges of at least 3.5:1

During the year, no non-compliance with the requirements of the covenants were noted.

Repayments/refinancing of the current portion of interest-bearing debt

The repayment of the current portion of interest-bearing debt of R1 900 million (31 March 2019: R5 370 million) for Company and R1 900 million (31 March 2019: R5 401 million) for Group as at 31 March 2020 is expected to be repaid from available cash, operational cash flow or the issue of new debt instruments.

Management believes that sufficient funding facilities will be available at the date of repayment.

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28. Provisions

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Non-current provisions	343	1 193	330	1 179
Non-current employee related provisions	338	1 186	316	1 164
Subsidiary defined benefit plans (refer to note 30 for the reconciliation of the opening to closing balance)	22	22	–	–
Telephone rebates (refer to note 30 for the reconciliation of the opening to closing balance)	316	412	316	412
Telkom Retirement Fund (refer to note 30 for the reconciliation of the opening to closing balance)	–	752	–	752
Non-current non-employee related provisions				
Other	5	7	14	15
Current provisions	1 892	1 316	1 589	890
Current portion of employee related provisions	1 752	1 175	1 554	860
Annual leave	479	466	306	302
Balance at the beginning of the year	466	577	302	388
Charged to employee expenses	36	(89)	4	(91)
Leave paid/utilised	(23)	(18)	–	5
Telephone rebates	39	39	39	39
Bonus, termination packages and other benefits	1 234	670	1 209	519
Balance at the beginning of the year	670	707	519	642
Charged to employee expenses	1 636	703	1 321	533
Payments made	(1 072)	(740)	(631)	(656)
Current portion of non-employee related provisions				
Other	140	141	35	30

Annual leave

In terms of the Group's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 15-30 days (31 March 2019: 15-30 days) which must be taken within a 12 -18 month (31 March 2019: 6 -9 month) leave cycle. The leave cycle is reviewed annually and is in accordance with legislation.

Bonus

The bonus scheme consists of performance bonuses which are dependent on the achievement of certain financial and non-financial targets. The bonus is payable annually to all qualifying employees after the Company's results have been made public, with a 14th cheque payable for a certain Group of employees.

Voluntary Early Retirement Package (VERP)/Voluntary Severance Package (VSP) and retrenchment provision

During the year under review, the Group initiated a voluntary severance and retrenchment process. An expense relating to the process of R1 186 million was recognised in the year ending 31 March 2020.

Non-employee related provisions

Other provisions relate to the ICASA licence fee provision, a restoration provision, provisions for legal matters as disclosed in the contingencies note (refer to note 38) and contingent consideration relating to prior year business combinations.

29. Deferred revenue

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Deferred revenue	2 150	1 862	1 991	1 804
Non-current deferred revenue	396	466	375	466
Current portion of deferred revenue	1 754	1 396	1 616	1 338

The deferred revenue balance consists primarily of deferred installation fees and revenue billed in advance due to Telkom's various billing cycles.

Deferred revenue recognised at the beginning of the year

At the end of the prior year, R1 396 million (31 March 2019: R1 597 million) for Group and R1 338 million (31 March 2019: R1 510 million) for Company, was recognised as a current liability. The total revenue recognised in the current year which related to carried forward deferred revenue associated to installation fee revenue and revenue billed in advance is disclosed in the table below. The closing balance represents new contracts entered into where the performance obligations have not yet been met at year end. The amounts recognised as a contract liability will generally be utilised within the next reporting period.

Revenue recognised in relation to contract liabilities				
Deferred revenue	1 857	1 493	1 679	1 361

30. Employee benefits

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Non-current assets	992	729	992	729
Telkom Pension Fund asset	15	23	15	23
Post-retirement medical aid recognition of net plan asset	976	706	976	706

The increase in employee benefits, specifically the plan assets, is largely due to the actuarial gain. The actuarial gain is due to the change in financial assumptions (an increase in the discount rate and inflation).

Defined benefit plan actuarial gains	1 080	1 352	1 080	1 346
Telkom Pension fund net actuarial Loss	(8)	1	(8)	1
Telkom retirement fund net actuarial gain	813	1 336	813	1 336
Medical aid net actuarial gain	170	12	170	6
Telephone rebate net actuarial gain	105	3	105	3

The Group provides benefits for its permanent employees through the Telkom Pension Fund and the Telkom Retirement Fund. Membership to one of the funds is compulsory. In addition, certain retired employees receive medical aid benefits and a telephone rebate. The liabilities for all of the benefits are actuarially determined in accordance with accounting requirements each year. In addition, statutory funding valuations for the retirement and pension funds are performed at intervals not exceeding three years.

Actuarial valuations were performed by qualified actuaries to determine the benefit obligation, plan asset and service costs for the pension and retirement funds for each of the financial periods presented.

General information applicable to all funds

The weighted average duration of all the post-employment benefit obligations is 10 years (31 March 2019: 10.4 years).

The next full valuations for all funds will be performed at 31 March 2021.

The Telkom Pension Fund

The Telkom Pension Fund is a defined benefit fund that was created in terms of the Post Office Amendment Act 85 of 1991.

The latest actuarial valuation performed at 31 March 2020 indicates that the pension fund is in a surplus position of R93 million (31 March 2019: R99 million). The recognition of the surplus is limited due to the application of the asset limitation criteria in IAS 19 *Employee Benefits*. The Telkom Pension Fund is closed to new members. The pension plan exposes the Group to actuarial risks, such as longevity, currency, interest rate and market risk.

Notes to the financial statements continued

for the year ended 31 March 2020

30. Employee benefits continued

The funded status of the Telkom Pension Fund is disclosed below.

	Group		Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm	31 March 2020 Rm	Restated 31 March 2019 Rm
The Telkom Pension Fund				
The net periodic pension costs include the following components:				
Interest cost on projected benefit obligations	5	8	5	8
Service cost on projected benefit obligations	1	2	1	2
Interest on plan assets after asset restriction	(7)	(10)	(7)	(10)
Curtailment	–	2	–	2
Net periodic pension (income)/expense recognised in profit or loss	**(1)**	**2**	**(1)**	**2**
The net periodic other comprehensive income includes the following components:				
Actuarial gain from financial assumption changes	(5)	(5)	(5)	(5)
Actuarial gain due to demographic assumption changes	(9)	–	(9)	–
Asset ceiling in terms of IAS 19.64	22	4	22	4
Net periodic pension expense/(income) recognised in other comprehensive income	**8**	**(1)**	**8**	**(1)**
Cumulative actuarial gain	(73)	(81)	(73)	(81)
The status of the pension plan obligation is as follows:				
At beginning of the year	53	89	53	89
Interest cost	5	8	5	8
Current service cost	1	2	1	2
Employee contributions	1	1	1	1
Benefits paid	–	(32)	–	(32)
Actuarial gain	(7)	(4)	(7)	(4)
VERP release of liability	–	(11)	–	(11)
Benefit obligation at end of the year	**53**	**53**	**53**	**53**
Plan assets at fair value:				
At beginning of the year	152	202	152	202
Interest on plan assets	15	19	15	19
Benefits paid	–	(32)	–	(32)
Contributions	1	1	1	1
VERP payments made	–	(12)	–	(12)
Actuarial loss	(22)	(26)	(22)	(26)
Plan assets at end of the year	**145**	**152**	**145**	**152**
Present value of funded obligation	53	53	53	53
Fair value of plan assets	(145)	(152)	(145)	(152)
Fund surplus	(93)	(99)	(93)	(99)
Asset ceiling in terms of IAS 19.64	78	76	78	76
Recognised net asset	**(15)**	**(23)**	**(15)**	**(23)**
Interest on plan assets after asset restriction	10	11	10	11
Actuarial loss on plan assets	(22)	(27)	(22)	(27)
Actual return on plan assets	(12)	(16)	(12)	(16)
Plan assets balance comprises of:				
Cash and cash equivalents	7	8	7	8
Equity securities	66	74	66	74
Property	4	4	4	4
Bonds	23	22	23	22
Commodities	2	2	2	2
Foreign investments	44	42	44	42
Total	**145**	**152**	**145**	**152**

Funding arrangements

The Telkom Pension Fund investment strategy has been implemented through the appointment of several asset managers with global balanced mandates. Within these mandates the managers are responsible for and have sole discretion of determining the asset allocation, i.e. the mix of the various asset classes used based on their investment views. In addition, a portion was allocated to Africa Equity, and SA Cash asset classes were added to further diversify the portfolio and to provide return enhancement. The Telkom Pension Fund's total asset allocation is thus derived by combining the asset managers' portfolios with the Africa Equity and additional cash allocation.

There is no material investment in Telkom shares included in the Telkom pension fund asset.

Principal actuarial assumptions were as follows:

Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	**31 March 2020 Rm**	31 March 2019 Rm
Males over 65	**16.7**	16.6	**16.7**	16.6
Females over 65	**20.8**	20.7	**20.8**	20.7
Discount rate (%)	**12.1**	9.7	**12.1**	9.7
Interest on plan assets (%)	**12.1**	9.7	**12.1**	9.7
Salary inflation rate (%)	**7.4**	6.6	**7.4**	6.6
Pension increase allowance (%)	**5.5**	5.0	**5.5**	5.0

The overall long-term expected interest on assets is 12.10%. This is based on the IAS 19 net interest requirement.

The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.

Funding level per statutory actuarial valuation (%)	**100**	100	**100**	100
The number of employees registered under the Telkom Pension Fund	**22**	22	**22**	22
The fund portfolio consists of the following percentages:				
Cash (%)	**5**	6	**5**	6
Equities (%)	**45**	49	**45**	49
Property (%)	**3**	2	**3**	2
Bonds (%)	**16**	15	**16**	15
Commodities (%)	**1**	1	**1**	1
Foreign Investments (%)	**30**	27	**30**	27
Total	**100**	**100**	**100**	**100**

The total estimated contributions to be paid to the pension fund by the employer for the year ending 31 March 2021 is R0.5 million.

Notes to the financial statements continued

for the year ended 31 March 2020

30. Employee benefits continued

The Telkom Retirement Fund

The Telkom Retirement Fund was established on 1 July 1995 as a hybrid defined benefit and defined contribution plan. Existing employees were given the option to either remain in the Telkom Pension Fund or to be transferred to the Telkom Retirement Fund. All pensioners of the Telkom Pension Fund and employees who retired after 1 July 1995 were transferred to the Telkom Retirement Fund. Upon transfer, the Government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to 1 July 1995 further transfers of existing employees occurred. As from 1 September 2009 all new appointments are on a defined contribution scheme. These members would be required to purchase their pensions from an insurance Company.

The pensioner pool of the Telkom Retirement Fund only consists of pensioners and is funded through a liability driven investment strategy (LDI). Pensioner increases are subject to affordability targeting 100% of CPI.

Telkom guarantees any actuarial shortfall of the pensioner pool in the retirement fund. This liability is initially funded through assets of the retirement fund.

The Telkom Retirement Fund is governed by the Pension Funds Act 24 of 1956. In terms of section 37A of this Act, the pension benefits payable to the pensioners cannot be reduced. Therefore, if the present value of the funded obligation were to exceed the fair value of plan assets, Telkom would be required to fund the statutory deficit.

The retirement fund exposes the Group to actuarial risks, such as longevity, currency, interest rate and market risk.

The funded status of the Telkom Retirement Fund is disclosed below:	Group 31 March 2020 Rm	Group 31 March 2019 Rm	Company 31 March 2020 Rm	Company 31 March 2019 Rm
The Telkom Retirement Fund				
The net periodic retirement costs include the following components:				
Interest cost on projected benefit obligations	3 620	3 641	3 620	3 641
Interest on plan assets	(3 589)	(3 562)	(3 589)	(3 562)
Service cost on projected benefit obligations	584	567	584	567
Curtailment	8	8	8	8
Net periodic pension expense recognised in profit or loss	**623**	**654**	**623**	**654**
The net periodic other comprehensive income includes the following components:				
Actuarial gain due to financial assumptions changes	2 851	3 090	2 851	3 090
Actuarial loss due to experience adjustments	(1 963)	(1 364)	(1 963)	(1 364)
Actuarial loss due to demographic assumptions changes	(75)	(391)	(75)	(391)
Net periodic pension income recognised in other comprehensive income	**813**	**1 335**	**813**	**1 335**
Cumulative actuarial gain/(loss)	254	(559)	254	(559)
Benefit obligation:				
At the beginning of the year	38 218	41 621	38 218	41 621
Interest cost	3 620	3 641	3 620	3 641
Current service cost	584	567	584	567
Employee contributions	306	289	306	289
Benefits paid	(1 516)	(2 342)	(1 516)	(2 342)
Transfers in	9	44	9	44
Curtailment gain	(124)	(1 001)	(124)	(1 001)
Actuarial loss/(gain)	(6 125)	(4 601)	(6 125)	(4 601)
Benefit obligation at the end of the year for defined benefit plan	**34 972**	**38 218**	**34 972**	**38 218**
Plan assets:				
At the beginning of the year	37 466	39 655	37 466	39 655
Interest on plan assets	3 589	3 562	3 589	3 562
Employer contributions	562	533	562	533
Employee contributions	306	289	306	289
Benefits paid	(1 516)	(2 342)	(1 516)	(2 342)
Curtailment loss	(132)	(1 009)	(132)	(1 009)
Transfers in	9	44	9	44
Actuarial loss	(4 864)	(3 266)	(4 864)	(3 266)
Plan assets at the end of the year	**35 420**	**37 466**	**35 420**	**37 466**
Present value of funded obligation	34 972	38 218	34 972	38 218
Fair value of plan assets	35 420	37 466	35 420	37 466
Fund surplus	(448)	752	(448)	752
Asset ceiling in terms of IAS 19.64	448	–	448	–
Net liability	**–**	**752**	**–**	**752**
Interest on plan assets	3 589	3 562	3 589	3 562
Actuarial loss on plan assets	(4 864)	(3 266)	(4 864)	(3 266)
Actual return on plan assets	**(1 276)**	**296**	**(1 276)**	**296**
Plan asset balance comprises:				
Equities	4 972	4 519	4 972	4 519
Property	1 376	1 618	1 376	1 618
Bonds	12 460	14 593	12 460	14 593
Africa	3 322	4 141	3 322	4 141
Cash	3 424	3 325	3 424	3 325
Foreign investments	9 863	9 268	9 863	9 268
Total	**35 418**	**37 464**	**35 418**	**37 464**

Notes to the financial statements continued

for the year ended 31 March 2020

30. Employee benefits continued

Funding arrangements

The Telkom Retirement Fund Pensioner portfolio's strategic asset allocation (SAA) is determined by an Asset Liability Model (ALM) based on the fund's unique liabilities, as determined by its member data and fund rules. The SAA is a reflection of the fund's targeted post retirement interest rate (PRI), and the investment strategy is built around the target of providing consistent annual pension increases of between 70% to 100% of CPI.

	Group		Company	
Included in the fair value of plan assets is:	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Telkom shares	97	23	97	23
The Telkom Retirement Fund invests its funds in South Africa and internationally. Twelve fund managers invest in South Africa and five of these managers specialise in trades with bonds on behalf of the Retirement Fund.				
Principal actuarial assumptions were as follows:				
Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:				
Males over 65	16.7	16.6	16.7	16.6
Females over 65	20.8	20.7	20.8	20.7
Discount rate (%)	12.1	9.7	12.1	9.7
Interest on plan assets (%)	12.1	9.7	12.1	9.7
Pension increase allowance (%)	5.3	5.6	5.3	5.6
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
Funding level per statutory actuarial valuation (%)	100	100	100	100
The number of pensioners registered under the Telkom Retirement Fund	12 683	12 458	12 683	12 458
The number of in-service employees entitled to retire in the Telkom Retirement Fund	12 301	11 956	12 301	11 956
The fund portfolio consists of the following percentages:				
Equities (%)	14	12	14	12
Property (%)	4	4	4	4
Bonds (%)	35	39	35	39
Africa (%)	9	11	9	11
Cash (%)	10	9	10	9
Foreign investments (%)	28	25	28	25
Total	100	100	100	100

The total estimated contributions to be paid to the Telkom Retirement Fund by the employer for the year ending 31 March 2021 is R584 million.

Medical benefits

Telkom makes certain contributions to medical funds in respect of current and retired employees. The scheme is a defined benefit plan. The expense in respect of current employees' medical aid is disclosed in note 6.1. The amounts due in respect of post-retirement medical benefits to current and retired employees have been actuarially determined and provided for as set out in note 28. Telkom has terminated future post-retirement medical benefits in respect of employees joining after 1 July 2000.

There are three major categories of members entitled to the post-retirement medical aid: pensioners who retired before 1994 ('Pre-94'); those who retired after 2013; and the in-service members. The pensioners retiring post 2013 and the in-service members' liability are subject to a Rand cap, which increases as per the Board's approval.

Eligible employees must be employed by Telkom until retirement age to qualify for the post-retirement medical aid benefit. The most recent actuarial valuation of the benefit was performed as at 31 March 2020.

Telkom has allocated certain investments to fund this liability as set out in note 16.2. The annuity policy of the sinking fund investment is the medical plan asset. The Group is entitled to a refund of the full surplus in the annuity policy once all the beneficiaries have been paid. As such, the Group has recognised the full asset.

The medical aid plan exposes the Group to actuarial risks, such as longevity, currency, interest rate and market risk.

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Medical aid				
Benefit obligation:				
At the beginning of the year	1 984	2 240	1 962	2 212
Interest cost	179	192	179	192
Service cost	2	2	2	2
Actuarial gain	(243)	(237)	(243)	(231)
Curtailment loss	(2)	1	(2)	1
Buy-outs paid by Telkom	–	(1)	–	(1)
Benefits paid from plan assets	(188)	(180)	(188)	(180)
Contributions paid by Telkom	(30)	(33)	(30)	(33)
Benefit obligation at the end of the year	**1 702**	**1 984**	**1 680**	**1 962**
Plan assets at fair value:				
At the beginning of the year	2 668	2 817	2 668	2 817
Interest on plan assets	249	256	249	256
Benefits paid from plan assets	(188)	(180)	(188)	(180)
Actuarial loss	(73)	(225)	(73)	(225)
Plan assets at the end of the year	**2 656**	**2 668**	**2 656**	**2 668**
Present value of funded obligation	1 702	1 984	1 680	1 962
Fair value of plan assets	(2 656)	(2 668)	(2 656)	(2 668)
	(954)	**(684)**	**(976)**	**(706)**
Liability as disclosed in the statement of financial position (refer to note 28)	23	22	–	–
Asset as disclosed in the statement of financial position	(977)	(706)	(976)	(706)
The net periodic other comprehensive income includes the following components:				
Actuarial gain due to financial assumptions changes	206	169	206	169
Actuarial loss due to experience adjustments	(36)	(182)	(36)	(182)
Actuarial gain due to demographic assumptions changes	–	25	–	19
Net periodic pension income recognised in other comprehensive income	**170**	**12**	**170**	**6**
Cumulative actuarial loss	(1 799)	(1 969)	(1 805)	(1 975)
Plan assets at fair value:				
Interest on plan assets	249	256	249	256
Actuarial loss on plan assets	(73)	(225)	(73)	(225)
Actual return on plan assets	**176**	**31**	**176**	**31**
Plan asset balance comprises:				
Cash and cash equivalents	267	285	267	285
Equity securities	812	929	812	929
Bonds	540	530	540	530
Foreign investments	1 036	924	1 036	924
Total	**2 655**	**2 668**	**2 655**	**2 668**

All equity securities and government bonds have quoted prices in active markets.

Notes to the financial statements continued

for the year ended 31 March 2020

30. Employee benefits continued

Funding arrangements

The general funding arrangements from the plan assets is to maximise long-term capital growth and long-term total return on Telkom's portfolio. The portfolios are managed as a segregated portfolio which includes international investments. The investment objective is to provide an absolute return, measured over a 36-month period, in excess of CPI-X plus 5% per annum. The funding arrangements of the plan assets is driven by designated asset managers to manage Telkom's portfolios by applying a flexible approach, which includes holding equities, property, fixed income or money market assets as part of the investment strategy, in variable weightings, at any point in time.

	Group		Company	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Included in the fair value of plan assets is:				
Telkom shares	0.3	0.4	0.3	0.4
Principal actuarial assumptions were as follows:				
Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:				
Males over 65	16.7	16.6	16.7	16.6
Females over 65	20.8	20.7	20.8	20.7
Discount rate (%)	12.1	9.7	12.1	9.7
Interest on plan assets (%)	12.1	9.7	12.1	9.7
Medical inflation rate (%)	8.4	7.6	8.4	7.6
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
Contractual retirement age	65	65	65	65
Average retirement age	55	55	55	55
Number of in-service members	439	679	439	679
Number of pensioners	3 557	3 723	3 557	3 723

	Group		Company	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
The fund portfolio consists of the following percentages:				
Cash and money market investments (%)	10	10	10	10
Equities (%)	31	35	31	35
Bonds (%)	20	20	20	20
Foreign investments (%)	39	35	39	35
Total	**100**	**100**	**100**	**100**

The total estimated contributions to be paid to the post-retirement medical aid by the employer for the year ending 31 March 2021 is Rnil as the liability is currently significantly overfunded.

Telephone rebates

Telkom provides telephone rebates to its pensioners who joined prior to 1 August 2009. The most recent actuarial valuation was performed as at 31 March 2020. Eligible employees must be employed by Telkom until retirement age to qualify for the telephone rebates. The scheme is a defined benefit plan.

The telephone rebate benefit exposes the Group to actuarial risks, such as longevity, currency, interest rate and market risk.

The status of the telephone rebate liability is disclosed below:

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	**31 March 2020 Rm**	31 March 2019 Rm
Benefit obligation:				
At the beginning of the year	451	441	451	441
Current service cost	3	3	3	3
Interest cost	42	40	42	40
Actuarial (gain)/loss	(105)	(3)	(105)	(3)
Curtailment loss	(10)	(1)	(10)	(1)
Past service cost	4	–	4	–
Benefits paid	(30)	(29)	(30)	(29)
Liability as disclosed in the statement of financial position (refer to note 28)	**355**	**451**	**355**	**451**
The net periodic other comprehensive income includes the following components:				
Actuarial gain due to financial assumptions changes	69	34	69	34
Actuarial loss due to experience adjustments	–	(46)	–	(46)
Actuarial gain due to demographic assumptions changes	36	15	36	15
Net periodic pension income recognised in other comprehensive income	**105**	**3**	**105**	**3**
Cumulative actuarial gain/(loss)	104	(1)	104	(1)
Principal actuarial assumptions were as follows:				
Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:				
Males over 65	16.7	16.6	16.7	16.6
Females over 65	20.8	20.7	20.8	20.7
Discount rate (%)	12.1	9.7	12.1	9.7
Contractual retirement	65	65	65	65
Average retirement age	55	55	55	55
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
Number of members	6 088	7 972	6088	7 972
Number of pensioners	12 983	13 135	12 983	13 135

Notes to the financial statements continued

for the year ended 31 March 2020

30. Employee benefits continued

	Increase/(decrease) on the post-employment liability			
	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Sensitivity analysis				
The Telkom Pension Fund				
Increasing discount rate by 0.5%	(1)	(2)	(1)	(2)
Decreasing discount rate by 0.5%	1	2	1	2
Increase in inflation rate by 1% (March 2019: 0.5%)	3	2	3	2
Decrease in inflation rate by 1% (March 2019: 0.5%)	(3)	(2)	(3)	(2)
The Telkom Retirement Fund				
Increasing discount rate by 0.5%	(626)	(1 091)	(626)	(1 091)
Decreasing discount rate by 0.5%	914	1 195	914	1 195
Increase in inflation rate by 1%	1 997	2 584	1 997	2 584
Decrease in inflation rate by 1%	(1 202)	(2 182)	(1 202)	(2 182)
Medical benefits				
Increasing discount rate by 0.5%	(49)	(65)	(49)	(65)
Decreasing discount rate by 0.5%	52	69	52	69
Increase in inflation rate by 1%	86	110	86	110
Decrease in inflation rate by 1%	(77)	(98)	(77)	(98)
Telephone rebates				
Increasing discount rate by 0.5%	(11)	(17)	(11)	(17)
Decreasing discount rate by 0.5%	12	19	12	19
Increase in inflation rate by 5%	189	300	189	300

Share scheme

Telkom's shareholders approved the Telkom forfeitable share plan (FSP) and the additional share award (ASA) at the September 2013 Annual General Meeting. The 7th grant has occurred under this plan in June 2019.

The FSP is made up of the long-term incentive plan (LTIP) and the employee share ownership plan (ESOP).

In the FSP, employees acquire shareholder rights on the grant date on the forfeitable shares (these include dividends and voting rights).

An employee turnover assumption of 1.6% to 20.8% has been used in calculating the expected number of shares that will vest.

The turnover relates to the various entities within the Group.

The vesting timelines and principal assumptions used in calculating the expected number of shares that will vest for the Telkom share plan are as follows:

Telkom LTIP grants	Vesting Financial Year 2020	2021	2022	2023	2024	2025
Telkom LTIP – 2015 financial year						
Vesting timelines	20%	–	–	–	–	–
Probability of meeting non-market related criteria	92%	–	–	–	–	–
Telkom LTIP – 2016 financial year						
Vesting timelines	30%	20%	–	–	–	–
Probability of meeting non-market related criteria	92%	92%	–	–	–	–
Telkom LTIP – 2017 financial year						
Vesting timelines	50%	30%	20%	–	–	–
Probability of meeting non-market related criteria	92%	92%	92%	–	–	–
Telkom LTIP – 2018 financial year						
Vesting timelines	–	50%	30%	20%	–	–
Probability of meeting non-market related criteria	–	92%	92%	92%	–	–
Telkom LTIP – 2019 financial year						
Vesting timelines	–	–	50%	30%	20%	–
Probability of meeting non-market related criteria	–	–	92%	92%	92%	–
Telkom LTIP – 2020 financial year						
Vesting timelines	–	–	–	50%	30%	20%
Probability of meeting non-market related criteria	–	–	–	92%	92%	92%

Telkom ESOP grants	Vesting Financial Year 2020	2021	2022	2023	2024	2025
Telkom ESOP – 2017 financial year						
Vesting timelines	100%	–	–	–	–	–
Probability of meeting non-market related criteria	92%	–	–	–	–	–
Telkom ESOP – 2018 financial year						
Vesting timelines	–	100%	–	–	–	–
Probability of meeting non-market related criteria	–	92%	–	–	–	–
Telkom ESOP – 2019 financial year						
Vesting timelines	–	–	100%	–	–	–
Probability of meeting non-market related criteria	–	–	92%	–	–	–
Telkom ESOP – 2020 financial year						
Vesting timelines	–	–	–	100%	–	–
Probability of meeting non-market related criteria	–	–	–	92%	–	–

Notes to the financial statements continued

for the year ended 31 March 2020

30. Employee benefits continued

The vesting timelines and principal assumptions used in calculating the expected number of shares that will vest for the BCX share plan are as follows:

	Vesting Financial Year					
BCX LTIP grant	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
BCX grant – 2017 financial year						
Vesting timelines	25%	25%	–	–	–	–
Probability of meeting non-market related criteria	92%	92%	–	–	–	–
BCX grant – 2020 financial year						
Vesting timelines	–	–	–	50%	30%	20%
Probability of meeting non-market related criteria	–	–	–	92%	92%	92%

	Vesting Financial Year					
BCX ESOP grant	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
BCX grant – 2019 financial year						
Vesting timelines	–	–	100%	–	–	–
Probability of meeting non-market related criteria	–	–	92%	–	–	–
BCX grant – 2020 financial year						
Vesting timelines	–	–	–	100%	–	–
Probability of meeting non-market related criteria	–	–	–	92%	–	–

The vesting timelines and principal assumptions used in calculating the expected number of shares that will vest for the Yellow Pages share plan are as follows:

	Vesting Financial Year					
Yellow Pages grants	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Yellow Pages grant – 2017 financial year						
Vesting timelines	30%	30%	–	–	–	–
Probability of meeting non-market related criteria	–	–	–	–	–	–
Yellow Pages grant – 2018 financial year						
Vesting timelines	40%	30%	30%	–	–	–
Probability of meeting non-market related criteria	–	–	–	–	–	–
Yellow Pages grant – 2019 financial year						
Vesting timelines	–	40%	30%	30%	–	–
Probability of meeting non-market related criteria	–	–	–	–	–	–

The vesting timelines and principal assumptions used in calculating the expected number of shares that will vest for the Gyro share plan are as follows:

	Vesting Financial Year					
Gyro LTIP grants	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Gyro Grant – 2018 financial year						
Vesting timelines	–	50%	30%	20%	–	–
Probability of meeting non-market related criteria	–	92%	92%	92%	–	–
Gyro Grant – 2019 financial year						
Vesting timelines	–	–	50%	30%	20%	–
Probability of meeting non-market related criteria	–	–	92%	92%	92%	–
Gyro Grant – 2020 financial year						
Vesting timelines	–	–	–	50%	30%	20%
Probability of meeting non-market related criteria	–	–	–	92%	92%	92%

Gyro ESOP grants	Vesting Financial Year 2020	2021	2022	2023	2024	2025
Gyro Grant – 2018 financial year						
Vesting timelines	–	100%	–	–	–	–
Probability of meeting non-market related criteria	–	92%	–	–	–	–
Gyro Grant – 2019 financial year						
Vesting timelines	–	–	100%	–	–	–
Probability of meeting non-market related criteria	–	–	92%	–	–	–
Gyro Grant – 2020 financial year						
Vesting timelines	–	–	–	100%	–	–
Probability of meeting non-market related criteria	–	–	–	92%	–	–

The probabilities were independently verified by the actuaries.

Certain BCX employees were granted shares in terms of a BCX share plan. Based on the BCX Group achieving the performance condition, the shares will vest between the 2020 and 2025 financial years.

Certain Yellow Pages employees were granted shares in terms of a Yellow Pages share plan. Based on Yellow Pages achieving the performance condition, the shares will vest between the 2020 and 2023 financial years.

Certain Gyro employees were granted shares in terms of a Gyro share plan. Based on Gyro achieving the performance condition, the shares will vest between the 2021 and 2025 financial years.

In order for the vesting to occur, the targets (including performance conditions) must be met. The targets are measured in each financial year after the grant date.

The weighted average remaining vesting period for all the shares outstanding as at 31 March 2020 is 1.41 years (31 March 2019: 1.66 years).

The following table illustrates the movement of the maximum number of shares that were granted to employees:

	Group		Company	
	31 March 2020	31 March 2019	31 March 2020	31 March 2019
Beginning of the year	13 084 228	12 977 305	12 538 316	12 547 143
Vested shares during the year	(986 649)	(3 760 590)	(1 397 494)	(3 709 001)
Forfeited shares and other movements during the year	(4 682 867)	(1 191 114)	(4 068 011)	(989 135)
Granted during the year	5 000 102	5 058 627	3 507 227	4 689 309
Outstanding at end of the year	**12 414 814**	**13 084 228**	**10 580 038**	**12 538 316**

In relation to market-related performance criteria, IFRS 2 requires a "fair value" to be placed on employee share grants/options. Fair value is measured as the market price of the entity's share grants/options adjusted for the terms and conditions applicable to the grant/option. Since employee share grants/options are not traded, there is no market price available. For this reason, the fair value of the grants/options must be determined by using an option pricing model.

Notes to the financial statements continued

for the year ended 31 March 2020

30. Employee benefits continued

Group and Company	Market share price (R)	Share price volatility	Future risk free interest rate
Telkom			
Grant 1	27.30	35%	8.50%
Grant 2	82.49	35%	6.70%
Grant 3	64.31	35%	8.00%
Grant 4	58.82	35%	8.50%
Grant 5	73.70	35%	8.00%
Grant 6			
- Vesting 30 June 2021	52.64	35%	7.40%
- Vesting 30 June 2022	52.64	35%	7.60%
- Vesting 30 June 2023	52.64	35%	8.00%
Grant 7			
- Vesting 30 June 2022	93.82	35%	7.24%
- Vesting 30 June 2023	93.82	35%	7.37%
- Vesting 30 June 2024	93.82	35%	7.53%
BCX			
Grant 1	70.82	35%	8.50%
Grant 2			
- Vesting 30 June 2021	52.64	35%	7.40%
- Vesting 30 June 2022	52.64	35%	7.60%
- Vesting 30 June 2023	52.64	35%	8.00%
Grant 3			
- Vesting 30 June 2022	83.70	35%	6.95%
- Vesting 30 June 2023	83.70	35%	7.10%
- Vesting 30 June 2024	83.70	35%	7.26%
Yellow Pages			
Grant 1	55.50	35%	8.50%
Grant 2	73.50	35%	8.00%
Grant 3	52.64	35%	8.00%
Gyro			
Grant 1			
- Vesting 30 June 2020	52.89	35%	7.70%
- Vesting 30 June 2021	52.89	35%	7.80%
- Vesting 30 June 2022	52.89	35%	8.00%
Grant 2			
- Vesting 30 June 2021	52.64	35%	7.40%
- Vesting 30 June 2022	52.64	35%	7.60%
- Vesting 30 June 2023	52.64	35%	8.00%
Grant 3			
- Vesting 30 June 2022	93.82	35%	7.24%
- Vesting 30 June 2023	93.82	35%	7.37%
- Vesting 30 June 2024	93.82	35%	7.53%

The key performance indicators related to the share scheme are Net Promoter Score targets, headline earnings per share, free cash flow, return on invested capital and total shareholder return.

The share price volatility is based on the five-year average volatility observed for the Telkom share price.

31. Trade and other payables

	Group		Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	8 339	6 536	10 716	10 941
Trade and other payables	5 084	3 987	7 908	7 387
Accruals	3143	2 445	2 696	3 449
Finance cost accrued	112	104	112	105

Accruals and other payables mainly represent licence fees and amounts payable for goods received, net of Value Added Tax obligations.

Telkom's standard payment terms of trade payables is within 90 days after the date of the receipt of the invoice.

Impact of COVID-19 on trade and other payables

There was no significant impact of COVID-19 at the end of the reporting period.

32. Reconciliation of profit before tax to cash generated from operations

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Cash generated from operations	12 756	8 903	11 139	5 884
Profit before tax	974	4 007	(250)	1 739
Finance charges and fair value movements	1 762	947	2 178	1 093
Investment income and income from associates	(90)	(187)	(2 610)	(818)
Interest received from trade receivables and subsidiaries	(128)	(250)	(78)	(117)
Non-cash items	8 628	5 519	8 963	4 838
Depreciation, amortisation, impairment and write-offs	6 915	5 814	6 808	5 167
Increase in expected credit loss provision	932	–	450	–
Bad debts written off	208	–	313	–
Increase/(decrease) in provisions	135	(162)	1 021	(182)
Profit from disposal of property, plant and equipment	(18)	(2)	(6)	(22)
Foreign exchange movements	(132)	(29)	(123)	(41)
Share based payment expenses	317	135	321	124
Profit on sale of SOX	(9)	–	–	–
IFRS 16 initial direct costs reclassified to right-of-use assets	(8)	–	(8)	–
Movement in deferred revenue	288	(237)	187	(208)
Movement in working capital	1 610	(1 133)	2 936	(851)
Movement in inventories	–	(94)	(37)	(127)
(Increase)/decrease in trade receivables, contract assets, finance lease receivables and other receivables	(613)	(1 280)	1 620	(1 662)
Increase/(decrease) in trade and other payables and prepayments	2 223	241	1 353	938

Notes to the financial statements continued

for the year ended 31 March 2020

33. Net debt reconciliation

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Total interest–bearing debt at reporting date	12 005	10 241	12 005	10 194
Total interest–bearing debt at the beginning of the year	10 241	9 397	10 194	9 313
Loans raised	8 660	3 246	8 660	3 246
Loans repaid	(6 950)	(2 544)	(6 950)	(2 547)
Finance leases repaid/reclassified to lease liabilities	(42)	(42)	–	(4)
Other financing activities	(104)	–	(104)	–
Foreign exchange revaluation on loans	25	12	25	14
Finance charges capitalised to interest–bearing debt	175	172	180	172

Interest accruals include the effect of interest amortised and accrued for in the closing balance of interest–bearing debt.

The Group classifies interest paid as cash flow from operating activities.

34. Finance charges paid

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	(1 374)	(847)	(1 626)	(840)
Finance charges and fair value movements per statement of profit or loss and other comprehensive income	(1 762)	(947)	(2 178)	(1 093)
Non–cash items	388	100	552	253
Movements in interest accruals and interest on uncertain tax provisions	30	(76)	30	(76)
Net discount amortised	180	172	180	172
Borrowing costs capitalised (refer to note 8)	(52)	(59)	(52)	(59)
Hedging costs	219	88	219	88
Fair value adjustment	(96)	(67)	(129)	(65)
Interest on BCX sinking fund capitalised	–	–	206	140
Unrealised foreign exchange loss	107	42	98	53

35. Taxation paid

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	(1 320)	(945)	(300)	–
Net tax payable at the beginning of the year	(1 259)	(1 328)	(1 331)	(1 367)
Current taxation	(1 251)	(1 064)	(115)	(153)
Other	(474)	–	(448)	–
Interest accrued	(30)	(70)	(30)	(69)
Tax positions*	763	258	763	258
Additional payment to SARS**	(300)	–	(300)	–
Net tax payable at the end of the year	1 231	1 259	1 161	1 331

* *In the current financial year, the tax payable is certain. The prior year amounts relate to uncertain tax positions.*
** *The additional payment to SARS is in respect of the 2012 Multi-Links matter. SARS demanded payment of R300 million before 31 March 2020.*

36. Dividend paid

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
	(1 711)	(1 846)	(1 636)	(1 778)
Dividend payable at the beginning of the year	(29)	(58)	(29)	(27)
Declared during the year – dividend on ordinary shares	(1 710)	(1 780)	(1 638)	(1 780)
Dividends declared to non–controlling interests	(3)	(37)	–	–
Dividend payable at the end of the year	31	29	31	29

37. Commitments

	Group		Company	
	31 March 2020 Rm	31 March 2019 Rm	31 March 2020 Rm	31 March 2019 Rm
Capital commitments authorised	9 292	9 744	8 855	9 589
Commitments against authorised capital expenditure	2 648	5 671	2 254	5 516
Authorised capital expenditure not yet contracted	6 644	4 073	6 601	4 073

Capital commitments comprise commitments for property, plant and equipment and intangible assets.

Management expects these commitments to be financed from internally generated cash and other borrowings.

From 1 April 2019, the Group has recognised right-of-use assets for the lease commitments disclosed below, except for short-term and low-value leases. Refer to note 13 for more information.

	Group operating leases			
	Total Rm	<1 year Rm	1 - 5 years Rm	>5 years Rm
2019				
Operating lease commitments				
Land and buildings	4 417	829	2 368	1 221
Vehicles	252	182	70	–
Other	207	30	130	47
	4 876	**1 041**	**2 567**	**1 269**

	Company operating leases			
	Total Rm	<1 year Rm	1 - 5 years Rm	>5 years Rm
2019				
Operating lease commitments				
Land and buildings	7 150	1 404	5 212	534
Vehicles	226	176	51	–
	7 376	**1 579**	**5 262**	**534**

During the implementation of IFRS 16, additional lease commitments as at 31 March 2019 were identified which were erroneously excluded from the prior year disclosure. The above has been restated to reflect the correct amount for Group and Company. Refer to note 2.2.1.2 where this difference is noted.

Notes to the financial statements continued

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37. Commitments continued

	Group finance lease commitments			
	Total Rm	<1 year Rm	1 - 5 years Rm	>5 years Rm
2020				
Equipment				
Minimum lease payments	18	15	3	–
Finance charges	(1)	(1)	–	–
Finance lease obligation	**17**	**14**	**3**	**–**
2019				
Equipment				
Minimum lease payments	162	66	96	–
Finance charges	(3)	(2)	(1)	–
Finance lease obligation	**159**	**64**	**95**	**–**

Company finance lease commitments
Telkom Company has no finance lease commitments as at 31 March 2020 or 31 March 2019.

Finance leases
There are no major restrictions imposed by lease arrangements.

38. Contingencies

Contingent Liabilities

Other than the disclosures below, there have been no significant movement or new matters noted on the contingent positions as reported in the 31 March 2019 financial statements.

Financial guarantees

The total exposure on the financial guarantee relating to BCX Nigeria amounts to R46 million as at 31 March 2020. An amount of R13 million has been accounted for in other financial liabilities based on an expected credit loss valuation that was performed to quantify the potential exposure. Refer to note 22. The total exposure of the financial guarantee will be triggerred if BCX Nigeria is unable to meet its obligations in terms of the repayment agreement. To date, no default event (with regards to the repayment agreement) have taken place. No other material contingent liabilities related to financial guarantees have been identified for the year ended 31 March 2020.

High Court

Phutuma Networks (Pty) Ltd (Phutuma)

In August 2009, Phutuma served a summons on Telkom, claiming for damages, in the amount of R5.5 billion, arising from a tender published by Telkom in November 2007. The High Court granted absolution from the instance, in Telkom's favour. The Supreme Court of Appeal (SCA) had initially dismissed Phutuma's application for leave to appeal in October 2014. On 4 November 2014, the SCA rescinded its order granted in October 2014. In early 2015, the SCA referred the application for leave to appeal back to the full bench of the North Gauteng High Court. The leave to appeal was heard in September 2016 and was upheld. The matter now needs to be re-enrolled for trail.

Tax Matters

As noted in the prior year consolidated annual financial statements, Telkom had appealed against the Tax Court judgement received on the dispute between Telkom and South African Revenue Services (SARS) relating to the tax treatment of the loss that arose in the 2012 financial year on the sale of a foreign subsidiary. The appeal was heard by the Supreme Court of Appeal on 4 March 2020 and the judgement was handed down on 25 March 2020 against Telkom and, as such, a liability was recognised for the amount payable to SARS at 31 March 2020. However, Telkom has applied to the Constitutional Court for leave to appeal the judgement. An asset will only be recognised once the matter has been resolved and if it favors Telkom.

39. Directors' interest and Prescribed Officers

Directors' shareholding	Group and Company			
	Beneficial		Non Beneficial	
Number of shares	Direct	Indirect	Direct	Indirect
2020				
Executive				
SN Maseko	52 520	–	–	–
TBL Molefe	9 716	–	–	–
	62 236	**–**	**–**	**–**
Non-executive				
JA Mabuza	5 531	–	–	–
KW Mzondeki	748	–	–	–
	6 279	**–**	**–**	**–**

There has been no change in the above since 31 March 2020 to the date of approval of the financial statements.

	Direct	Indirect	Direct	Indirect
2019				
Executive				
SN Maseko	143 561	–	–	–
TBL Molefe	6 000	–	–	–
	149 561	**–**	**–**	**–**
Non-executive				
JA Mabuza	11 500	–	–	–
I Kgaboesele	12 000	–	–	–
KW Mzondeki	748	–	–	–
	24 248	**–**	**–**	**–**

Notes to the financial statements continued

for the year ended 31 March 2020

39. Directors' interest and prescribed officers continued

	Group and Company				
Emoluments per director:	Retainer fees R	Attendance fees R	Performance Bonus R	Fringe and other benefits R	Total R
2020					
Non-executive	6 245 585	6 610 597	-	-	12 856 182
N Kapila	473 249	571 111	-	-	1 044 360
JA Mabuza[1]	80 133	227 458	-	-	307 591
KW Mzondeki	706 623	533 042	-	-	1 239 665
SL Botha	389 073	413 996	-	-	803 069
KT Kweyama	334 875	413 996	-	-	748 871
F Petersen-Cook	591 710	413 996	-	-	1 005 706
LL Von Zeuner	661 588	413 996	-	-	1 075 584
GW Dempster[2]	133 342	413 996	-	-	547 338
RG Tomlinson	579 051	413 996	-	-	993 047
MS Moloko	576 352	1 251 723	-	-	1 828 076
DD Mokgatle	312 707	413 996	-	-	726 703
PCS Luthuli	520 429	413 996	-	-	934 425
S Sibisi[3]	332 105	413 996	-	-	746 101
KA Rayner[4]	554 347	301 299	–	–	855 646

	Remunera-tion R	Performance Bonus R	Fringe and other benefits R	Total R
Executive that held office during 31 March 2020	13 542 905	-	13 704 229	27 247 134
SN Maseko (Group Chief Executive Officer)	8 830 449	-	12 986 598	21 817 047
TBL Molefe (Group Chief Financial Officer)	4 712 456	-	717 631	5 430 087
Total emoluments – paid by Telkom				**40 103 316**

[1] *Resigned on 1 June 2019*
[2] *Resigned on 30 November 2019*
[3] *Appointed on 1 April 2019*
[4] *Appointed on 15 July 2019*

	Group and Company				
Emoluments per director:	Retainer fees R	Attendance fees R	Performance Bonus R	Fringe and other benefits R	Total R
2019					
Non-executive	4 522 632	6 352 738	–	–	10 875 370
N Kapila	298 335	535 732	–	–	834 067
JA Mabuza	337 060	1 325 000	–	–	1 662 060
KW Mzondeki	642 867	596 291	–	–	1 239 158
SL Botha	363 737	387 960	–	–	751 697
KT Kweyama	253 037	387 960	–	–	640 997
F Petersen-Cook	371 618	387 960	–	–	759 578
LL Von Zeuner	564 361	387 960	–	–	952 321
GW Dempster	477 471	387 960	–	–	865 431
RG Tomlinson	411 017	387 960	–	–	798 977
H Toure	50 350	269 203	–	–	319 553
I Kgaboesele	213 571	185 163	–	–	398 734
MS Moloko	166 887	387 960	–	–	554 847
DD Mokgatle	145 371	387 960	–	–	533 331
PCS Luthuli	226 950	337 669	–	–	564 619

	Remuneration	Performance Bonus	Fringe and other benefits	Total
Executive that held office during 31 March 2019	12 880 151	9 814 345	15 194	22 709 690
SN Maseko (Group Chief Executive Officer)	8 291 500	7 006 091	12 096	15 309 687
TBL Molefe (Group Chief Financial Officer)	3 155 663	2 308 254	99	5 464 016
DJ Fredericks (Group Chief Financial Officer)	1 432 988	500 000	2 999	1 935 987
Total emoluments – paid by Telkom				**33 585 060**

Included in fringe and other benefits is motor car insurance for SN Maseko of R11 997 (31 March 2019: R11 997).

SN Maseko was granted 196 596 shares (31 March 2019: 220 912 shares) and the total IFRS 2 expense increased by R3 453 587 (31 March 2019: R1 053 750). TBL Molefe was granted 58 286 shares (31 March 2019: 56 051 shares) and the total IFRS 2 expense increased by R1 023 906 (31 March 2019: R267 363). The Group reassessed the estimated amount of shares to vest to executives based on the current performance against vesting targets. This increased the share scheme expense in the current year.

	Group and Company				
Emoluments per prescribed officer:	Remuneration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension - TRF 13%*** R
2020					
AN Samuels[1]	5 407 500	–	14 067 492	19 474 992	407 726
AC Beukes	4 240 000	–	217 821	4 457 821	385 840
CJ Moganwa[2]	3 750 000	–	19 453	3 769 453	372 000
PJ Bogoshi	5 123 000	–	296	5 123 296	499 493
S Taukobong	6 300 000	–	12 293	6 312 293	573 300
NM Lekota	3 766 273	–	296	3 766 569	395 459
LTS Maloba	3 915 963	–	12 293	3 928 256	330 899
DJ Fredericks[3]	3 510 819	–	22 564 799	26 075 618	374 253
L Siyo	3 333 333	–	10 243	3 343 576	193 333
Total emoluments – granted by Telkom	**39 346 888**	**–**	**36 904 986**	**76 251 874**	**3 532 303**

1 *Resigned on 31 March 2020*
2 *Resigned on 31 December 2019*
3 *Resigned on 31 October 2019*

	Group and Company				
Emoluments per prescribed officer:	Remuneration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension - TRF 13%*** R
2019					
AN Samuels	5 150 000	3 414 416	12 096	8 576 512	388 310
AC Beukes	1 287 398	815 893	3 711	2 107 002	116 167
CJ Moganwa	1 181 151	–	74	1 181 225	102 598
PJ Bogoshi	3 916 667	2 882 223	99	6 798 989	381 875
S Taukobong	5 000 000	3 665 238	9 096	8 674 334	455 000
NM Lekota	3 493 760	2 553 963	99	6 047 822	366 845
LTS Maloba	3 552 500	1 777 150	99	5 329 749	300 186
IM Russell	833 333	–	3 069 986	3 903 319	65 000
TBL Molefe	1 051 888	769 418	–	1 821 306	79 312
DJ Fredericks	4 298 963	1 500 000	9 096	5 808 059	458 269
L Siyo	2 933 333	1 750 000	10 997	4 694 330	58 667
Total emoluments – granted by Telkom	**32 698 993**	**19 128 300**	**3 115 353**	**54 942 647**	**2 772 229**

* *Remuneration includes basic salary, Company contribution towards TRF and flexible allowance and has been apportioned based on the period served as prescribed officers. Comparative information has been provided for members identified as prescribed officers.*
** *Fringe and other benefits include motor car insurance, relocation benefits, separation packages, notional completion bonuses and leave payments.*
*** *The pension contribution is the Company contribution.*

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39. Directors' interest and prescribed officers continued

Share allocation per prescribed officer:	Total Vested Shares Year To Date	Number of Shares FY2014/2015	Number of Shares FY2015/2016	Number of Shares FY2016/2017	Number of Shares FY2017/2018	Number of Shares FY2018/2019	Number of Shares FY2019/2020	IFRS 2 Expense
2020								
AN Samuels	286 265	55 629	40 431	59 179	133 637	91 475	66 883	2 827 730
AC Beukes	18 129	21 926	12 500	–	–	45 455	36 275	1 722 033
CJ Moganwa	–	–	–	–	–	–	65 968	1 158 855
PJ Bogoshi	–	–	–	–	–	62 611	63 364	2 212 993
S Taukobong	–	–	–	–	–	186 503	53 899	4 223 123
NM Lekota	–	–	–	21 042	67 994	46 542	46 583	3 200 008
L Siyo	–	–	–	–	–	–	37 106	651 838
DJ Fredericks	367 158	86 705	53 066	69 043	148 737	76 359	51 491	2 077 166
	671 552	**164 260**	**105 997**	**149 264**	**350 368**	**508 945**	**421 569**	**18 073 746**
2019								
AN Samuels	42 828	55 629	40 431	59 179	133 637	91 475	–	1 609 985
AC Beukes	–	–	–	–	–	–	–	–
CJ Moganwa	–	–	–	–	–	–	–	–
PJ Bogoshi	–	–	–	–	–	62 611	–	298 654
S Taukobong	–	–	–	–	–	186 503	–	889 619
NM Lekota	–	–	–	–	67 994	46 542	–	546 337
LTS Maloba	–	–	–	–	–	22 085	–	105 345
IM Russell	188 089	68 922	41 981	54 621	122 946	–	–	478 817
TBL Molefe	–	–	–	–	109 181	56 051	–	788 157
DJ Fredericks	–	–	–	–	–	–	–	–
	230 917	**124 551**	**82 412**	**113 800**	**433 758**	**465 267**	**–**	**4 716 914**

The Group has identified EXCO members as prescribed officers because they exercise general executive control over the business.

40. Related parties

Details of material transactions and balances with related parties not disclosed separately in the financial statements were as follows:	Group 31 March 2020 Rm	Group Restated 31 March 2019 Rm	Company 31 March 2020 Rm	Company Restated 31 March 2019 Rm
With shareholders:				
Government of South Africa				
Related party balances				
Finance lease receivable	157	207	157	207
Trade receivables	796	1 370	542	1 098
Impairment of trade receivables	(152)	(212)	(30)	(231)
Related party transactions				
Revenue	(4 568)	(4 495)	(3 250)	(3 561)

At 31 March 2020, the Government of South Africa held 40.5% (31 March 2019: 40.5%) of Telkom's shares, and had the ability to exercise significant influence, and the Public Investment Corporation held 14.97% (31 March 2019: 11.9%) of Telkom's shares.

	Group		Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm	**31 March 2020 Rm**	Restated 31 March 2019 Rm
With subsidiaries:				
Business Connexion Proprietary Limited				
Related party balances				
Trade receivables			**788**	988
Other receivables			**–**	–
Loans, preference shares and other facilities			**128**	3 783
Other financial liabilities			**(2 754)**	(2 757)
Trade and other payables			**(2 633)**	(2 802)
Related party transactions				
Revenue and other income			**(5 296)**	(6 212)
Expenses			**2 203**	1 902
Interest received			**(462)**	(478)
Interest expense			**202**	143
Dividend received			**(1 095)**	–
Yellow Pages Proprietary Limited				
Related party balances				
Trade receivables			**1**	4
Trade and other payables			**(185)**	(63)
Other payables			**–**	(186)
Related party transactions				
Revenue			**(37)**	(53)
Dividend received			**(132)**	(58)
Interest paid			**7**	7
Swiftnet Proprietary Limited				
Related party balances				
Trade receivables			**2**	2
Other receivables			**243**	176
Loans, preference shares and other facilities			**–**	1 069
Trade and other payables			**229**	(616)
Related party transactions				
Revenue			**–**	(106)
Expenses			**610**	310
Dividend received			**(448)**	–
Interest received			**(142)**	(139)
Interest expense			**26**	–

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40. Related parties continued

	Group		Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm	31 March 2020 Rm	Restated 31 March 2019 Rm
Rossal No 65 Proprietary Limited				
Related party transactions				
Expenses			2	–
VS Gaming Proprietary Limited (formerly Acajou Investments Proprietary Limited)				
Related party balances				
Trade and other payables			92	(109)
Telkom Foundation				
Related party balances				
Trade and other payables			(20)	(29)
Related party transactions				
Expenses			63	64
Gyro Solutions Proprietary Limited				
Related party balances				
Trade receivables			23	–
Other receivables			–	198
Loans, preference shares and other facilities			–	4
Trade and other payables			(172)	(429)
Related party transactions				
Revenue			–	(19)
Expenses			76	105
Other income			(8)	–
Interest received			(1)	(1)
Interest paid			7	4
Dividend received			(161)	–
Gyro Properties Proprietary Limited				
Related party balances				
Loans, preference shares and other facilities			–	113
Trade and other payables			(117)	(82)
Related party transactions				
Expenses			175	102
Interest received			(16)	(15)
Interest paid			8	–
Dividend received			(83)	–

Except as indicated above, outstanding balances at year end are unsecured, include interest and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Except as indicated above, for the year ended 31 March 2020, the Company has not made any impairment of amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

40. Related parties continued

	Group		Company	
	31 March 2020 Rm	Restated 31 March 2019 Rm	31 March 2020 Rm	Restated 31 March 2019 Rm
With entities under common control:				
Major public entities				
Related party balances				
Trade receivables	58	45	32	14
Impairment of trade receivables	(5)	(2)	–	–
Trade payables	(1)	(1)	(1)	(1)
Related party transactions				
Revenue (excluding lease income)	(291)	(501)	(62)	(314)
Operating expenses (excluding lease expense)	257	214	257	214
Lease income	(20)	(27)	(20)	(27)
Lease expense	36	30	36	30
Key management personnel compensation:				
(Including directors and prescribed officers' remuneration)				
Related party transactions				
Short-term employee benefits	190	272	150	204
Post-employment benefits	17	17	15	14
Termination benefits	23	13	19	5
Equity compensation benefits	62	22	66	20

Terms and conditions of transactions with related parties

Except as indicated above, outstanding balances at 31 March 2020 are unsecured, include interest and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Except as indicated above, for the year ended 31 March 2020, the Group has not impaired any of the amounts owed by the related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates.

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41. Group interest in subsidiaries and associates

Set out below is a list of the significant subsidiaries and associates of the Group at 31 March 2020, held directly by Telkom SA SOC Limited. Unless otherwise stated, the entities as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interest held equals to the voting rights held by the Group.

	Country of incorporation	Issued share capital 2020 R	Interest in issued ordinary share capital 2020 %	Ownership interest held by non-controlling interest 2020 %	Issued share capital 2019 R	Interest in issued ordinary share capital 2019 %	Ownership interest held by non-controlling interest 2019 %
Business Connexion (Pty) Ltd	RSA	2 280 500	100	–	2 280 500	100	–
Yellow Pages (Pty) Ltd	RSA	100 000	100	–	100 000	64.9	35.1
Rossal No 65 (Pty) Ltd	RSA	100	100	–	100	100	–
Acajou Investments (Pty) Ltd t/a VS Gaming	RSA	100	100	–	100	100	–
Intekom (Pty) Ltd*	RSA	–	–	–	10 001 000	100	–
Swiftnet (Pty) Ltd	RSA	5 000 000	100	–	5 000 000	100	–
Number Portability Company	RSA	100	20	–	100	20	–
Gyro Properties	RSA	100	100	–	100	100	–
Gyro Solutions	RSA	100	100	–	100	100	–

The total non-controlling interest for the year is negative R29 million (restated 31 March 2019: R197 million) and relates to Business Connexion and is not considered material to the Group.

The Group's interest in the Number Portability Company (an associate) and BCX associates and joint ventures are not regarded as individually material. The equity method is used to account for the financial information of the associate. The investments are recorded at cost in the Company financial statements.

Interest in operating profits, before eliminations, from subsidiaries	Revenue Rm	EBITDA Rm	EBIT Rm	Net profit/ (loss) Rm
2020				
Business Connexion (Pty) Ltd	18 743	2 876	2 202	1 088
Yellow Pages (Pty) Ltd	479	56	26	16
Swiftnet (Pty) Ltd	1 246	805	795	451
Rossal No 65 (Pty) Ltd	–	2	–	1
Telkom Foundation**	63	(13)	(13)	(11)
Gyro Properties	272	247	243	164
Gyro Solutions	413	209	201	152
2019				
Business Connexion (Pty) Ltd	19 524	2 717	2 039	1 032
Yellow Pages (Pty) Ltd	651	138	126	101
Swiftnet (Pty) Ltd	987	376	361	140
Rossal No 65 (Pty) Ltd	–	–	–	–
Acajou Investments (Pty) Ltd t/a VS Gaming	14	(40)	(43)	(43)
Intekom (Pty) Ltd	–	(99)	(99)	(99)
Telkom Foundation**	64	(15)	(15)	(12)
Gyro Properties	131	108	104	62
Gyro Solutions	435	230	228	179

* *Intekom (Pty) Ltd was deregistered in the current financial year.*
** *Non profit making trust.*

None of the Group's equity–accounted investees are publicly listed entities and consequently do not have published price quotations.

There are no significant restrictions on the ability of the associate to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group.

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for the year ended 31 March 2020

42. Significant events and transactions

Results of the Telkom Annual General Meeting regarding directors re-appointments

On 27 August 2019, the following Board members were elected or re-elected as per the Annual General Meeting ordinary resolutions:

- KA Rayner
- SP Sibisi
- SL Botha
- KT Kweyama
- KW Mzondeki
- F Peterson-Cook

Dividends

The Telkom Board declared an ordinary dividend of 249.40 cents per share on 27 May 2019, paid on 18 June 2019 to shareholders registered at the close of business on 14 June 2019.

The Telkom Board also declared an ordinary dividend of 71.53 cents per share on 8 November 2019 which was paid on 2 December 2019 to shareholders registered at the close of business on 29 November 2019.

Allocation of shares in terms of the Telkom Employee Share Plan

On 24 May 2019, the Board approved the seventh allocation of shares to employees in terms of its Employee Share Plan.

The number of shares to vest will depend on the extent to which the performance conditions are met at the end of the applicable vesting period.

Vesting of shares

In terms of the Telkom Share Plan, 112 368 shares vested to Mr Sipho Maseko in June 2019.

Resignation of non-executive director

Telkom announced on 26 July 2019 that Mr Graham Dempster, a non-executive director, would be resigning from the Telkom Board with effect from 30 November 2019.

Appointment of non-executive director

Telkom announced on 15 July 2019 that Mr Keith Rayner has been appointed to the Board of directors of the Company as an independent non-executive director with effect from 15 July 2019.

Impact of COVID-19

On 11 March 2020, the World Health Organisation declared the novel coronavirus (COVID-19) outbreak a global pandemic which subsequently resulted in the President of South Africa declaring a national state of disaster on 15 March 2020, with many measures implemented by the government, such as travel restrictions. On 23 March 2020, the President of South Africa announced a national 21-day lockdown starting on 26 March 2020. South Africa is still in the early stages of the pandemic and, as such, the full impact of the pandemic on the economy and Telkom's operations will only be known over time.

The Group has assessed the potential impact, including the impact of the pandemic on Telkom's performance and liquidity in the short to medium term. The going concern assumption, as adopted in the preparation of the annual financial statements, remains applicable.

The Group will continue to monitor its position as more data becomes available and as circumstances change.

43. Events after the reporting date

Dividends

The Telkom Board approved an ordinary dividend of 50.08 cents per share on 19 June 2020 for declaration on 22 June 2020, payable on 13 July 2020 to shareholders registered at the close of business on 10 July 2020.

Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2020 and the date of this report, or otherwise dealt with in the financial statements, which significantly affects the financial position of the Group and the results of its operations.

Impact of the COVID-19 pandemic

It was concluded that the declaration of COVID-19 as a state of disaster on 15 March 2020, which resulted in economic consequences due to a national lockdown that was effective on 26 March 2020, is an adjusting event.

COVID-19 is an unprecedented challenge for humanity and for the global economy with its effects subject to significant levels of uncertainty. These effects are both short-term and long-term in nature. The short-term effects are due to national lockdowns implemented by local governments in order to reduce the spread of the virus which resulted in a reduction of trade activity and a disruption in supply chains due to a restriction on local and foreign travel. The long-term effects will be due to an increase in the unemployment rate.

In response to significant decreases in demand resulting from social distancing efforts, quarantines, border closures and lockdown restrictions related to the spread of COVID-19, the Group had temporarily closed all its stores nationwide, however with the easing of restrictions have subsequently reopened stores.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Group for future periods.

Annexure A – Shareholder analysis

	Number of shareholders	Percentage	Holdings	Percentage
Range of shareholders				
1 - 100 shares	54 475	69.61	1 898 768	0.37
101 - 1 000 shares	21 158	27.04	5 580 211	1.09
1 001 - 10 000 shares	2 002	2.56	5 338 386	1.04
10 001 - 50 000 shares	315	0.40	7 485 032	1.46
50 001 - 100 000 shares	88	0.11	6 219 976	1.22
100 001 - 1 000 000 shares	176	0.22	50 872 989	9.95
1 000 001 and more shares	43	0.05	433 744 877	84.86
	78 257	100	511 140 239	100
Type of shareholder				
Banks/brokers	250	0.32	146 959 745	28.75
Close corporations	32	0.04	65 541	0.01
Endowment funds	130	0.17	897 252	0.18
Individuals	75 344	96.28	13 051 522	2.55
Insurance companies	42	0.05	6 526 308	1.28
Investment companies	2	0.00	89 631	0.02
Medical aid schemes	10	0.01	127 506	0.02
Mutual funds	209	0.27	23 477 135	4.59
Other corporations	44	0.06	208 469 437	40.79
Private companies	104	0.13	2 193 963	0.43
Public companies	2	0.00	4 978	0.00
Retirement funds	187	0.24	95 064 666	18.60
Treasury Stock	4	0.01	13 328 960	2.61
Trusts	1 897	2.42	883 595	0.17
	78 257	100	511 140 239	100
Geographical holdings by owner				
South Africa	77 860	99.49	359 777 447	70.39
United States	78	0.10	91 336 837	17.87
United Kingdom	126	0.16	31 007 710	6.07
Europe	66	0.08	20 475 167	4.01
Other	127	0.16	8 543 078	1.67
	78 257	100	511 140 239	100

	Holdings	Percentage
Beneficial shareholders of more than 2%		
The Government of the Republic of South Africa	207 038 058	40.51
Government Employees Pension Fund	76 520 583	14.97
Telkom Treasury Stock	13 328 960	2.61
	296 887 601	58.08
Public and non-public shareholders		
Non-public shareholders	220 527 160	43.14
The Government of the Republic of South Africa	207 038 058	40.51
Government buffer account	9 461	0.00
Telkom Treasury Stock	13 328 960	2.61
Executive and non-executive directors*	68 515	0.01
Subsidiaries directors*	82 166	0.02
Public shareholders		
Institutional and retail investors	290 613 079	56.86
	511 140 239	100

** Director holdings consist of direct and indirect holdings.*

The information above is based on registered shareholders, except where only beneficial shareholders' information was available as at 31 March 2020.

Administration

Company registration number

1991/005476/30

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Postal address

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Transfer secretaries

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Marshalltown, 2107

Sponsor

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Standard Bank Centre
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Rosebank 2196

Nedbank CIB Ltd**
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Sandton 2196

United States ADR depository

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* Until 30 June 2019
** Effective from 1 July 2019

BCX Gyro Telkom Consumer openserve Telkom Small & Medium Business