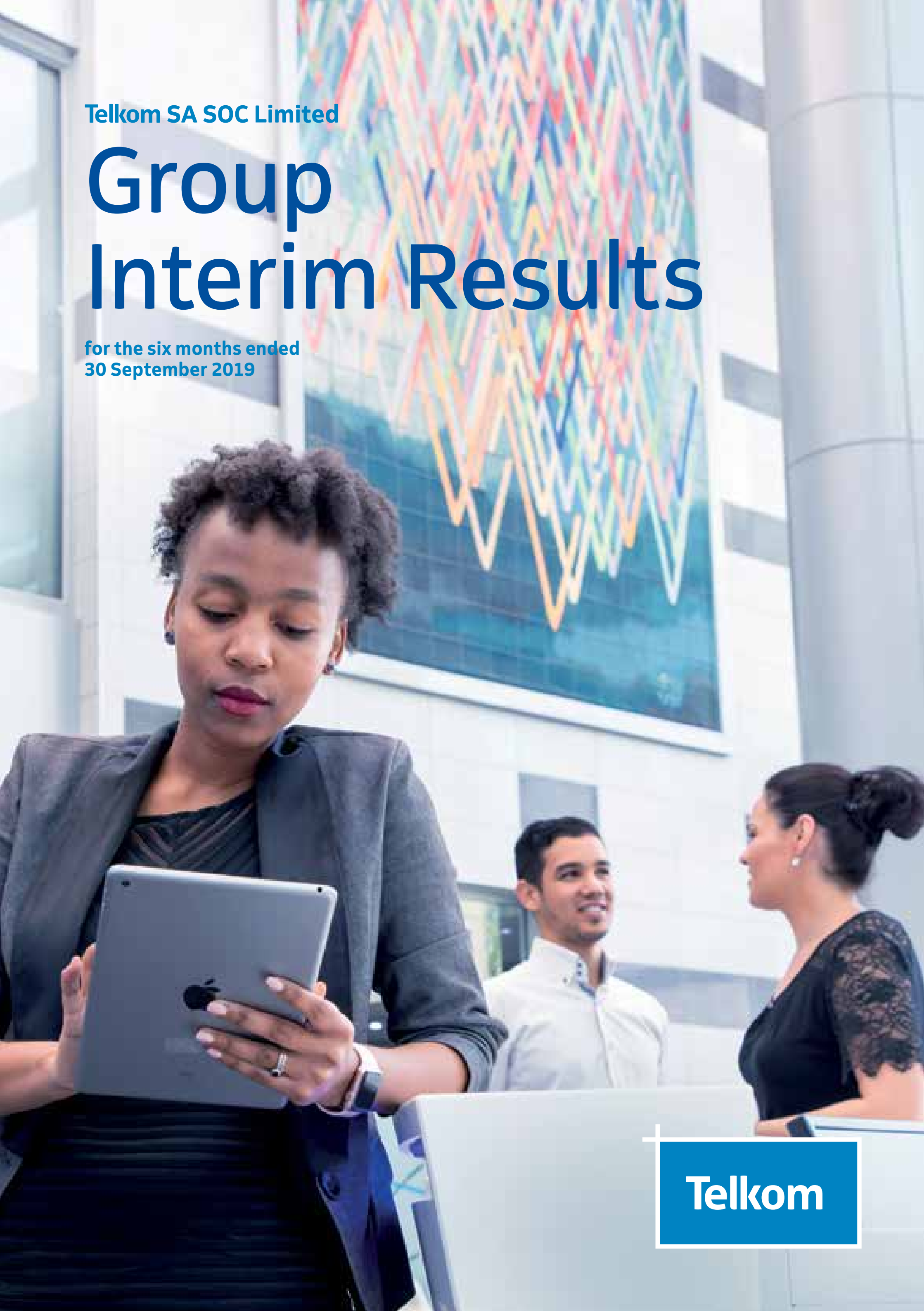
Telkom SA SOC Limited

Group Interim Results

for the six months ended 30 September 2019



Telkom

Telkom SA SOC Ltd

(incorporated in the Republic of South Africa)
Registration number 1991/005476/30
JSE share code: TKG
JSE bond code: BITEL
ISIN: ZAE000044897
("Telkom", "the company" or "the group")

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Special note regarding forward-looking statements

Many statements in this document, and verbal statements that may be made by Telkom or by officers, directors or employees acting on Telkom's behalf, constitute or are based on forward-looking statements.

All statements, other than statements of historical facts, including, among others, statements regarding our strategy, future financial position and plans, objectives, capital expenditures, projected costs and anticipated cost savings and financing plans, as well as projected levels of growth in the communications market, are forward-looking statements. Forward-looking statements can generally be identified by terminology such as "may", "will", "should", "expect", "envisage", "intend", "plan", "project", "estimate", "anticipate", "believe", "hope", "can", "is designed to" or similar phrases. However, the absence of such words does not necessarily mean that a statement is not forward looking. Forward-looking statements involve several known and unknown risks, uncertainties and other factors that could cause our actual results and outcomes to be materially different from historical results or from any future results expressed or implied by such forward-looking statements. Factors that could cause our actual results or outcomes to differ materially from our expectations include, but are not limited to, those risks identified in Telkom's most recent integrated report which is available at **www.telkom.co.za/ir**.

Telkom cautions readers not to place undue reliance on these forward-looking statements. All written and verbal forward-looking statements attributable to Telkom, or persons acting on Telkom's behalf, are qualified in their entirety by these cautionary statements. Moreover, unless we are required by law to update these statements, we will not necessarily update any of these statements after the date of this document, so that they conform either to the actual results or to changes in our expectations.

Any forward-looking financial information disclosed in these group interim results for the six-month period ended 30 September 2019 ("results announcement") has not been reviewed or audited or otherwise reported on by our independent joint auditors.

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Pro forma financial information

Certain information presented in these results constitutes pro froma financial information. Pro forma financial information is the responsibility of the board of directors and is presented for illustrative purposes only. Due to its nature, the pro forma financial information may not fairly present Telkom's financial position, changes in equity, results of operations or cash flows. It has not been audited or reviewed or otherwise reported on by our independent joint auditor's.

Certain financial information presented in the results announcement has been prepared excluding the impact of the adoption of International Financial Reporting Standard (IFRS) 16 in the current period and voluntary early retirements package (VERP) and voluntary severance package (VSP) costs ("the pro forma adjustments") in the comparative period. This constitutes pro forma financial information to the extent that it is not extracted from the segment disclosure included in the reviewed condensed interim financial statements for the six months ended 30 September 2019. This pro forma financial information has been presented to eliminate the impact of the pro forma adjustments from the consolidated financial results for the six-month period ended 30 September 2019 to achieve a comparable period-on-period analysis and show the underlying performance of the business. The pro forma adjustments have been determined in terms of the group accounting policies disclosed in the consolidated financial statements for the six-month period ended 30 September 2019, except for the changes in accounting policies as a result of the adoption of the accounting pronouncements effective 1 January 2019 and the JSE Listings Requirements.

Reported September 2018 refers to the September 2018 financial information as included in the condensed consolidated interim financial statements.

Independent review

The joint independent auditors' review report on the condensed consolidated interim financial statements by PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc. does not report on all the information contained in this results announcement/financial results. Shareholders are therefore advised that to obtain a full understanding of the nature of the joint independent auditors' engagement they should obtain a copy of the joint independent auditors' review report together with the accompanying financial information from Telkom's registered office.

The directors of Telkom take full responsibility for the preparation of this results announcement that has been correctly extracted from the underlying reviewed financial statements.

The information contained in this document is also available on Telkom's investor relations website at **www.telkom.co.za/ir**.

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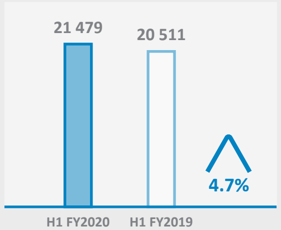
Key indicators

Unless otherwise stated all commentary, messaging and indicators in this report for the period ended 30 September 2019 are presented on an IAS 17 basis for comparable purposes. The comparative period excludes VERP and VSP costs of R282 million and the related tax impact of R80 million and has also been restated to exclude Smart Office Connection (SOX).

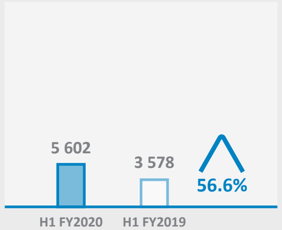
Operating revenue[1]

R million



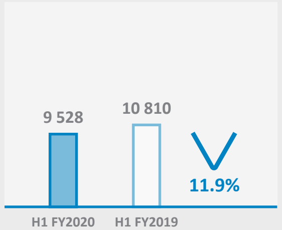
Mobile service revenue

R million



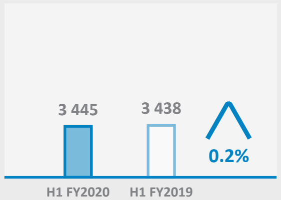
Fixed service revenue

R million



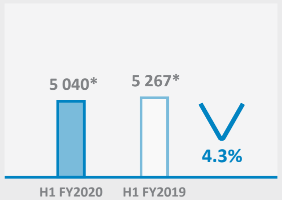
Information technology

R million



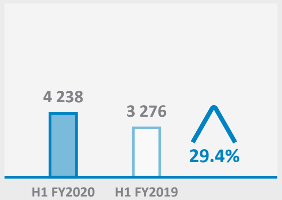
EBITDA

R million



Capital expenditure

R million

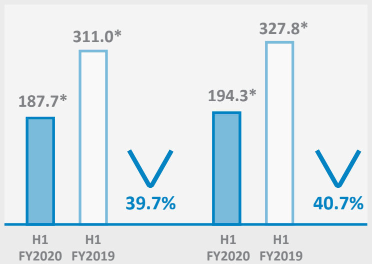


BEPS

cents per share

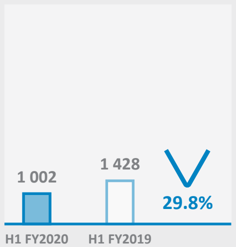
HEPS

cents per share



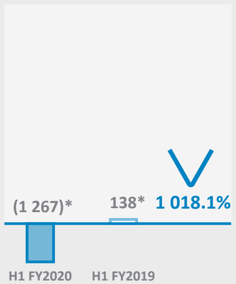
Cash at the end of the year

R million



Adjusted free cash flow[2]

R million



[1] *During the period we restated the prior period revenue by R336 million to exclude Smart Office Connection (SOX). This revenue adjustment led to a restatement of the prior period number from R20 847 million to R20 511 million.*

[2] *Excludes R162 million paid for VSP and VERP during H1 FY2020.*

* *Based on information for the current period and restated, as well as pro forma information for comparable purposes as defined on pages 4 and 5.*

Telkom structure

Telkom SA SOC Ltd represents Telkom group (Telkom or the group), which comprises Telkom company and its subsidiaries. The Telkom company's subsidiaries are BCX, Gyro and Trudon (Yellow Pages). Its divisions are Openserve, Telkom Consumer and Telkom Small and Medium Business (Telkom SMB).

In the context of our operating model, business units comprise of our divisions and subsidiaries.

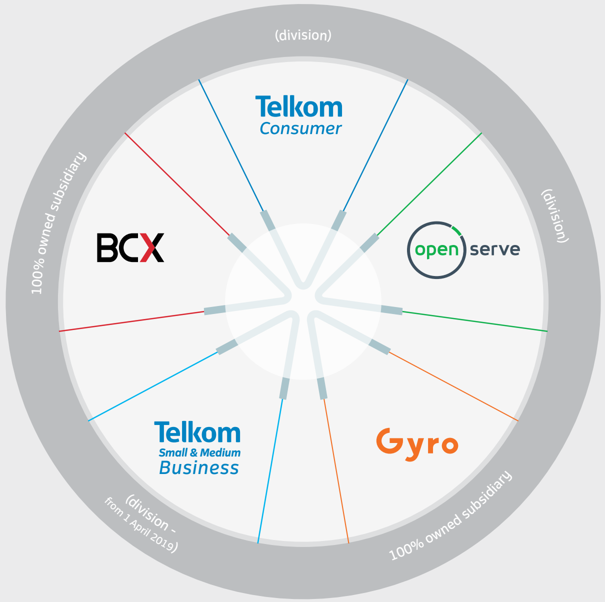
Openserve is South Africa's leading wholesale infrastructure connectivity provider with the largest open-access network across South Africa.

Telkom Consumer is South Africa's largest fixed-broadband provider, internet service provider and, together with its mobile network, a converged communications provider.

BCX is a leading technology company that provides information and communications technology (ICT) solutions and an integrated portfolio of technology solutions across South Africa.

Gyro is a turnkey solutions provider responsible for managing the masts and towers, property development and property management services on behalf of the group.

Telkom SMB was established to drive increased focus on small and medium business customers within Telkom. It was formed on 1 April 2019 by carving out the small and medium business customers from Telkom Consumer and BCX, which will be concluded during the second half of the financial year. Yellow Pages, known as Trudon, will be managed and reported as part of the Telkom SMB business unit going forward.



Adjustments and restatements

The 30 September 2018 comparative financial information was restated. We identified that, due to protective rights granted to the minority shareholder of SOX, BCX did not have control of the subsidiary as defined by IFRS 10 (Consolidated financial statements). There was no material impact from the accounting standard on the earnings before interest, taxation, depreciation and amortisation (EBITDA), profit before tax or basic earnings per share (BEPS) and headline earnings per share (HEPS).

The IFRS 10 matters were assessed as a material prior period error on revenue and were corrected by restating the comparative financial statements as required by IAS 8 (Accounting policies, changes in accounting estimates and errors).

	Reported September 2018 Rm	Restatements Rm	Restated September 2018 Rm
Revenue	20 847	(336)	20 511
IFRS 10		(336)	
EBITDA	5 038	(53)	4 985
IFRS 10		(53)	
Profit after tax	1 419	(34)	1 385
IFRS 10		(34)	
BEPS (cents)	276.0	(5.9)	270.1
IFRS 10		(5.9)	
Free cash flow	179	(41)	138
IFRS 10		(41)	

Pro forma financial information

Certain financial information presented in this results announcement constitutes pro forma financial information in terms of the JSE Listings Requirements. The pro forma financial information is presented to assist the reader to analyse the underlying performance of the business.

The pro forma adjustments include the impact of the adoption of IFRS 16 and the comparative period impact of VSP and VERP costs of R282 million and the related tax impact of R80 million. Unless otherwise stated the pro forma consolidated income statement and the pro forma consolidated cash flow statement and all related key performance indicators (KPIs) and messages in this results announcement are based on this adjusted base. The applicable criteria on which this pro forma financial information is reported and prepared for the six months ended 30 September 2019, are set out below.

September 2019

The pro forma adjustments entails the impact of the adoption of IFRS 16 based on the reviewed condensed consolidated financial statements.

Extract of the condensed consolidated interim statement of profit or loss	Reported IFRS 16 September 2019 Rm	IFRS 16 impact Rm	IAS 17* September 2019 Rm
Operating leases	226^	564^^	790^^
EBITDA	5 604	(564)	5 040
Depreciation, amortisation, impairments and write-offs	3 412	(456)	2 956
Operating profit	2 192	(108)	2 084
Finance charges	1 002	(183)	819
Profit before taxation	1 243	75	1 318
Taxation	358	21	379
Profit for the period	885	54	939
BEPS (cents)	176.8		187.7
HEPS (cents)	183.4		194.3

Net debt to EBITDA	IFRS 16 September 2019 Rm	IFRS 16 Rm	September 2019 Rm
Non-current assets	43 467	(3 944)	39 523
Non-current liabilites	13 225	(3 050)	10 175
Current liabilites	16 544	(988)	15 556
Net debt	15 813	(4 038)	11 775
Net debt to EBITDA (times)	1.4		1.2

September 2018

The pro forma adjustments below details the impact of the exclusion of the VERP and VSP costs of R282 million and the related tax impact of R80 million on the restated September 2018 financial information as disclosed on page 4.

Extract of the condensed consolidated interim statement of profit or loss	Reported restated September 2018 Rm	Pro forma adjustment Rm	IAS 17* September 2019 Rm
Employee expenses	5 443	(282)	5 161
EBITDA	4 985	282	5 267
Operating profit	2 194	282	2 476
Taxation	481	80	561
Profit for the period	1 385	202	1 587
BEPS (cents)	270.1		311.0
HEPS (cents)	287.0		327.8

Segment reporting

Segment reporting is provided on page 72 as part of the notes to financial statements. The current period's segmental information excludes the impact of the adoption of IFRS 16.

For comparability purposes, the current period's segmental information excludes the impact of the adoption of IFRS 16. At a group level the impact of IFRS 16 is a decrease of R564 million on operating leases, depreciation and finance charges increased by R456 million and R183 million respectively.

Results from operations

The group profit after tax decreased to R939* million (H1 FY2019: R1 587* million). This is mainly attributable to the 87.0* percent increase in finance charges and fair value movements and 4.3* percent decrease in EBITDA of R5 040* million, resulting in a 40.7* percent decrease in HEPS.

^ *Represents low value and short-term leases as defined by IFRS 16.*
^^ *Represents operating leases as defined by IAS 17.*
* *Based on information for the current period and restated, as well as pro forma information for comparable purposes as defined on pages 4 and 5.*

Overview of our business

Telkom announced its group interim results for the period ended 30 September 2019 on 12 November 2019 in Centurion, South Africa.

2.0 million
Consumer home broadband customers – highest broadband number in the history of Telkom

558 petabytes
fixed-line broadband data consumption increase of
14.2%

14.1% increase in total **data revenue***
across the group

Message from group chief executive officer (GCEO)

Sipho Maseko

Telkom delivered a solid revenue performance, increasing by 4.7 percent to R21.5 billion, despite the weak economic environment where South Africa escaped a technical recession in the first half of the year. The change in technology and our strategy to accelerate the upgrade to new technologies to retain our customers continues to put pressure on our fixed revenue across the businesses. Notwithstanding the significant decline in traditional voice and interconnection revenue of 19.1 percent, the ongoing investment in new revenue streams continues to drive the overall growth of the group despite of the weak economy, intense competition and significant pressure from the traditional fixed business.

Mobile service revenue continues to be the main driver of revenue growth increasing by 56.6 percent to R5 602 million. This was supported by a significant increase in customer base. Our mobile business remains the fastest growing business in the market with market share gains underpinned by our affordable broadband-led propositions, which resonate with our customers.

Our strategy to separate the real estate property portfolio to increase management focus yielded good results. Gyro contributed positively to the group through an **11.7 percent growth in masts and towers revenue**.

Despite the pressure from Enterprise customers deferring spend and consume more products and services for less, IT revenue from BCX was flat compared to prior year.

Changing technology remains a key challenge in our business. Our strategy to accelerate the upgrade of customers to next-generation technologies led to a 19.1 percent decline in fixed voice and interconnection revenue across the group. Despite this, Openserve's and BCX's overall revenue decline were contained at 8.5 percent and 3.3 percent respectively, due to growth generated by next-generation revenue.

Our capital investment of R4.2 billion continues to underpin our growth, with a capital expenditure (capex) to revenue ratio of 19.7 percent invested in our key growth areas – mobile and fibre. More than 50 percent of the capital investment was in the mobile business, increasing by 66.1 percent to R2.2 billion when compared to the prior period, to support growth in the mobile business and to prepare for the accelerated upgrade of customers to LTE and fibre. In the period, we increased our coverage by increasing our mobile base stations integrated by 24.9 percent to 5 476 and implemented our new roaming agreement to supplement our own network.

Our sustainable cost management programme delivered positive results. Underlying group operating expenses were flat** compared to the prior period in an increasing inflation environment. This was pronounced in the BCX environment, where EBITDA grew 22.6** percent on a standalone basis following an organisational restructuring in the prior year. Despite the benefits of the cost management programme, overall group EBITDA was down 4.3** percent. This was impacted by the costs associated with growth in the mobile business, including a one-off cost related to utilising two roaming partners in the first half of the year. We remain focused on operational efficiencies while our revenues evolve, and we manage the impact of inflation in our expenses.

Sipho Maseko
Group chief executive officer

** Total data revenue is fixed and mobile data revenue.*
*** Based on information for the current period and restated, as well as pro forma information for comparable purposes as defined on pages 4 and 5.*

Financial capital

Key features

Financial information summary	Reported IFRS 16 September 2019 Rm	IAS 17* September 2019 Rm	September 2018 Rm	Variance** %
Group operating revenue[1]	21 479	21 479	20 511*	4.7
EBITDA	5 604	5 040*	5 267**	(4.3)
Capital expenditure	4 238	4 238	3 276	29.4
Adjusted free cash flow	(1 267)	(1 267)	138*	(1 018.1)
Headline earnings per share (cents)	183.4	194.3*	327.8*	(40.7)
Net debt to EBITDA (times)	1.4	1.2*	0.8	0.4
Interim dividend (cents)	71.5	71.5	112	(35.7)

[1] *During the period we restated the prior period revenue by R336 million to exclude SOX. This revenue adjustment led to a restatement of the prior period number from R20 847 million to R20 511 million.*

* *Based on information for the current period and restated, as well as pro forma information for comparable purposes as defined on pages 4 and 5.*
** *IAS 17 September 2019 vs pro forma September 2018.*
*** *Source: Africa Analysis FTTH Market June 2019.*

Group revenue growth driven by the mobile business

Group revenue increased 4.7* percent to R21 479 million, mainly driven by a 56.6 percent increase in **mobile service revenue** underpinned by accelerated capital investment and the mobile broadband-led proposition. Gyro contributed positively to the group with a revenue growth of 11.7 percent driven by the **masts and towers business** while IT revenue from BCX increased 0.2 percent despite the weak economy.

The growth in group revenue was partially offset by the traditional business, where **fixed voice and interconnect revenue** declined by 19.1 percent. This was impacted by the upgrade of customers to new technologies. Within the fixed business, we are seeing strong revenue growth in the next-generation technologies, albeit from a lower base and not sufficient to offset the decline in the traditional businesses. The revenue from the next-generation technologies is at a lower price point and we need a significant increase in traffic to make up for the price differential; in certain instances we need 2 to 2.5 times more traffic.

Group EBITDA reduction driven by higher costs associated with mobile

Underlying group EBITDA decreased by 4.3* percent to R5 040* million, with an EBITDA margin of 23.5* percent (H1 2019: 25.7* percent). This excludes the IFRS 16 benefit of R564 million in the period and a VSP and VERP cost of R282 million in the prior period. The benefits of the headcount restructuring were realised despite an average annual salary increase of 6 percent implemented from 1 April 2019. The **overall EBITDA performance** was impacted by a significant increase in the costs associated with the mobile business growth, including a once-off cost of R132 million relating to utilising two roaming partners in the first half of the year. Even though the associated mobile costs increased by R1 325 million, total mobile revenue increased by R2 362 million.

Group HEPS mainly impacted by finance charges and fair value movements

Reported HEPS decreased 36.1* percent to 183.4 cents per share, mainly due to lower profit before tax. On an IAS 17 basis and excluding the VERP and VSP cost in the prior period, HEPS decreased 40.7* percent to 194.3* cents and BEPS decreased 39.7* percent to 187.7* cents, impacted by lower profit before tax. The lower profit is mainly attributable to a significant increase in net finance charges and fair value movements of 87.0 percent relating to the increase in the finance charges, cost of hedging increase as a result of the increase in the forward exchange contracts (FEC) order book, and foreign exchange and fair value movements.

Group capital investment for future growth

Capital investment of R4 238 billion, with capex to revenue of 19.7 percent, underpins growth. More than 50 percent of the capital investment was in the mobile business, increasing by 66.1 percent to R2.2 billion when compared to the prior period. We are seeing good returns, with mobile service revenue increasing by 56.6 percent. The accelerated investment was to support growth in the mobile business and to prepare for the accelerated upgrade of customers to LTE and fibre. The investment in fibre to the home (FTTH) was rationalised as we focus on areas showing a propensity for higher connectivity rates. Our FTTH connectivity rate improved to 42.6 percent, the highest connectivity rate in the market***. We increased our investment in the packet optical transport network, which will future-proof the core network. This is the foundation for software-defined networks and network function virtualisation capability.

Financial capital continued

Capex	September 2019 Rm	September 2018 Rm	Variance %
Fibre	381	598	(36.3)
Mobile	2 246	1 352	66.1
Operations support system (OSS)/ business support system (BSS)	81	134	(39.6)
Network rehabilitation/sustainment	76	81	(6.2)
Service on demand	551	560	(1.6)
Core network	459	383	19.8
Other	78	37	110.8
Telkom	3 872	3 145	23.1
BCX	283	106	167.0
Gyro	76	5	1 420.0
Other			
Yellow Pages	7	20	(65.0)
Total	**4 238**	**3 276**	**29.4**
Capex to revenue ratio (%)	19.7	16.0	

Strong balance sheet to fund future growth

On an IAS 17 basis Telkom's net debt to EBITDA (annualised) is 1.2 times. Net debt excluding the impact of IFRS 16 increased to R11 775 million (FY2019: R8 813 million). Group cash balances declined to R1 002 million (FY2019: R1 428 million), mainly due to higher capex to fund the mobile infrastructure rollout, which has supported the mobile revenue growth.

The growth in borrowings is in line with our strategy to fund capex through long-term debt as the group moves to an optimal capital structure.

Balance sheet	Reported IFRS 16 September 2019 Rm	IAS 17* September 2019 Rm	March 2019 Rm	Variance** %
Bank and cash balances	1 002	1 002	1 428	(29.8)
Current borrowings	(4 979)	(3 991)*	(5 401)	(26.1)
Non-current borrowings	(11 836)	(8 786)*	(4 840)	(81.5)
Net debt	**(15 813)**	**(11 775)**	**(8 813)**	**33.6**
Net debt to EBITDA (times)	**1.4**	**1.2**	**0.8**	**0.4**

* *Information for the current period and restated as well as pro forma information for comparable purposes and defined on pages 4 and 5.*
** *IAS 17 September 2019 vs pro forma September 2018.*

Free cash flow impacted by capex

Adjusted free cash flow weakened to negative R1 267 million (H1 FY2019: positive R138 million) due to a R1 billion increase in cash paid for capex, a 30.9 percent growth compared to the prior period.

Free cash flow	September 2019 Rm	Restated September 2018 Rm	Variance %
Cash generated from operations	4 446	3 988	11.5
Add back: Repayment of lease liability	(389)	–	(100.0)
Interest received	116	185	(37.3)
Finance charges paid	(646)	(342)	(88.9)
Taxation paid	(753)	(483)	(55.9)
Cash generated from operations before dividend paid	2 774	3 348	(17.1)
Cash paid for capital expenditure	(4 203)	(3 210)	(30.9)
Free cash flow	**(1 429)**	**138**	**(1 135.5)**
Add back: VERP and VSP costs paid	162	–	100.0
Adjusted free cash flow	**(1 267)**	**138**	**(1 018.1)**

Progress against medium-term guidance

	FY2019 – FY2021	H1 FY2020 Actual
Operating revenue	Mid-single digit	4 .7%
EBITDA growth	Mid-single digit	(4.3%)*
Capex to revenue	16% – 20%	19.7%
Net debt to EBITDA (times)	1 – 1.2	1.4

Note: Excludes corporate action.

Productive capital

openserve

Changing technology remains a key challenge in the fixed business environment. The ongoing upgrade of customers to new technologies accelerated in the first half of the year, resulting in a 21.3 percent decline in traditional voice compared to the prior year. Notwithstanding the significant decline in traditional voice revenue, Openserve's overall revenue was resilient with a decline of 8.5 percent as the decline in fixed voice was partially offset by growth in next-generation revenue. Openserve continues to extract efficiencies from modernising the network. This is evident in operating expenses reducing by 5.0 percent compared to the prior year. However, the cost savings were not sufficient to offset the decline in revenue, resulting in an overall decline in EBITDA.

FTTH

connectivity rate increased to

42.6%

Total expenses

declined by

5.0%

Performance overview

Revenue decline was contained at 8.5 percent to R7 926 million despite voice revenue decreasing by 21.3 percent, which was caused by the upgrade of customers from traditional to next-generation technologies. Our ongoing investment in next-generation technologies enabled us to partially offset the decline in traditional revenue with data revenue growing by 5.0 percent, supported by revenue from next-generation fibre and ethernet products, which grew by 51.8 percent albeit from a lower base. Through focusing on commercialising our network, we increased fibre to the base stations by 7.4 percent to 7 388 as mobile operators expand their networks. The growing data demand in the enterprise market is catered for through the provisioning of fibre-based ethernet links, which increased by 28.5 percent to 42 417 service connections. The investment in FTTH was rationalised to focus on areas showing a propensity for higher connectivity rates. Our FTTH connectivity rate improved to 42.6 percent from 35.6 percent, the highest connectivity rate in the market*.

Underlying EBITDA declined by 16.9 percent mainly driven by a reduction in revenue. However, the reduction was contained by a 5.0 percent decrease in total expenses as we continue to extract operational efficiencies by modernising our network. Our cost optimisation programme included employee optimisation and operational efficiencies, which contributed positively and resulted in an 8.3 percent decrease in employee costs.

** Source: Africa Analysis FTTH Market June 2019.*

Modernising the network

We are on a continuous path to evolve our current Internet Protocol (IP) and ethernet network to an all-IP transport network. To this end, we invested R1.4 billion in the period under review to modernise our network. The evolution to an all-IP transport network will ensure that we drive the cost per bit down. This will also lay the foundation for a future-proof core and aggregation network, enabled for software-defined and network function virtualisation capabilities.

Transforming service delivery

Through modernising our network, we extract operational efficiencies. These efficiencies were derived utilising digital processes, thus improving our services delivery capability. This resulted in an improvement of 39.8 percent improvement in average time to repair and 39.0 percent in average time to install our next-generation access services. Our drive to upgrade traditional access technologies to next-generation access technologies played a significant part in improving productivity. There was a reduction of 38.8 percent in assurance visits and a 31.9 percent reduction in the re-dispatch rate. This progress makes us confident that we can position Openserve to deliver a seamless client experience across all segments. The 29.0 percent improvement in Net Promoter Score® results is indicative of our quest to improve service delivery. We continue to focus on leveraging our network capabilities and retaining our client base, while balancing profitability and driving monetisation of our network.

Productive capital continued

Telkom
Consumer

Mobile service revenue remains the main driver of revenue growth and increased by 56.6 percent to R5 602 million, supported by a higher subscriber base. Our mobile business continues to be the fastest growing business in the market with market share gain underpinned by our affordable broadband-led propositions, which continue to resonate with customers. The accelerated capital investment in the mobile business was accelerated to cater for the demand in mobile and the accelerated upgrade of copper-based services. Our capital investment in the wireless network has enabled us to increase our 4G network and capacity.

75.7%
increase in mobile subscriber base to
11.5 million

Mobile service revenue up
56.6%
to
R5.6bn

Performance overview

Consumer operating revenue grew by 16.9 percent to R10 586 million driven by mobile service revenue growth of 56.6 percent to R5 602 million. This was underpinned by a 75.7 percent increase in the mobile subscriber base to 11.5 million. In anticipation of the new roaming agreement, we increased our dealer footprint. However, we unfortunately experienced unsavoury dealer behaviour that drove the pre-paid acquisition of the low-end value voice-only subscribers. We have since rebalanced the base, after implementing punitive action against the selected dealers, but this has resulted in the 13.3 percent decline in pre-paid average revenue per user (ARPU). Post-paid ARPU declined by 7.0 percent, primarily due to the repositioning of entry-level deals.

The 19.8 percent decline in fixed revenue was impacted by the upgrade of copper-based services to LTE technology. We made progress on the migration of traditional copper-based services to fibre and wireless technologies, with more than 300 000 subscribers over the past 18 months being upgraded to new technology voice, LTE and fibre. Customers have responded positively to the new propositions, which provide better value and more reliable customer experience. The upgrade of existing voice and DSL services has been seen to yield success in areas prone to poor copper network and cable theft. The upgrade is underpinned by our expanding TDD/LTE supporting voice capabilities or FTTH if within the targeted upgrade footprints.

Consumer data revenue increased by 27.0 percent to R5 292 million due to our competitive data-led customer propositions. The wireless broadband space has become a highly contested market in the first half of the year. We evolved the portfolio to include entry-level pre-paid and post-paid plans, thereby driving inclusivity across all segments. The publicity around social media, coupled with the need for cost-effective alternatives in providing connectivity, resulted in Telkom developing additional value-added social media bundles available to all pre-paid and post-paid customers. In addition, we leveraged off the recently implemented roaming partnership agreement by launching a new portfolio of mobile data plans which offer increased value to customers outside our existing owned footprint.

The steadfast growth in mobile is supported by our 4G-driven network expansion programme with a capital investment of R2 246 million. As a result, we increased our base stations integrated by 24.9 percent to 5 476, of which 72.0 percent are LTE capable.

During the period under review we transitioned to a new roaming partner, with the new agreement allowing us to offer 4G services nationally and tap new geographical markets supplementing our own network. For the first three months of the financial year, we utilised two roaming partners simultaneously resulting in a once-off roaming cost.

Underlying Consumer EBITDA grew 78.7 percent with EBITDA margin expanding to 3.4 percent, underpinned by strong mobile growth and specific cost containment initiatives implemented. Underlying Mobile EBITDA grew 67.5 percent to R772 million, with EBITDA margin expanding to 10.8 percent from 9.6 percent in the prior period, despite the once-off roaming cost of R132 million due to a transition to a new roaming partner and underwriting the accelerated upgrade costs.

Productive capital continued

BCX's restructuring programme was designed to stabilise and transform the business. It delivered notable efficiencies after a year of implementation. This was underpinned by the ongoing cost optimisation programme, which led to a growth of 22.6 percent in EBITDA despite the decline in revenue impacted by weak economic growth and continued deterioration in fixed voice revenue.

Across industries, customers in the private and public sectors, are driving efficiencies and consume more products and services for less money, which has put pressure on growth – particularly for our IT business.

EBITDA
increased by
22.6%

Hardware sales
increased by
40.5%

Performance overview

Revenue declined by 3.3 percent to R9 556 million, mainly driven by the **fixed voice revenue** decline of 14.3 percent. The decline was most pronounced in the small and medium business sector, followed by the public sector. We continue to upgrade voice customers to next-generation technology to reduce customer churn. As a result, next-generation voice revenue lines increased by 15 percent year on year, albeit from a lower base. We also continued our focus on driving the upgrade from traditional data services, such as diginet, to next-generation data services, such as metro-ethernet. Traditional data revenue declined 7.0 percent and next-generation date revenue grew 22.0 percent as data demand intensified.

IT revenue increased 1 percent compared to the prior period. This was supported by a growth of 7.6 percent in application solutions, in line with our strategy to drive growth in solutions, based on our own intellectual property. Hardware sales contributed positively, with a growth of 40.5 percent through sales efforts taking advantage of hardware refresh cycles. Hardware sales will improve our opportunities to cross-sell other ICT services and increase our share of the customer wallet. The cloud and IT infrastructure services declined by 15.2 percent as a result of the delayed launch of the BCX cloud platform and the reduction in demand in the traditional hosting platform.

In the prior period, BCX went through a **restructuring process** that successfully reduced the organisation's cost to serve. The EBITDA margin increased from 13.2 percent in the prior year to 16.8 percent in the period under review, despite the decline in traditional high-margin business. Underlying EBITDA improved 22.6 percent. The significant increase in the underlying EBITDA was underpinned by our ongoing cost optimisation programme, which includes employee optimisation.

The business review portfolio programme is complete. It removed the complexity of the BCX group by reducing the number of legal entities from 34 to 5. The remaining international subsidiaries were retained for cross-border presence. Through this process, SOX and the Tanzania business were disposed of during the period, with BCX Nigeria classified as an asset held for sale.

We are focused on re-inventing customer experience and increasing the ease of doing business with BCX. We are implementing technologies to digitise touchpoints across the customer journey. We have renewed focus on developing industry-specific solutions and investing in the ecosystems of our partners to extend the depth and breadth of our capability. We are resolving individual client pain points via our "Smart Client Loop Closure" process and addressing systemic issues in our systems, processes and people. Emphasis is placed on simplification, especially regarding our processes and offerings, and enabling our frontline employees to serve our clients. All these client experience improvement interventions should collectively fast track our journey to become the most promoted end-to-end ICT provider in the South African business market.

Productive capital continued

Gyro

In line with our strategy mandate of optimising the masts and towers portfolio, undertaking development planning for selected properties, and optimising the group's property-related expenditure, the execution of our priorities shows encouragement and revenue and EBITDA are demonstrating strong growth.

Revenue increased by **49.9%** to **R865m**

EBITDA increased by **99.4%** to **R646m**

Performance overview

For the period under review, **revenue grew** by 49.9 percent to R865 million, mainly driven by our masts and towers portfolio, augmented by demand for sites by Telkom Mobile, as well as new leases from external tenants, which led to masts and towers revenues increasing by 44.1 percent.

Underlying EBITDA increased by 99.4 percent to R646 million and the EBITDA margin expanded by 18.5 percentage basis points to 74.7 percent, driven by revenue growth and active cost management. We continue to implement utility expenditure reduction tactics underpinned by a portfolio-wide energy and utility efficiency management plan. The consolidation of Telkom and subsidiaries to reduce space costs, and to enhance productivity and operational efficiencies will continue as another main activity in the second half of the financial year.

Masts and towers portfolio

Our productive portfolio comprises approximately 3 800 towers, made up of 1 300 core portfolios and 2 500 growth portfolios. Gyro is planning to build 2 000 new towers in the next three years. There are 1 200 sites in the new build pipeline with at least 220 sites planned for construction in the coming year. As part of enhancing penetration of 4G and preparation for 5G requirements, we are pursuing small cell opportunities. We went live with our first small cell site with a full service offering to mobile network operators (MNOs). We believe this plug-and-play solution will be suitable for MNO 4G densification and 5G rollout requirements.

Property portfolio

We continue to **evaluate individual properties** for highest and best use and for hold or sell segmentation. As a result of the portfolio segmentation process, identified properties that are suitable for greenfield and brownfield developments are under development planning. Properties core to Telkom operations have been set aside for regional optimisation to increase efficient space use. Non-core properties not suitable for operational use or development and redevelopment are in the process of disposal or repurposing. Approximately 156 properties are being evaluated of which 34 have been identified as "properties held for sale". Some of the properties will be up for sale during the financial year. Gyro is at advanced stages of development planning for approximately 16 properties. A further 40 properties with development potential will undergo market research to determine best use and suitable development projects.

To reduce **property occupancy expenditure** for Telkom and its subsidiaries, we are consolidating office and warehouse space in major cities. Consolidation will contribute to enhancing productivity and business efficiencies. We continuously seek ways to reduce our utility consumption and related expenditure. To this end, we implemented several initiatives, including electricity tariff assessments, smart metering and data analytic tools. Disposal of assets contribute to reducing occupancy costs, primarily through reduction in utility consumption and utility charges.

Productive capital continued

Telkom
Small & Medium
Business

The dedicated Telkom SMB business unit follows a workstream-driven approach with three focus areas to enhance value propositions, build a digital platform and introduce adjacent market propositions.

Formation of **Telkom**
SMB business unit
nearing completion

Development on the
creation
of a
digital marketplace

Dedicated SMB BU

The formation of the Telkom SMB business unit is nearing completion, and the final identification of the BCX customers to be serviced by the segment will be concluded during the second half of the year. As such, the financials for the division have not been reported separately.

Key focus areas for the SMB business unit are the optimisation of internal and external sales channels, developing new product bundles that incorporate connectivity, IT and marketing services, and streamlining resource deployment and management structures across SMB, Yellow Pages and BCX.

New propositions

The first consolidated bundle, incorporating mobile or fibre connectivity, a mobile payment solution and multipage website was launched in October 2019. This bundle is ideal for early and mature startup entities that need an affordable connectivity solution and want to expand their presence via digital marketing solutions.

Achieving the lowest cost to service for small and medium entities (SMEs) remains a priority and, as such, the optimisation across resources including the rationalisation of traditional costs has remained a focus. To optimise the return on sales capabilities, we have begun to equip the Yellow Pages direct sales force with the skills required to drive the sales of connectivity and value-added services in addition to leveraging back-office capabilities to improve turnaround in customer order fulfilment.

Digital platform

Work commenced on building the SMB digital platform. The first phase of the project is testing and is expected to improve the customer purchase and service journeys via a true omnichannel experience that spans over popular social media platforms in addition to the Telkom SMB website.

eMarketplace

Development commenced on the creation of a digital marketplace. This will leverage the enhancements implemented on the Yellow Pages platform to enable consumers to find small businesses and facilitate the trade between small businesses, corporate and government. The rollout of these capabilities is expected to be ready by the first quarter of the next financial year.

Human capital

Investing in our people is one of the most significant costs to our business. It impacts short-term financial capital, but generates longer-term returns.

Transformation

We believe that workplace transformation is greater than just employment equity and a scorecard. Transformation speaks to culture, empowerment, diversity and respect. As part of our focus on empowering the youth of South Africa, we supported learnerships and internships for employed and unemployed people and disabled black youth. The total group workforce as at September 2019 is 15 197 employees. Women represent 30 percent of our employees, and we have a female promotion rate of 38 percent. We remain committed to increasing female representation in the group. The Female Leadership Development programme and other development initiatives are positive influences in impacting our female promotion figures.

Embedding a learning culture

With the dynamic technological advances in the ICT space, and the ever-increasing role of digital and artificial intelligence (AI), certain traditional functions may be impacted. Telkom continues to develop talent within the organisation by giving employees the opportunity to acquire skills, knowledge and competencies in the roles needed for future sustainability. We adopted a blended approach, which embraces the Digital and Female Leadership Development programmes offered by the Wits Business School. The course content places emphasis on vocational job training, learnerships, graduate programmes and study bursaries required for tertiary education.

Telkom Centre of Excellence (COE) programme and SATNAC

The annual Southern Africa Telecommunication Networks and Applications Conference (SATNAC) is Africa's leading ICT conference and attracts 400 delegates every year. It is the only conference of its kind that puts students, academics and government representatives under the same roof as specialists and leaders in the industry. The conference is a parallel development to the Telkom CoE programme and is an important facet of this capacity – building programme. It provides researchers a platform to test their work with peer groups by receiving input from fellow students at other CoEs, and industry and overseas subject matter experts attending the conference. The conference creates an environment for rich networking and partnership opportunities, and is one of a few conferences recognised by higher education, whereby researchers can claim subsidies for publishing the outcome of their research.

Occupational health and safety and wellness

Telkom's total recordable injury rate reduced by 36 percent and the lost-time injury rate reduced by 37 percent compared to the prior period. No post-traumatic stress disorder cases were recorded for the period under review. This improvement is attributed to risk-based interventions facilitated by the safety, health and environmental team and the ongoing employee engagements around safety matters through "Safety Starts with Me" campaigns. The campaigns focus on promoting a safety culture and improving on the safety performance. These were held across six regions over the past six months.

Intellectual capital

We continue to focus on our key transformation drivers of process enablement, reliable service and outcomes-based delivery. Digitisation continues to be the bedrock of our transformation strategy to simplify our interfaces, interaction points and create an ecosystem that enables an easier experience.

Telkom continues to leverage applications that fit our digital architecture and we are replacing traditional tools and complex manual processes with digital-ready applications. Our focus on transforming our business support systems has gained momentum, with an infused focus on enabling our user journey across multiple platforms. As we pivot towards a more IP-based and data-led wireless network, IT plays a leading role in enabling this transformation. These range from enabling digital products faster to market, to creating simplified process maps which are more dynamic in nature, thereby fast tracking the migration of our customers from copper-based traditional products. By infusing new digital process maps that concentrate on enabling a better experience, we have been able to improve our ability to move closer towards a pre-provisioned ecosystem, thereby giving our new and upgraded customers a faster fulfilment experience.

Within digital transformation lies our ambition to utilise AI to enable a more personalised experience for our customers across all our business units and group companies. This has given us impetus in bridging potential gaps between traditional and digital sections of our business. It includes a review of our internal processes, re-engineering and introducing automation to improve its efficiency of completing tasks where required. Our journey to enhance our employees' experience led us to relook at our employee touchpoints, underpinned by the enterprise applications. We recently introduced an employee experience layer blueprint, which focuses on architectural changes that centre around employee experience management.

We further strengthened our integrated IT governance framework that is based on the King IV Code for Corporate Governance™ in South Africa, 2016[1], Control Objectives for Information and Related Technologies 2019 and ISO/IEC 38500[2]. The framework underpins key governance-led IT processes that are based on the five domains.

In operationalising the IT governance framework, all IT policies are being reviewed and re-aligned to the IT and corporate governance frameworks. IT governance forms part of the combined assurance approach and works closely with other governance structures and the risk division in aligning mandates, frameworks and forums, respectively. The IT audit findings were reduced by 54 percent in the period under review due to improvements in the control environment which are leveraged across Telkom.

Cyberattacks represent an ongoing and serious threat to the function of our systems, our information and our customers. We treat this as a significant risk area, and have mitigation plans in place. The plans protect against intrusion, malware, ransomware, viruses and data theft through scams, fraud, and phishing attacks, as well as infrastructure and application attacks that prevent business delivery. This is overseen by a dedicated information security governance team within IT governance, supported by skilled operational security specialist teams. These teams identify and manage information and cyberthreats. Additionally, all necessary Information security strategies, policies, standards and assurance processes required to maintain a secure business environment are managed and communicated to all business units through the relevant governance structures.

Telkom operates within a mature and compliant ISO 27001 information security management system environment. We identify and manage Telkom-specific cyberthreats to our business through such standards-based control frameworks.

[1] *Copyright and trademarks are owned by the Institute of Directors in South Africa NPC and all of its rights are reserved.*
[2] *International Organization for Standardization and International Electrotechnical Commission framework.*

Social and relationship capital

Though generating societal value, Telkom will create business value and vice versa. We do this through our responsible and impactable business activities and relationships.

Transformation and sustainability remain key components to our overall business. We implemented several strategic initiatives to drive transformation across the group and improve our broad-based black economic empowerment (B-BBEE) certification ratings. Telkom achieved a B-BBEE level 2 rating, improving from a level 4 B-BBEE rating achieved in the March 2019 financial year. BCX achieved a **B-BBEE level 1**, an improvement from level 3 in the March 2019 financial year.

Enterprise and supplier development (ESD)

Telkom's ESD programme, FutureMakers, demonstrates our commitment to SME development. Among the portfolio of SME dealers supported by Telkom FutureMakers, there are five multipurpose dealers who were provided financial and non-financial support in the first half of the year to the value of R1 million. The financial and non-financial assistance supported the sales and distribution of the township unleashed strategy.

Cheka Digital, a multipurpose dealer supported by FutureMakers, officially launched its digital skills programme, primarily using the BCX learning platform in township schools. FutureMakers sponsored 100 laptops that are used as virtual labs in 222 schools. The Cheka Digital dealer model allows schools to further benefit through the sales of Telkom products to individual consumers in the Tshwane district. These benefits include up to 4 percent ongoing cash back to schools on all Telkom product spend.

FutureMakers launched a social impact study to determine the impact of the 23 supported internet cafes in the communities they serve. FutureMakers continued to support Khanyubomi, a social enterprise established by Love Life in distributing Telkom products through 200 unemployed youth across Gauteng and Mpumalanga. In Gyro, FutureMakers has supported 15 suppliers in the form of short-term payments for masts and towers services, and one supplier was recently approved for a R2 million loan from the IDF Future Fund.

Yellow Pages kicked off the tied-agency model pilot with eight dealers who will be selling Yellow Pages products. Agencies have been trained for accreditation with Yellow Pages. Advertising and web design services for eight SME dealers are being procured from Yellow Pages.

The BCX sub-contractor programme, that provides ICT SMEs with access to markets, has developed a community digital platform on which ICT SMEs can register as prospective partners. It enables SMEs to provide insights into their businesses in terms of their skills and competencies, and their original equipment manufacturer partners. This will allow BCX to have a well-structured SME database highlighting the core skills of each SME, with possible business and technical gaps which could then be addressed through BCX ESD interventions. Together, we trust that we will unlock market and client opportunities in digitalisation, the fourth industrial revolution and many more developments brought by advances in ICT.

Socio-economic development

As part of the Telkom Foundation's three-phased strategy, the High School Support programme continues to support 3 000 learners and 200 learners with ICT integration into teaching and learning. Supplementary teaching in Mathematics, English and Science; and psychosocial support and leadership development are provided to prepare learners for the future of work. The foundation enabled 120 Telkom employees to volunteer during Mandela month to register 2 200 learners onto Telkom's free educational content platform in support of the ICT Integration programme.

Natural capital

Telkom's activities categorise it as a medium to low-risk organisation in terms of environmental impact. The company continues its commitment to manage and minimise its environmental impact.

Managing our environmental impacts

Telkom is cognisant of the necessity of advancing communications technology and its probability to require an increased energy demand. As a contingency plan, we endeavour to improve how we measure and manage our environmental footprint in terms of greenhouse gas (GHG) emissions, energy consumption, water use, waste disposal and impacts on biodiversity.

Telkom responded to the 2019 CDP Climate Change questionnaire. This global survey provides feedback on how well the company manages energy consumption and the GHG inventory to reduce the group's environmental impact within our operational boundary.

Telkom closely measures, monitors and manages the group's GHG inventory, as we identified energy efficiency as a primary contributor to reducing operational costs and to mitigate the impacts of climate change. To minimise the increases in energy use and associated carbon emissions, we constructed a 3 MWp solar photovoltaic (PV) farm at Telkom Park. The primary objective of the solar PV farm was to offset part of the conventional electricity supply from the 11 kV Tshwane municipality supply.

Accountability, management, compliance and regulatory

Telkom takes substantive national and international regulatory and technical developments into consideration (for example, the carbon tax in South Africa) and responds appropriately.

With recent updates to the legislation, Phase 1 of the Carbon Tax Act, 2019 in South Africa impacts Telkom's bottom line with the carbon tax added to fossil fuel procurement in its vehicles and back-up generators. We recently conducted a process of evaluating whether our operations exceed the electricity and heat production of 10 MW installed thermal capacity, as this is the applicable threshold for the carbon tax under fuel combustion activities (schedule 2). Telkom does not have large stationary boilers and, consequently, if we do exceed the threshold, it is likely to apply to our back-up generators. The initial assessment revealed that the first phase (2019 – 2022) of the Carbon Tax Act, will not have a significant impact on Telkom. To lower our risk of non-compliance, Telkom will continue to monitor existing regulations in the event of amendments.

Refrigerant gas phaseout

Telkom owns and operates a large air-conditioning portfolio and many of the systems contain R-22 refrigerant. R-22 and other ozone-depleting substances have been banned and the government has instituted a law which requires the reduction of R-22 in a phased period over the next 12 years. According to the regulation, Telkom is required to phase out R-22 refrigerant in phases to less than 65 percent by 2020, 32.5 percent by 2025 and by 2.5 percent by 2030. As at 2016, the installed base of R-22 within Telkom was 97 tonnes. In 2018, the base was reduced to 86 tonnes. To meet the 2020 target, the R-22 gas should be reduced by 63 tonnes. The company is putting measures in place to reach this target.

Outlook

We believe that the economy will remain tough and the consumer will remain under pressure.

Our sustainable cost management has started to deliver positive results to our operating expenses. We expect savings to come through in the second half of the year, which will improve EBITDA relative to H1.

We are implementing various initiatives to release cash to improve the working capital cycle. These initiatives include supply chain financing, handsets receivables financing and a programme for disposal of non-care assets. We expect to realise tangible benefits from these initiatives before the end of the guidance period.

Our capital investment strategy has enabled us to compete effectively, deliver current growth levels and broadband leadership. We intend to continue the strategic rollout of our network. Given our increasing capital requirements, we will rigorously implement the capital allocation framework which will prioritise our capital investment program to ensure the long-term sustainability of our business.

Our net debt to EBITDA ratio has increased to 1.4 times which is above our medium-term guidance due to the adoption of IFRS 16 and the funding of the mobile infrastructure rollout which has supported mobile revenue growth. We have accordingly updated our net debt to EBITDA ratio guidance to 1.5 times over the guidance period.

The capital requirement for a sustainable business is likely to impact the current dividend policy. In considering the dividend policy we will prioritise our capital investment program, maintain an investment grade credit rating and consider our cash position. Long term shareholder value remains a key priority in our capital allocation framework and we aim to deliver improved total shareholder return.

The information contained in this outlook statement has not been reviewed or reported on by Telkom's auditors.

Dividend policy remains unchanged

Our policy is to pay an annual dividend of 60 percent of headline earnings with an interim dividend of 40 percent of interim headline earnings.

Declaration of dividend

In line with our dividend policy, the board declared an interim gross ordinary dividend number 25 of 71.52636 cents per share.

The declared dividend is payable on Monday, 2 December 2019 to shareholders recorded in the register of the company at close of business on Friday, 29 November 2019. The dividend will be subject to a local dividend withholding tax rate of 20 percent, which will result in a net final dividend of 57.22109 cents per ordinary share to those shareholders not exempt from paying dividend withholding tax. The ordinary dividend will be paid out of available cash balances.

The number of ordinary shares in issue at date of this declaration is 511 140 239. Telkom SA SOC Ltd's tax reference number is 9/414/001/710.

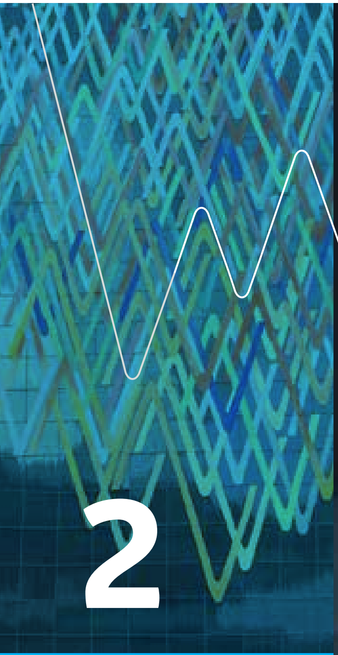
Salient dates with regard to the ordinary interim dividend

Declaration date	**Tuesday, 12 November 2019**
Last date to trade cum dividend	**Tuesday, 26 November 2019**
Shares trade ex-dividend	**Wednesday, 27 November 2019**
Record date	**Friday, 29 November 2019**
Payment date	**Monday, 2 December 2019**

Share certificates may not be dematerialised or rematerialised between Wednesday, 27 November 2019 and Friday, 29 November 2019, both days inclusive.

On Monday, 2 December 2019, dividends due to holders of certificated securities on the South African register will be transferred electronically to shareholders' bank accounts.

Dividends in respect of dematerialised shareholders will be credited to shareholders' accounts with their relevant central securities depository participant or broker.



2

Operational data

Operational data

Subscribers

	September 2019	September 2018	Variance %
Broadband subscribers			
Fixed broadband subscribers[1]	781 255	974 181	(19.8)
Mobile broadband subscribers	7 822 178	4 751 688	64.6
Fixed subscribers			
Closer subscribers	564 045	781 542	(27.8)
Internet all access subscribers[2]	476 763	550 606	(13.4)
Fixed access lines ('000)[3]	1 975	2 566	(23.0)
Revenue per fixed access line (Rand)	2 234	2 175	2.7
Fixed voice ARPU (Rand)	338.62	359.09	(5.7)
Fixed broadband ARPU (Rand)	199.49	194.42	2.6
Managed data network sites	41 655	45 385	(8.2)
Mobile subscribers			
Active mobile subscribers[4]	11 501 458	6 545 101	75.7
Pre-paid	9 398 448	4 877 613	92.7
Post-paid	2 103 010	1 667 488	26.1
ARPU (Rand)	82.31	104.28	(21.1)
Pre-paid	61.29	70.68	(13.3)
Post-paid	178.04	191.47	(7.0)
Pre-paid churn (%)	64.3	53.2	(11.1)
Post-paid churn (%)	14.0	12.5	(1.5)
Blended churn (%)	56.7	44.6	(12.1)

[1] *Includes xDSL and FTTH lines of which 5 753 (H1 FY2019: 6 420) are internal lines.*
[2] *Includes Telkom Internet ADSL, ISDN and WiMAX subscribers.*
[3] *Includes copper voice and broadband, ISDN and fixed look-a-like (FLLA). Excludes Telkom internal lines.*
[4] *Based on a subscriber who participated in a revenue-generating activity within the last 90 days.*

	September 2019	September 2018	Variance %
Volumes			
Fixed broadband data volumes (petabytes)	558	488	14.2
Mobile broadband data volumes (petabytes)	265	159	66.7
Total fixed-line traffic (millions of minutes)	4 708	5 630	(16.4)
Network			
Ports activated via MSAN access	1 479 027	1 446 800	2.2
Fibre to the home	458 905	393 101	16.7
Fibre to the cabinet	2 421 145	2 286 595	5.9
Mobile sites integrated	5 476	4 383	24.9
LTE sites integrated	3 924	2 607	50.5
Active fibre connectivity rate (%)	42.6	35.6	7.0
Group employees[5]	15 197	17 862	(14.9)
Telkom company employees	9 544	9 952	(4.1)
Consumer	1 095	1 151	(4.9)
Openserve	8 025	8 527	(5.9)
Corporate Centre	424	274	54.7
BCX group employees	5 374	7 432	(27.7)
Yellow Pages group employees	184	380	(51.6)
Gyro employees	95	98	(3.1)

[5] *Based on number of group permanent employees.*

3

Financial performance

Financial performance information update

Pro forma condensed consolidated interim statement of profit or loss

	Reported IFRS 16 September 2019 Rm	IAS 17 September 2019* Rm	Pro forma* September 2018 Rm	Variance** %
Revenue from contracts with customers	21 479	21 479	20 511	4.7
Payments to other operators	1 794	1 794	1 285	(39.6)
Cost of handsets, equipment and directories	2 937	2 937	2 287	(28.4)
Sales commission, incentive and logistical costs	995	995	628	(58.4)
Other income	322	322	192	67.7
Operating expenses	10 471	11 035	11 236	1.8
Employee expenses	4 760	4 760	5 161	7.8
Other operating expenses	1 304	1 304	1 413	7.7
Maintenance	2 004	2 004	2 141	6.4
Marketing	309	309	408	24.3
Impairment of receivables and contract assets	269	269	53	(407.5)
Service fees	1 599	1 599	1 380	(15.9)
Operating leases	226^	790^^	680^^	(16.2)
EBITDA	5 604	5 040	5 267	(4.3)
Depreciation, amortisation, impairment and write-offs	3 412	2 956	2 791	(5.9)
Operating profit	2 192	2 084	2 476	(15.8)
Investment income	42	42	104	(59.6)
(Loss)/Income from associates	11	11	6	83.3
Finance charges and fair value movements	1 002	819	438	(87.0)
Net finance charges	864	681	563	(21.0)
Cost of hedging	116	116	76	(52.6)
Foreign exchange and fair value movements	22	22	(201)	(110.9)
Profit before taxation	1 243	1 318	2 148	(38.6)
Taxation	358	379	561	32.4
Profit for the period	885	939	1 587	(40.8)

* Based on information for the current period and restated, as well as pro forma information for comparable purposes as defined on pages 4 and 5.
** IAS 17 September 2019 vs pro forma September 2018.

^ Represents low value and short-term leases as defined by IFRS 16.
^^ Represents operating leases as defined by IAS 17.

Notes

Payments to other operators increased 39.6 percent, mainly because of higher payments to mobile operators in line with the 88.8 percent increase in our mobile voice and subscription revenue.

Costs of handsets, equipment and directories increased 28.4 percent following an increase in mobile handset and equipment sales of 26.4 percent.

Sales commission, incentive and logistical costs increased 58.4 percent, mainly due to the increase in mobile acquisition costs driven by the 92.7 percent increase in mobile pre-paid subscribers.

Employee expenses declined 7.8 percent as a result of the staff optimisation programme. Full-time employees decreased by 14.9 percent, to 15 197.

Marketing expenses decreased 24.3 percent as a result of controlled marketing spend.

Impairment of receivables and contract assets increased to R269 million (H1 FY2019: R53 million), mainly due to the 50.1 percent growth in mobile revenue and an IFRS 9 adjustment relating to a write-off provision recording in the prior period.

Service fees increased 15.9 percent attributable to higher property management costs due to the increase in mobile sites rolled out, as well as higher electricity and maintenance costs.

Operating leases increased 16.2 percent as a result of the 24.9 percent increase in mobile sites.

Investment income decreased 59.6 percent due to the 52.4 percent decline to R1 002 million in our cash balances (H1 FY2019: R2 105 million).

Finance charges and fair value movements **increased 21.0 percent and 110.9 percent, respectively. The increase in finance charges is attributable to the R2.4 billion increase in interest- bearing debt from March 2019. The cost of hedging increased as a result of an increase in FECs**. Foreign exchange and fair value movement increased, largely driven by losses due to the volatility of foreign exchange and the impact of the lower interest rate environment on the valuation of interest rate swaps. The company pays the fixed interest leg of the swap and receives the floating interest leg. The current fixed rates are higher than the floating rates received, and market expectations have changed since the first quarter of 2019.

Taxation decreased 32.4 percent due to the lower profit before tax, partially offset by the impact of the increase of the effective tax rate to 28.8 percent (H1 FY2019: 26.1 percent)

Operating revenue

	September 2019 Rm	September 2018 Rm	Variance %
Fixed	**10 374**	**11 683**	**(11.2)**
Voice and subscriptions	4 420	5 456	(19.0)
Usage	1 633	2 039	(19.9)
Subscriptions	2 787	3 417	(18.4)
Interconnection	328	410	(20.0)
Fixed-line domestic	157	176	(10.8)
Fixed-line international	171	234	(26.9)
Data	4 780	4 944	(3.3)
Data connectivity	3 291	3 442	(4.4)
Internet access and related services	992	995	(0.3)
Managed data network services	488	488	(0.1)
Multimedia services	10	19	(49.5)
Customer premises equipment sales and rentals	769	789	(2.6)
Sales	243	269	(9.8)
Rentals	526	520	1.2
Other revenue	77	84	(8.3)
Mobile	**7 073**	**4 711**	**50.1**
Mobile voice and subscriptions	1 489	789	88.8
Mobile interconnection	206	120	71.5
Mobile data	3 907	2 669	46.4
Mobile handset and equipment sales	1 338	1 058	26.4
Significant financing component revenue	133	75	77.5
Information technology	**3 445**	**3 438**	**0.2**
Information technology service solutions	1 880	2 103	(10.2)
Application solutions	877	801	9.5
IT hardware and software	627	467	34.3
Industrial technologies	61	67	(9.0)
Other	**587**	**679**	**(13.5)**
Trudon	233	353	(34.0)
Gyro	354	317	11.7
VS Gaming	–	9	(100.0)
Total	**21 479**[1]	**20 511**	**4.7**

[1] *During the year we restated the prior period revenue by R337 million to exclude SOX. This revenue adjustment led to a restatement of the prior period number from R20 847 million to R20 511 million.*

Revenue variance explanations

Fixed-line voice usage and subscription revenue decreased by 19.0 percent to R4 420 million (H1 FY2019: R5 456 million) as the declining trend accelerated, driven by the upgrade to new technologies and a 23.0 percent decline in the number of fixed-access lines.

Fixed interconnection revenue decreased 20.0 percent to R328 million (H1 FY2019: R410 million), mainly due to lower traffic volumes.

Fixed data connectivity services decreased 4.4 percent to R3 291 million (H1 FY2019: R3 442 million). This is due to the decline in traditional revenue streams, offset by the increase in fibre and new data products including FTTH and metro-ethernet.

Mobile voice and subscriber revenue increased 88.8 percent to R1 489 million (H1 FY2019: R789 million). This is attributed to a 75.7 percent increase in the number of active mobile subscribers.

Mobile data revenue increased 46.4 percent to R3 907 million (H1 FY2019: R2 669 million) driven by our strategy to focus on data, which led to an increase in mobile data traffic.

Information technology is flat at R3 445 million (H1 FY2019: R3 438 million), mainly due to a decrease in information technology service solutions revenue partially offset by an increase from application solutions revenue.

Condensed consolidated statement of financial position

	Reported IFRS 16 September 2019 Rm	March 2019 Rm	Variance %
Assets			
Non-current assets	43 467	37 961	14.5
Property, plant and equipment	33 206	32 035	3.7
Right-of-use assets	3 912	–	100.0
Intangible assets	4 678	4 521	3.5
Other investments	89	78	14.1
Employee benefits	878	729	20.4
Other financial assets	198	133	48.9
Finance lease receivables	178	210	(15.2)
Deferred taxation	328	255	28.6
Current assets	15 839	14 783	7.1
Inventories	1 194	1 267	(5.8)
Income tax receivable	180	76	136.8
Finance lease receivables	106	108	(1.5)
Contract asset	2 810	2 518	11.6
Cash and cash equivalents	1 218	1 428	(14.7)
Trade and other receivables	8 286	7 425	11.6
Other financial assets	395	388	1.8
Other investments	1 650	1 573	4.9
Asset of disposal group classified as held for sale	–	200	(100.0)
Total assets	**59 306**	**52 944**	**12.0**
Equity and liabilities			
Equity attributable to owners of the parent	29 568	29 573	(0.0)
Share capital	5 050	5 050	(0.0)
Share-based compensation reserve	643	512	25.6
Non-distributable reserves	1 540	1 621	(5.0)
Retained earnings	22 335	22 390	(0.2)
Non-controlling interest	(31)	195	(115.8)
Total equity	**29 537**	**29 768**	**(0.8)**
Non-current liabilites	13 225	6 740	96.2
Interest-bearing debt	8 776	4 840	81.3
Lease	3 060	–	100.0
Provisions	734	1 193	(38.5)
Other financial liabilities	63	79	(20.3)
Deferred revenue	479	466	2.8
Deferred taxation	113	162	(30.5)
Current liabilities	16 544	16 436	0.7
Trade and other payables	7 616	7 406	2.8
Shareholders for dividend	31	29	8.5
Interest-bearing debt	3 966	5 401	(26.6)
Lease liabilities	1 013	–	100.0
Provisions	790	1 316	(40.0)
Deferred revenue	1 878	1 396	34.5
Income tax payable	591	572	3.3
Other financial liabilities	443	316	40.2
Credit facilities utilised	216	–	100.0
Total liabilities	**29 769**	**23 176**	**28.4**
Total equity and liabilities	**59 306**	**52 944**	**12.0**

Notes

The increase in the **deferred tax** balance in the current period is primarily attributable to the temporary differences arising in the group as a result of the application of IFRS 9 – Financial Instruments, IFRS 15 – Revenue from Contracts with Customers and IFRS 16 – Leases, as well as an increase in assessed losses in the group.

Cash and cash equivalents decreased 29.8 percent to R1 002 million as a result of lower cash from operations and higher capex paid.

Interest-bearing debt pre-IFRS 16 increased largely due to increased borrowings to fund capex and optimise the group's capital structure. The current portion of interest-bearing debt of R3 966 million (31 March 2019: R5 401 million) for the group as at 30 September 2019 is expected to be repaid from operational cash flow and other borrowings.

The reduction in **provisions** is largely due to the decrease in the bonus provision and actuarial gain recognised primarily driven by the decrease in the inflation rate from 5.6 percent to 5.4 percent as well as an actuarial gain on the asset and lower returns than expected.

Condensed consolidated statement of cash flows

	Reported IFRS 16 September 2019 Rm	September* 2018 Rm	Variance %
Cash flows from operating activities	1 817	2 108	(13.8)
Cash receipts from customers	20 907	19 727	5.4
Cash paid to suppliers and employees	(16 461)	(15 739)	3.9
Cash generated from operations	4 446	3 988	11.5
Interest received	116	185	(37.3)
Finance charges paid	(646)	(342)	(88.9)
Taxation paid	(753)	(483)	(55.9)
Cash generated from operations before dividend paid	3 163	3 348	(5.5)
Dividend paid	(1 346)	(1 240)	8.5
Cash flows from investing activities	(3 974)	(3 149)	(26.2)
Proceeds on disposal of property, plant and equipment and intangible assets	28	40	(30.0)
Additions to assets for capital expansion	(4 203)	(3 210)	(30.9)
Proceeds on disposal of SOX	210	–	100.0
Realisation of investment in other financial assets	–	34	(100.0)
Investments made by FutureMakers	(9)	(13)	30.8
Cash flows from financing activites	1 731	619	179.6
Loans raised	5 550	1 500	270.0
Loans repaid	(3 155)	(850)	(271.2)
Purchase of shares for the Telkom share plan and subsidiaries long-term incentive share scheme	(159)	(47)	(238.3)
Acquisition of the non-controlling interest in Trudon	(160)	–	(100.0)
Repayment of lease liability	(389)	(11)	(100.0)
Repayment of derivatives	(73)	(104)	29.8
Proceeds from settlements of derivatives	117	131	(10.7)
Net decrease in cash and cash equivalents	(426)	(422)	(0.9)
Net cash and cash equivalents at beginning of year	1 428	2 527	(43.5)
Net cash and cash equivalents at end of the period	**1 002**	**2 105**	**(52.4)**

Based on information for the current period and restated, as well as pro forma information for comparable purposes as defined on pages 4 and 5.

Notes

Cash generated from operations increased, mainly due to the R389 million reclassification of lease payments from cash paid to suppliers and employees to financing activities as a result of the implementation of IFRS 16.

Increased **finance charges paid** is largely due to increased borrowings.

Taxation paid increased primarily due to higher estimated taxable income.

Increase in payments relating to **additions to assets for capital expansion** are largely due to the acceleration of mobile capex.

The increase in **loans raised** is mainly as a result of the acceleration of mobile capex in H1. This is in line with our strategy to fund capex through long-term debt as the group moves to an optimal capital structure.

4

Reviewed condensed consolidated interim financial statements

Board approval

These condensed consolidated interim financial statements were authorised for issue on 8 November 2019 by the Telkom SA SOC Limited board of directors and published on 12 November 2019.

Directors' responsibility and audit report

The directors of the company take full responsibility for the preparation of the condensed consolidated interim financial statements. The condensed consolidated interim financial statements have been reviewed by our independent joint auditors PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc.

Preparer and supervisor of the condensed consolidated interim financial statements

These condensed consolidated interim financial statements were prepared by the Telkom finance staff under the supervision of the group chief financial officer, Tsholofelo Molefe CA(SA).

Independent auditors' review report on the condensed consolidated interim financial statements

for the 6 months ended 30 september 2019

To the Shareholders of Telkom SA SOC Limited

We have reviewed the condensed consolidated interim financial statements of Telkom SA SOC Limited set out on pages 46 to 101 in the accompanying interim report, which comprises the condensed consolidated interim statement of financial position as at 30 September 2019 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-months then ended and selected explanatory notes.

Directors' Responsibility for the Interim Financial Statements

The directors are responsible for the preparation and presentation of these interim financial statements in accordance with the International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council 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 interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. ISRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared in all material respects in accordance with the applicable financial reporting framework. This standard also requires us to comply with relevant ethical requirements.

A review of interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. We perform procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained.

The procedures in a review are substantially less than and differ in nature from those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Telkom SA SOC Limited for the six months ended 30 September 2019 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: KJ Dikana
Registered Auditor
Johannesburg

8 November 2019

Sizwe Ntsaluba Gobodo Grant Thornton Inc.

SizweNtsalubaGobodo Grant Thornton Inc.
Director: SY Lockhat
Registered Auditor
Johannesburg

8 November 2019

PricewaterhouseCoopers Inc., 4 Lisbon Lane, Waterfall City, Jukskei View, 2090, Private Bag X36, Sunninghill, 2157, South Africa

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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, VAT reg.no. 4950174682.

SizweNtsalubaGobodo Grant Thornton Inc., 20 Morris Street, East, Woodmead, 2191, PO Box 2939, Saxonwold, 2132

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Victor Sekese [Chief Executive]

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

SizweNtsalubaGobodo Grant Thornton Incorporated Registration Number: 2005/034639/21

Condensed consolidated interim statement of profit or loss and other comprehensive income

for the period ended 30 September 2019

	Notes	Reviewed six months ended 30 September 2019 Rm	Restated six months ended 30 September* 2018 Rm
Revenue	4	21 479	20 511
Other income		322	192
Payments to other operators		1 794	1 285
Cost of handsets, equipment and directories		2 937	2 287
Sales commission, incentives and logistical costs		995	628
Employee expenses	5	4 760	5 443
Other operating expenses		1 304	1 413
Maintenance	5	2 004	2 141
Marketing		309	408
Impairment of receivables and contract assets	16	269	53
Service fees		1 599	1 380
Operating leases***		226	680
EBITDA		5 604	4 985
Depreciation of property, plant and equipment	5	2 554	2 352
Depreciation of right-of-use assets	5	456	–
Amortisation of intangible assets	5	340	353
Write-offs, impairments and losses of property, plant and equipment and intangible assets	5	62	86
Operating profit		2 192	2 194
Investment income		42	104
Income from associates		11	6
Net finance charges, hedging costs and fair value movements		1 002	438
Net finance charges		864	563
Cost of hedging		116	76
Foreign exchange and fair value movements		22	(201)
Profit before taxation		1 243	1 866
Taxation		358	481
Profit for the period		885	1 385

	Notes	Reviewed six months ended 30 September 2019 Rm	Restated six months ended 30 September* 2018 Rm
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange gains on translating foreign operations**		3	26
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gains		590	1 913
Income tax relating to actuarial gains		(165)	(225)
Other comprehensive income for the period, net of taxation		428	1 714
Total comprehensive income for the period		1 313	3 099
Profit attributable to:			
Owners of Telkom		881	1 344
Non-controlling interests		4	41
Profit for the period		885	1 385
Total comprehensive income attributable to:			
Owners of Telkom		1 309	3 058
Non-controlling interests		4	41
Total comprehensive income for the period		1 313	3 099
Basic earnings per share (cents)	6	176.8	270.1
Diluted earnings per share (cents)	6	173.1	266.4

* *Restated. Refer to note 3.4, 3.5 and 3.7.*

** *This component of OCI does not attract any tax.*

*** *For the period ended 30 September 2019, 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.*

Condensed consolidated interim statement of financial position

at 30 September 2019

	Notes	Reviewed six months ended 30 September 2019 Rm	Audited 31 March 2019 Rm
Assets			
Non-current assets		43 467	37 961
Property, plant and equipment		33 206	32 035
Right-of-use assets	8	3 912	–
Intangible assets		4 678	4 521
Other investments		89	78
Employee benefits		878	729
Other financial assets		198	133
Finance lease receivables		178	210
Deferred taxation	10	328	255
Current assets		15 839	14 783
Inventories		1 194	1 267
Income tax receivable		180	76
Finance lease receivables		106	108
Trade and other receivables	16	8 286	7 425
Contract assets	16, 17	2 810	2 518
Other financial assets		395	388
Other investments		1 650	1 573
Cash and cash equivalents	9	1 218	1 428
Assets classified as held for sale	12	–	200
Total assets		**59 306**	**52 944**

	Notes	Reviewed six months ended 30 September 2019 Rm	Audited 31 March 2019 Rm
Equity and liabilities			
Equity attributable to owners of the parent		29 568	29 573
Share capital		5 050	5 050
Share-based compensation reserve		643	512
Non-distributable reserves		1 540	1 621
Retained earnings		22 335	22 390
Non-controlling interests		(31)	195
Total equity		29 537	29 768
Non-current liabilities		13 225	6 740
Interest-bearing debt	13	8 776	4 840
Lease liabilities	8	3 060	–
Employee related provisions	14	732	1 186
Non-employee related provisions	14	2	7
Other financial liabilities		63	79
Deferred revenue		479	466
Deferred taxation	10	113	162
Current liabilities		16 544	16 436
Trade and other payables		7 616	7 406
Shareholders for dividend		31	29
Interest-bearing debt	13	3 966	5 401
Lease liabilities	8	1 013	–
Employee related provisions	14	622	1 175
Non-employee related provisions	14	168	141
Deferred revenue		1 878	1 396
Income tax payable		591	572
Other financial liabilities		443	316
Credit facilities utilised	9	216	–
Total liabilities		**29 769**	**23 176**
Total equity and liabilities		**59 306**	**52 944**

Condensed consolidated interim statement of changes in equity

for the period ended 30 September 2019

	Reviewed six months ended 30 September 2019 Rm	Restated six months ended 30 September** 2018 Rm
Balance at 1 April (as previously reported)	29 768	27 358
Attributable to owners of Telkom	29 573	27 164
Non-controlling interests	195	194
Total comprehensive income for the period	1 313	3 099
Profit for the period	885	1 385
Other comprehensive income	428	1 714
Exchange gains on translating foreign operations	3	26
Net defined benefit plan remeasurements	425	1 688
Dividend declared*	(1 346)	(1 242)
Disposal of subsidiary (refer to note 12)	(9)	–
Acquisition of non-controlling interest (refer to note 12)	(160)	–
Increase in share-compensation reserve	130	74
Increase in treasury shares	(159)	(47)
Balance at the end of the period	29 537	29 242
Attributable to owners of Telkom	29 568	29 077
Non-controlling interests	(31)	165

* *Dividend declared includes dividend to the non–controlling interests of the BCX group.*
** *Restated. Refer to note 3.4 and 3.7.*

Condensed consolidated interim statement of cash flows

for the period ended 30 September 2019

	Notes	Reviewed six months ended 30 September 2019 Rm	Restated six months ended 30 September* 2018 Rm
Cash flows from operating activities		1 817	2 108
Cash receipts from customers		20 907	19 727
Cash paid to suppliers and employees		(16 461)	(15 739)
Cash generated from operations	20	4 446	3 988
Interest received		116	185
Finance charges paid		(646)	(342)
Taxation paid		(753)	(483)
Cash generated from operations before dividend paid		3 163	3 348
Dividend paid		(1 346)	(1 240)
Cash flows utilised for investing activities		(3 974)	(3 149)
Proceeds on disposal of property, plant and equipment and intangible assets		28	40
Additions to assets for capital expansion		(4 203)	(3 210)
Proceeds on disposal of SOX		210	–
Realisation of investment in other financial assets		–	34
Investments made by FutureMakers		(9)	(13)
Cash flows from financing activities		1 731	619
Loans raised	21	5 550	1 500
Loans repaid	21	(3 155)	(850)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		(159)	(47)
Acquisition of non-controlling interest in Trudon	12	(160)	–
Repayment of lease liability		(389)	(11)
Repayment of derivatives		(73)	(104)
Proceeds from derivatives		117	131
Net decrease in cash and cash equivalents		(426)	(422)
Net cash and cash equivalents at 1 April		1 428	2 527
Net cash and cash equivalents at the end of the period	9	1 002	2 105

* *Restated. Refer to note 3.8.*

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

1. Independent review

The directors of the company take full responsibility for the preparation of the condensed consolidated interim financial statements. The condensed consolidated interim financial statements have been reviewed by our joint external auditors PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc., who have expressed an unmodified conclusion thereon. The joint external auditors have performed their review in accordance with International Standards on Review Engagements (ISRE) 2410. The review conclusion is available for inspection at Telkom's registered office.

2. 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 the group is to supply telecommunication, multimedia, technology, information, mobile communication services and other related information technology services to the group's customers in Africa. Turnkey property and tower management solutions are also provided through the Gyro group, which is a wholly owned subsidiary of the group.

3. Basis of preparation, significant accounting judgements, estimates, assumptions and significant accounting policies

3.1 Basis of preparation

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting and in compliance with the Listings Requirements of the JSE Limited, the South African Companies Act, 2008, the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by the Financial Reporting Standards Council. The condensed consolidated interim financial statements have been prepared on the going concern basis.

The condensed consolidated interim 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 condensed consolidated interim 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 consistent with those applied in the previous financial year except for those listed below.

The results of the period are not necessarily indicative of the results of the entire year and these reviewed financial statements should be read in conjunction with the audited consolidated financial statements for the year ended 31 March 2019, which have been prepared in accordance with IFRS.

3.2 Significant accounting judgements, estimates and assumptions

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the annual financial statements for the year ended 31 March 2019, with the exception of the judgements and estimates related to the adoption of IFRS 16 Leases (refer to note 3.3.1).

3.3 Significant accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the previous financial year, except for the adoption of the new and amended standard as well as a change made to the presentation basis for cost of sales as set out below. Disclosure has only been provided for new standards and interpretations which became effective for the current period where the adoption had a material impact on the group.

3.3.1 Adoption of IFRS 16 Leases

The group has 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 and IFRIC 4. The reclassifications and adjustments arising from the adoption of IFRS 16 are therefore recognised in the opening statement of financial position as at 1 April 2019.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

3. Basis of preparation, significant accounting judgements, estimates, assumptions and significant accounting policies continued

3.3 Significant accounting policies continued

3.3.1 Adoption of IFRS 16 Leases continued

3.3.1.1 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:

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.

Measurement and recognition of leases

The group has elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts already in place, at the date of initial application, the group has relied on its assessment made in terms of IAS 17 and IFRIC 4.

For those leases previously classified as finance leases, the carrying amount of the right-of-use asset and the lease liability at the date of initial application shall be the carrying amount of the lease asset and lease liability immediately before that date measured applying IAS 17.

Right-of-use assets – initial and subsequent measurement

After the date of initial application, 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, and 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.

The group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. office equipment) and for short-term leases, i.e. leases that, at commencement date, have lease terms of 12 months or less. The group defines low value leases as leases of assets for which the value of the underlying asset, when it is new, is R73 200 or less. The group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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 exercises 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 the payment, 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 income statement 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.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

3. Basis of preparation, significant accounting judgements, estimates, assumptions and significant accounting policies continued

3.3 Significant accounting policies continued

3.3.1 Adoption of IFRS 16 Leases continued

3.3.1.1 The group's leasing activities and significant accounting policies continued

Practical expedients

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.

Significant judgements

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

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 3 years and the importance of the underlying asset to the group's operations.

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.

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. In applying judgement in determining the incremental borrowing rate, factors include what the group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

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.
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.

3.3.1.2 Transition

At transition, 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 at the date of transition.

The following practical expedients were applied in the adoption of IFRS 16:

Short-term leases	The group has 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 operating leases.
Low-value assets	All leases, where the underlying asset being used is of low value (R73 200), are assessed on a lease-by-lease basis and accounted for in operating leases.
Initial direct costs	The group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of the standard.
Lease term	Telkom has 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 at the date of initial application, Telkom has relied on its historical assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16. There was no indicator of impairment on adoption of IFRS 16.

The group has also elected not to reassess whether a contract is, or contains a lease, at the date of initial application. Instead, for contracts entered into before the transition date, the group relied on its assessment made, applying IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

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.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

3. Basis of preparation, significant accounting judgements, estimates, assumptions and significant accounting policies continued

3.3 Significant accounting policies continued

3.3.1 Adoption of IFRS 16 Leases continued

3.3.1.3 Impact on the financial statements

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

Condensed consolidated interim statement of profit or loss and other comprehensive income (extract)	30 September 2019 Rm	IFRS 16 Rm	30 September 2019 – as presented Rm
Operating leases	790	(564)	226
EBITDA	5 040	564	5 604
Depreciation of right-of-use assets	–	456	456
Operating profit	2 084	108	2 192
Net finance charges, hedging costs and fair value movements	819	183	1 002
Net finance charges	681	183	864
Cost of hedging	116	–	116
Foreign exchange and fair value movements	22	–	22
Profit before taxation	1 318	(75)	1 243
Taxation	379	(21)	358
Profit for the period	939	(54)	885

Earnings per share decreased by 10.67 cents per share for the six months ended 30 September 2019 as a result of the adoption of IFRS 16.

Condensed consolidated interim statement of financial position (extract)			
Assets			
Non-current assets			
Property, plant and equipment	33 211	(5)	33 206
Right-of-use assets	–	3 912	3 912
Deferred taxation	291	37	328
Total assets	55 362	3 944	59 306
Equity and liabilities			
Non-current liabilities			
Lease liabilities	10	3 050	3 060
Current liabilities			
Lease liabilities	25	988	1 013
Total equity and liabilities	55 268	4 038	59 306

Cash from operating activities includes interest paid on lease liabilities of R183 million and cash used in financing activities includes R389 million for the capital portion of lease liability repayments. The cash flows were previously recognised as net cash generated from operations.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

3. Basis of preparation, significant accounting judgements, estimates, assumptions and significant accounting policies continued

3.3 Significant accounting policies continued

3.3.1 Adoption of IFRS 16 Leases continued

3.3.1.3 Impact on the financial statements continued

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
Vehicles	518
Property	1 095
Network equipment	2 388
	4 001

The following is a reconciliation of total operating lease commitments as at 31 March 2019 to the lease liabilities recognised at 1 April 2019:	Reconciled Opening Balance Rm
Operating lease commitments disclosed as at 31 March 2019	4 119
Adjustment to lease commitments as disclosed as at 31 March 2019*	748
Adjusted opening balance	4 867
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)
(Less): leases of low-value assets (recognised on a straight-line basis as an expense)	(67)
Add: adjustments relating to changes in the index or rate affecting variable payments (undiscounted)	(263)
Add: adjustments as a result of a different treatment of extension and termination options (undiscounted)	1 196
(Less): non-lease components (contracts reassessed as service agreements) (undiscounted)	(143)
Operating lease liabilities before discounting	5 450
Discounted using the incremental borrowing rate at the date of initial application (effect of discounting)	(1 374)
IFRS 16 operating lease liability as at 1 April 2019	4 076
Add: finance lease liabilities recognised as at 31 March 2019	43
Total lease liabilities recognised under IFRS 16 at 1 April 2019	4 119

* *These relate to additional lease commitments identified as at 31 March 2019, which were erroneously excluded.*

3.4 Prior period error – Smart Office Connexion group consolidation

Telkom group, through its wholly owned subsidiary BCX, is invested in the Smart Office Connexion (SOX) group. The SOX group consists of nine individual entities. These entities were consolidated in prior financial years.

As previously reported, it was identified that owing to substantive protective rights granted to the minority shareholder, BCX did not have control of the subsidiaries as defined by IFRS 10 Consolidated Financial Statements.

The matter has been assessed as a material prior period error and has been corrected by restating the comparative interim financial statements as required by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The effect of the restatement is the deconsolidation of the SOX group on a line-by-line basis in the financial statements and the recognition of the investments in the underlying entities of the SOX group on an equity accounted basis in terms of IAS 28 Investments in Associates and Joint Ventures.

During the comparative financial period, the investment in the SOX group was classified as held for sale. The consolidated net asset value of the SOX group was assessed in terms of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations and it was concluded that there was no remeasurement required at a Telkom group level. Following the change to account for the investments as equity accounted investments, a remeasurement was identified. The income from joint ventures and associates line item in the financial statements has been restated to reflect the remeasurement as an adjustment in the 2018 interim financial reporting period. This resulted in an additional R24 million remeasurement adjustment accounted for in the six months ended 30 September 2018.

Refer to note 3.7 and 3.8 for each materially affected line item as part of the correction of the prior period error.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

3. Basis of preparation, significant accounting judgements, estimates, assumptions and significant accounting policies continued

3.5 Change in presentation of the statement of comprehensive income from a hybrid to a by-nature of expense basis due to classification error

As previously reported, the JSE queried the hybrid presentation basis applied in Telkom's statement of profit or loss and other comprehensive income. The JSE is of the opinion that this basis is contrary to the requirements of IFRS.

The JSE however concurred with management's view that this presentation basis did not result in a material misstatement of the previously reported financial results.

As part of the resolution of the matter Telkom proposed to address the error by changing its presentation basis from a hybrid to a by-nature presentation basis in the spirit of supporting "the effective functioning of the capital markets and the JSE's regulatory objectives". The proposal was accepted by the JSE and subsequently implemented across the Telkom group.

The change in presentation basis has resulted in the removal of the cost of sales line item from the statement of profit or loss and other comprehensive income. The cost of sales line has been replaced by the following two items which previously made up total cost of sales:

- Cost of handsets, equipment and directories
- Sales commission, incentives and logistical costs

These line items are now being presented separately.

In addition, as requested by the JSE, we have included an accounting policy note which clarifies the nature of the costs on the by-nature presentation basis as follows:

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

The cost of handsets, equipment 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.

Following the change referred to above, the subtotal "net operating revenue" was removed from the statement of profit or loss and other comprehensive income.
As the group continues to implement its current business plan, a greater focus has been placed on the key reporting metrics on which the group provides financial guidance:

- Gross Operating Revenue
- EBITDA Growth
- CAPEX to Revenue
- Net Debt to EBITDA

The chief operating decision maker no longer measures its business units on a "net operating revenue" basis and it has therefore been considered appropriate to remove this line item from the financial statements to accurately reflect the manner in which management reviews the financial performance of the group.

The changes made above have had no impact on any of the reported key metrics as noted above and do not impact any of the financial guidance issued by the group. The group has represented the 30 September 2018 statement of profit or loss and other comprehensive income.

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

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 are not expected to have a material impact on the group's financial statements.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

3. Basis of preparation, significant accounting judgements, estimates, assumptions and significant accounting policies continued

3.7 Adjustment to the condensed consolidated interim statement of profit or loss and other comprehensive income

	Period ended 30 September 2018				
	As previously reported Rm	SOX Decon-solidation* Rm	SOX Remeasure-ment* Rm	Change in presentation basis and reclassifications** Rm	Restated Rm
Operating revenue	20 847	(336)	–	–	20 511
Voice	6 245	–	–	–	6 245
Interconnection	531	–	–	–	531
Data	7 558	–	–	–	7 558
Customer premises equipment	1 847	–	–	–	1 847
Significant financing component	75	–	–	–	75
Sundry revenue	817	–	–	–	817
Information technology	3 774	(336)	–	–	3 438
Other income	192	–	–	–	192
Payments to other operators	1 285	–	–	–	1 285
Cost of sales	3 176	(116)	–	(3 060)	–
Cost of handsets, equipment and directories	–	–	–	2 287	2 287
Sales commission, incentives and logistical costs	–	–	–	628	628
Employee expenses	5 569	(126)	–	–	5 443
Selling, general and administrative expenses	3 887	(17)	–	(3 870)	–
Other operating expenses	–	–	–	1 413	1 413
Maintenance	–	–	–	2 141	2 141
Marketing	–	–	–	408	408
Impairment of receivables and contract assets	–	–	–	53	53
Service fees	1 396	(16)	–	–	1 380
Operating leases	688	(8)	–	–	680
EBITDA	5 038	(53)	–	–	4 985
Depreciation of property, plant and equipment	2 363	(11)	–	–	2 352
Amortisation of intangible assets	353	–	–	–	353
Write-offs, impairments/(reversals) and losses of property, plant and equipment and intangible assets	86	–	–	–	86
Operating profit	**2 236**	**(42)**	**–**	**–**	**2 194**

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

3. Basis of preparation, significant accounting judgements, estimates, assumptions and significant accounting policies continued

3.7 Adjustment to the condensed consolidated interim statement of profit or loss and other comprehensive income continued

	Period ended 30 September 2018				
	As previously reported Rm	SOX Decon-solidation* Rm	SOX Remeasure-ment* Rm	Change in presentation basis and reclassifications** Rm	Restated Rm
Investment income	114	(10)	–	–	104
Income/(loss) from associates	6	24	(24)	–	6
Net finance charges, hedging costs and fair value movements	443	(5)	–	–	438
Net finance charges	568	(5)	–	–	563
Cost of hedging	–	–	–	76	76
Foreign exchange and fair value movements	(125)	–	–	(76)	(201)
Profit before taxation	1 913	(23)	(24)	–	1 866
Taxation	494	(13)	–	–	481
Profit for the period	**1 419**	**(10)**	**(24)**	**–**	**1 385**
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Exchange gains on translating foreign operations	26	–	–	–	26
Items that will not be reclassified to profit or loss					
Defined benefit plan actuarial gains	1 913	–	–	–	1 913
Income tax relating to actuarial gains	(225)	–	–	–	(225)
Other comprehensive income for the period, net of taxation	1 714	–	–	–	1 714
Total comprehensive income for the period	**3 133**	**(10)**	**(24)**	**–**	**3 099**
Profit attributable to:					
Owners of Telkom	1 373	(5)	(24)	–	1 344
Non-controlling interests	46	(5)	–	–	41
Profit for the period	**1 419**	**(10)**	**(24)**	**–**	**1 385**
Total comprehensive income attributable to:					
Owners of Telkom	3 087	(5)	(24)	–	3 058
Non-controlling interests	46	(5)	–	–	41
Total comprehensive income for the period	**3 133**	**(10)**	**(24)**	**–**	**3 099**
Basic earnings per share (cents)	276.0	(1.0)	(4.9)	–	270.1
Diluted earnings per share (cents)	272.1	(1.0)	(4.7)	–	266.4

* *Refer to note 3.4.*
** *Refer to note 3.5.*

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

3. Basis of preparation, significant accounting judgements, estimates, assumptions and significant accounting policies continued

3.8 Adjustment to the condensed consolidated interim statement of cash flows

	Period ended 30 September 2018		
	As previously reported Rm	SOX Restatement* Rm	Restated Rm
Cash flows from operating activities	2 163	(55)	2 108
Cash receipts from customers	20 223	(496)	19 727
Cash paid to suppliers and employees	(16 172)	433	(15 739)
Cash generated from operations	4 051	(63)	3 988
Interest received	195	(10)	185
Finance charges paid	(346)	4	(342)
Taxation paid	(497)	14	(483)
Cash generated from operations before dividend paid	3 403	(55)	3 348
Dividend paid	(1 240)	–	(1 240)
Cash flows from investing activities	(3 163)	14	(3 149)
Proceeds on disposal of property, plant and equipment and intangible assets	40	–	40
Additions to assets for capital expansion	(3 224)	14	(3 210)
Realisation of investment in other financial assets	34	–	34
Investments made by FutureMakers	(13)	–	(13)

	Period ended 30 September 2018		
	As previously reported Rm	SOX Restatement* Rm	Restated Rm
Cash flows from financing activities	616	3	619
Loans raised	1 500	–	1 500
Loans repaid	(850)	–	(850)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme	(47)	–	(47)
Shares repurchased and cancelled	–	–	–
Finance lease repaid	(14)	3	(11)
Repayment of derivatives	(104)	–	(104)
Proceeds from derivatives	131	–	131
Net decrease in cash and cash equivalents	(384)	(38)	(422)
Net cash and cash equivalents at the beginning of the period	2 698	(171)	2 527
Net cash and cash equivalents at the end of the period	2 314	(209)	2 105

* *Refer to note 3.4.*

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

4. 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 CODM reviews the performance of the operating segments on an EBITDA basis. During the prior year–end, management removed the net operating revenue line item from its assessment of the performance for segment reporting purposes. For this purpose, the reportable segments have been determined as Openserve, Consumer, BCX, Gyro and "Other". Gyro also met the quantitative thresholds to be disclosed as a separate segment in the prior financial year.

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:

- Significant financing component; and
- Interest on overdue accounts

The significant financing component is included in operating revenue as a separate component of revenue.

“Other” includes Yellow Pages and other business units.

The 30 September 2018 segment information has been restated for the SOX error.

The definition of EBITDA has not changed. The IFRS 16 impacts in relation to finance charges and depreciation do not impact EBITDA. EBITDA has been disclosed excluding the IFRS 16 impact with regards to operating leases. This has been completed for comparability purposes with respect to the impact of operating leases being removed from the current period. The prior period EBITDA has been normalised for voluntary severance, retirement and retrenchment package expenses of R282 million.

In the 31 March 2019 financial statements, the structure of the segment was updated to reflect operating expenses on an operating segment level. The comparative segment for the interim period has been updated to reflect this below. During the prior financial year, the Fastnet business was transferred from the Gyro group into BCX. The comparative segment information has been restated to include Fastnet as part of the BCX segment.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

4. Segment information continued

	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	Consolidated Rm
September 2019							
Revenue from external customers*	2 018	10 469	8 403	354	235	–	21 479
Revenue recognised over time	1 970	9 054	7 056	–	–	–	18 080
Voice	–	3 423	2 485	–	–	–	5 908
Interconnection	328	206	–	–	–	–	534
Data	1 642	5 292	1 753	–	–	–	8 687
Information technology services	–	–	2 818	–	–	–	2 818
Significant financing component revenue	–	133	–	–	–	–	133
Sundry revenue	–	–	–	–	–	–	–
Revenue recognised at a point in time	48	1 415	1 347	–	235	–	3 045
Customer premises equipment	–	1 409	698	–	–	–	2 107
Information technology hardware	–	–	627	–	–	–	627
Sundry revenue	48	6	22	–	235	–	311
Operating lease revenue	–	–	–	354	–	–	354
Intersegmental operating revenue	5 908	117	1 153	511	685	(8 374)	–
Other income	173	262	50	3	336	(502)	322
Total expenses	(5 947)	(10 487)	(8 001)	(222)	(980)	8 876	(16 761)
Cost of handsets, equipment and directories	–	(1 763)	(1 166)	–	(86)	78	(2 937)
Sales commission, incentives and logistical costs	–	(876)	(120)	–	1	–	(995)
Payments to other operators	(487)	(1 286)	(313)	–	–	292	(1 794)
Employee expenses	(1 967)	(410)	(2 093)	(52)	(251)	13	(4 760)
Selling, general and administrative expenses	(1 972)	(5 370)	(3 949)	(59)	(454)	7 918	(3 886)
Service fees	(955)	(258)	(269)	(61)	(129)	73	(1 599)
Operating leases	(566)	(524)	(91)	(50)	(61)	502	(790)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions**	2 152	361	1 605	646	276	–	5 040
IFRS 16 impact on operating leases							564
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions							5 604

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

4. Segment information continued

	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	Consolidated Rm
Reconciliation of operating profit to profit before tax							
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments							5 604
Depreciation, amortisation, impairments, write-offs and losses							(3 412)
Operating profit							2 192
Investment income							42
Income from associates							11
Net finance charges, hedging costs and fair value movements							(1 002)
Profit before taxation							1 243
Other segment information							
Capital expenditure of property, plant and equipment and intangible assets	1 508	2 246	283	76	125	–	4 238

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

4. Segment information continued

	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	Consolidated Rm
Restated September 2018							
Revenue from contracts with external customers*	2 159	8 876	8 753	317	406	–	20 511
Revenue recognised over time	2 107	7 710	7 618	–	–	–	17 435
Voice	–	3 348	2 897	–	–	–	6 245
Interconnection	410	121	–	–	–	–	531
Data	1 697	4 166	1 750	–	–	–	7 613
Information technology services	–	–	2 971	–	–	–	2 971
Significant financing component revenue	–	75	–	–	–	–	75
Sundry revenue	–	–	–	–	–	–	–
Revenue recognised at a point in time	52	1 166	1 135	–	406	–	2 759
Customer premises equipment	–	1 156	623	–	68	–	1 847
Information technology hardware	–	–	467	–	–	–	467
Sundry revenue	52	10	45	–	338	–	445
Operating lease revenue	–	–	–	317	–	–	317
Intersegmental operating revenue	6 506	180	1 133	260	944	(9 023)	–
Other income	181	261	50	–	398	(698)	192
Total expenses	(6 257)	(9 115)	(8 627)	(253)	(905)	9 721	(15 436)
Cost of handsets, equipment and directories	(3)	(1 308)	(982)	–	(180)	186	(2 287)
Sales commission, incentives and logistical costs	–	(527)	(97)	–	(4)	–	(628)
Payments to other operators	(445)	(807)	(403)	–	–	370	(1 285)
Employee expenses	(2 144)	(462)	(2 460)	(54)	(51)	10	(5 161)
Selling, general and administrative expenses	(2 353)	(5 500)	(4 257)	(52)	(535)	8 682	(4 015)
Service fees	(912)	(219)	(273)	(94)	(100)	218	(1 380)
Operating leases	(400)	(292)	(155)	(53)	(35)	255	(680)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	2 589	202	1 309	324	843	–	5 267

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

4. Segment information continued

	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	Consolidated Rm
Reconciliation of operating profit to profit before tax							
Normalisations							
Voluntary severance, retirement and retrenchment package expenses							(282)
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments							4 985
Depreciation, amortisation, impairments/(reversals), write-offs and losses							(2 791)
Operating profit							2 194
Investment income							104
Income from associates							6
Net finance charges, hedging costs and fair value movements							(438)
Profit before taxation							1 866
Other segment information							
Capital expenditure of property, plant and equipment and intangible assets	1 649	1 354	106	5	162	–	3 276

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 transactions 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.*

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

5. Operating expenses and maintenance

	Reviewed six months ended 30 September 2019 Rm	Restated six months ended 30 September 2018 Rm
Employee expenses	4 760	5 443
The decrease in employee expenses is due to the lower headcount as a result of voluntary employee severance and voluntary early retirement packages offered to employees in the 31 March 2019 financial year.		
Depreciation, amortisation, impairments, write–offs and losses	3 412	2 791
Depreciation of property, plant and equipment	2 554	2 352
Depreciation of right-of-use assets	456	–
Amortisation of intangible assets	340	353
Write-offs, impairments and losses of property, plant and equipment and intangible assets	62	86
The useful lives of the assets were deemed appropriate and no changes were made in the current period.		
Maintenance	2 004	2 141
Maintenance cost has decreased due to the cost-saving initiatives that have been implemented in the current period.		

6. Earnings and dividend per share

	Reviewed six months ended 30 September 2019 Rm	Restated six months ended 30 September 2018 Rm
Total operations		
Basic earnings per share (cents)*	176.8	270.1
Diluted earnings per share (cents)*	173.1	266.4
Headline earnings per share (cents)*	183.4	287.0
Diluted headline earnings per share (cents)*	179.6	283.0
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	(12 904 147)	(13 629 708)
Weighted average number of shares outstanding	**498 236 092**	**497 510 531**
Reconciliation of diluted weighted average number of ordinary shares:		
Weighted average number of shares outstanding	498 236 092	497 510 531
Expected future vesting of shares related to group share scheme incentive plans	10 645 505	7 031 347
Diluted weighted average number of shares outstanding	**508 881 597**	**504 541 878**

* *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 4/2018 issued in this regard.*

Treasury shares

Treasury shares of 14 459 669 (30 September 2018: 13 969 177) are held by group.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

6. Earnings and dividend per share continued

	Reviewed six months ended 30 September 2019 Rm	Restated six months ended 30 September 2018 Rm
Total operations		
Reconciliation between earnings and headline earnings:		
Profit for the period	885	1 385
Non-controlling interests	(4)	(41)
Profit attributable to owners of Telkom	881	1 344
Profit on disposal of property, plant and equipment and intangible assets	(1)	(20)
Profit on disposal of subsidiaries and associates	(11)	–
Write-offs, impairments and losses of property, plant and equipment and intangible assets	62	86
Remeasurement of associates	(13)	24
Taxation effects**	(4)	(6)
Headline earnings	914	1 428
Dividend per share (cents)	249.40	236.73

The calculation of dividend per share is based on total dividends of R1 275 million declared on 27 May 2019 (30 September 2018: total dividends of R1 210 million declared on 28 May 2018). 511 140 239 number of ordinary shares were outstanding on the date of the dividend declaration (30 September 2018: 511 140 239 ordinary shares).

** *The taxation impact consists of a R4.1 million increase (30 September 2018: R6 million) in tax expense related to recoupment of tax on write–offs of property, plant and equipment and intangible assets.*

7. Capital additions and disposals

	Reviewed six months ended 30 September 2019 Rm	Audited year end 31 March 2019 Rm
Property, plant and equipment		
Additions	3 814	7 034
Disposals	(48)	(40)
	3 766	6 994
Intangible assets		
Additions	424	640
Disposals	(1)	(30)
	423	610

Finance charges of R34.7 million (31 March 2019: R59 million) were capitalised to property, plant and equipment in the current financial period.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

8. Right-of-use assets and lease liabilities

8.1 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.

The carrying amounts for the right-of-use assets as at 30 September 2019 are as follows:	Closing balance Rm
Vehicles – Cost	523
Vehicles – Accumulated depreciation	(81)
Property – Cost	1 112
Property – Accumulated depreciation	(104)
Network equipment – Cost	2 767
Network equipment – Accumulated depreciation	(305)
	3 912

8.2 Lease liabilities

The closing balances for non-current lease liabilities as at 30 September 2019 are as follows:	Closing balance Rm
Vehicles	(275)
Property	(885)
Network equipment	(1 900)
	(3 060)

The closing balances for current lease liabilities as at 30 September 2019 are as follows:	
Vehicles	(177)
Property	(227)
Network equipment	(609)
	(1 013)

9. Net cash and cash equivalents

	Reviewed six months ended 30 September 2019 Rm	Audited year end 31 March 2019 Rm
Cash disclosed as current assets	1 218	1 428
Cash and bank balances	1 218	1 308
Short-term deposits	–	120
Credit facilities utilised	(216)	–
Net cash and cash equivalents	1 002	1 428
Undrawn borrowing facilities	4 427	6 402

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 30 September 2019, R3.5 billion (31 March 2019: R5.3 billion) of these undrawn facilities were committed.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

10. Deferred taxation

	Reviewed six months ended 30 September 2019 Rm	Audited year end 31 March 2019 Rm
Deferred taxation balance is made up as follows:	215	93
Deferred taxation assets	328	255
Deferred taxation liabilities	(113)	(162)

The increase in the deferred tax balance in the current period is primarily attributable to the temporary differences arising in the group as a result of the application of IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, as well as an increase in assessed losses in the group.

11. Fair value measurement

Exposure to continuously changing market conditions has made management of financial risk critical for the group. Treasury policies, risk limits and control procedures are continuously monitored by the Board of Directors through its Audit and Risk Committees.

11.1 Fair value of financial instruments

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

Type of financial instrument	Fair value at 30 September 2019 Rm	Valuation technique	Significant inputs
Derivative assets	194	Discounted cash flows	Yield curves
Derivative liabilities	(398)		Market interest rates
Investment in Absa sinking fund	1 620	Quoted market prices adjusted for counterparty credit risk	Market prices
Investment in FutureMakers	78	Discounted cash flows	Cash flow forecasts and market related discount rates
Interest-bearing debt	(12 791)	Discounted cash flows and quoted bond prices	Market interest rate

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 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. 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 movements in the spot exchange rate of its firm commitments.

A decrease in fair value of the forward exchange contracts, designated as fair value hedges, of R222 million (31 March 2019: decrease of R509 million) has been recognised in finance charges and fair value movements and offset with a similar gain (31 March 2019: gain) on the hedged items (property, plant and equipment and inventory).

The estimated net fair values as at the reporting date have been determined using available market information and appropriate valuation methodologies as outlined on the previous page. The fair values of the financial assets and financial liabilities are sensitive to exchange rate and interest rate movements.

Derivatives are recognised at fair value. The fair values of derivatives are determined using quoted prices or, where such prices are not available, a discounted cash flow analysis is used. These amounts reflect the approximate values of the net derivative position at the reporting date.

The fair values of the borrowings disclosed above are based on quoted prices or, where such prices are not available, the expected future payments are discounted at market interest rates. As a result, they differ from their carrying values.

The fair value of cash and short-term deposits, trade and other receivables, 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 and other inputs, other than quoted prices, at the reporting date.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

11. Fair value measurement continued

11.2 Fair value hierarchy

The table below analyses financial instruments carried at fair value and amortised cost, by valuation method.

The different levels have been defined as follows:

a) Quoted prices in active markets for identical assets or liabilities (level 1).
b) Inputs other than quoted prices, that are observable for the asset or liability (level 2).
c) Inputs for the asset or liability that are not based on observable market data (level 3).

	Hierarchy levels*	30 September 2019 Rm	31 March 2019 Rm
Assets measured at fair value			
Investment in Absa sinking fund	Level 2	1 620	1 573
Investment made by FutureMakers	Level 3	78	69
Forward exchange contracts	Level 2	188	161
Firm commitments	Level 2	6	70
Liabilities measured at fair value			
Forward exchange contracts	Level 2	(9)	(13)
Interest rate swaps	Level 2	(73)	(30)
Firm commitments	Level 2	(316)	(237)
Liabilities measured at amortised cost			
Interest-bearing debt consisting of:			
Listed debt	Level 2	(12 791)	(10 327)

* *There have been no transfers between the fair value levels in the period under review.*

12. Business combinations and disposals

12.1 Subsidiaries classified as held for sale in the current period

BCX ICT Services Limited ('Nigeria')

BCX ICT Services Limited is a subsidiary of Business Connexion International Group Holding Proprietary Limited. The subsidiary is currently held for sale. The long stop date for Nigeria has been extended to 31 January 2020. Discussions are ongoing with the buyer to conclude the final terms of the sale. Management remains committed to sell Nigeria and the measurement of the investment in Nigeria remains in terms of IFRS 5 at fair value less costs to sell at 30 September 2019. The sale of Nigeria is expected to realise within the next 12 months.

The remaining investments classified as held for sale are immaterial to the financial statements as a whole and have not been disclosed separately in the statement of financial position and statement of profit or loss and other comprehensive income.

	Rm
Revenue	86
Expenses	(95)
Net finance charges and fair value movements	(4)
Loss for the period	13
Assets	
Current assets	75
Non–current assets	2
Liabilities	
Current liabilities	66

The carrying amount of BCX ICT Services Limited is R9.7 million as at 30 September 2019. A remeasurement adjustment of R26.7 million has been recognised since BCX ICT Services Limited was classified as held for sale.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

12. Business combinations and disposals continued

12.2 Subsidiaries disposed of in the current period

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 USD1 000 000. 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:	Rm
Net assets disposed	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**

12.3 Associates disposed of in the current period

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:

	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**

12.4 Acquisition of non-controlling interest

Trudon (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 Trudon (Pty) Ltd. In May 2019, the parties to the transaction, Telkom SA SOC Ltd, Trumancon Holdings (Pty) Ltd and Lourie Trade and Invest (Pty) Ltd, Applemint Properties 117 (RF) (Pty) Ltd and Trudon, signed the sale of shares agreement.

During August 2019, the transaction was concluded. Telkom acquired the remaining 35.1% of Trudon resulting in Telkom holding 100% in Trudon. 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-up acquisition in line with the requirements of IFRS 10 Consolidated Financial Statements and IAS 38 Intangible Assets, respectively.

13. Interest-bearing debt

	Reviewed six months ended 30 September 2019 Rm	Audited year end 31 March 2019 Rm
Non-current interest-bearing debt	8 776	4 840
Local debt	8 650	4 700
Foreign debt	126	123
Finance leases	–	17
Current portion of interest-bearing debt	3 966	5 401
Local debt	3 966	5 370
Foreign debt	–	5
Finance leases	–	26

The current portion of interest-bearing debt of R3 966 million (31 March 2019: R5 401 million) as at 30 September 2019 is expected to be repaid from operational cash flows and other borrowings.

During the period under review, additional loans to the value of R5 550 million (30 September 2018: R1 500 million) in the form of commercial paper, bonds and term loans were raised. No material transaction fees were incurred upon the issue of these debt instruments. The instruments have an average interest rate of 8.6% and are repayable over an average term of 4 years.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

14. Provisions

	Reviewed six months ended 30 September 2019 Rm	Audited year end 31 March 2019 Rm
Non-current employee related provisions	732	1 186
Subsidiary defined benefit plans	23	22
Telephone rebates	417	412
Telkom Retirement Fund	292	752
Current portion of employee related provisions	622	1 175
Annual leave	511	466
Telephone rebates	39	39
Bonus, termination packages and other benefits	72	670
Non-current non-employee related provisions		
Other	2	7
Current portion of non-employee related provisions		
Other	168	141

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) depending on the number of years service, which must be taken within a 6–19 month (31 March 2019: 6–19 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 group's results have been made public, with a 14th cheque for a certain group of employees. Owing to performance targets not being achieved at an interim date, management has not included any bonus or 14th cheque provision in the interim results. The provision will be reassessed based on the financial performance of the group in the second half of the financial year.

Non-employee related provisions

Other provisions relate to the ICASA licence fee provision, restoration provisions and provisions for legal matters.

Telkom Retirement Fund

The decrease in the Telkom Retirement Fund obligation is primarily driven by the decrease in the inflation rate from 5.6% to 5.4% as well as an actuarial gain on the asset and lower returns than expected. This resulted in an actuarial gain of R492 million.

15. Commitments

	Reviewed six months ended 30 September 2019 Rm	Audited year end 31 March 2019 Rm
Capital commitments authorised	6 978	9 744
Commitments against authorised capital expenditure	4 291	5 671
Authorised capital expenditure not yet contracted	2 687	4 073

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

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

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

16. Trade and other receivables and contract assets

	Reviewed six months ended 30 September 2019 Rm	Audited year end 31 March 2019 Rm
Trade and other receivables	8 286	7 425
Trade receivables	6 151	5 884
Gross trade receivables	7 237	7 091
Impairment of receivables	(1 086)	(1 207)
Prepayments and other receivables	2 135	1 541
Contract assets	2 380	2 161
Gross contract assets	2 562	2 331
Impairment of contract assets	(182)	(170)
Allowance account for credit losses – trade receivables	1 086	1 207
Opening balance as previously reported	1 207	827
Adoption of IFRS 9 Financial Instruments – Adjustment to allowance account measurement	–	(61)
Adoption of IFRS 9 Financial Instruments – Change to write-off criteria	–	559
Charged to statement of profit or loss and other comprehensive income	249	184
Receivables written off	(370)	(302)
Allowance account for credit losses – contract assets	182	170
Opening balance as previously reported	170	95
Charged to statement of profit or loss and other comprehensive income	20	200
Contract assets written off	(8)	(125)

The repayment terms of trade receivables vary between 21 days and 60 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.

The increase in other receivables was due to an increase in other income related accounts in the current period.

17. Other current assets

	Reviewed six months ended 30 September 2019 Rm	Audited year end 31 March 2019 Rm
Other current assets	430	357
Contract costs capitalised	276	226
Ongoing commission capitalised assets	154	131
Contract cost assets	276	226
Opening balance	226	149
Contract costs capitalised during the period	174	255
Amortisation recognised as cost of providing services during the period	(124)	(178)

Contract costs capitalised relate to commission and incentive costs paid to dealers and sales staff, which are considered incremental to the acquisition 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.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

18. 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.

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 trial.

Tax matters

As noted in the prior year consolidated annual financial statements, the tax treatment of the loss that arose in the 2012 and 2014 financial years on the sale of foreign subsidiaries is based on a specific set of circumstances and a complex legislative environment. The 2012 matter was heard in the Tax Court in August 2018 and an appeal has been filed against the Tax Court judgement received, and as such, the dispute with SARS remains unresolved. The tax refund received, relating to the 2012 sale, therefore remains contingent and will only be recognised once the matter has been resolved.

19. Related parties

Details of material transactions and balances with related parties not disclosed separately in the condensed consolidated interim financial statements were as follows:

	Reviewed six months ended 30 September 2019 Rm	Restated six months ended 30 September 2018 Rm	Restated year end 31 March 2019 Rm
With shareholders:			
Government of South Africa			
Related party balances			
Finance lease receivables	182	234	207
Trade receivables	1 143	1 047	1 370
Provision for doubtful debt	(160)	(149)	(210)
Related party transactions			
Revenue	(1 379)	(1 321)	(3 829)

At 30 September 2019, the Government of South Africa held 40.5% (30 September 2018: 40.5%) of Telkom's shares, and had the ability to exercise significant influence. The Public Investment Corporation held 10.5% (30 September 2018: 12%) of Telkom's shares.

	Reviewed six months ended 30 September 2019 Rm	Restated six months ended 30 September 2018 Rm	Restated year end 31 March 2019 Rm
With entities under common control:			
Major public entities			
Related party balances			
Trade receivables	33	53	38
Provision for doubtful debt	(2)	(5)	(2)
Trade payables	(1)	(1)	(1)
Related party transactions			
Revenue (excluding operating lease income)	(250)	(206)	(471)
Operating expenses	160	117	244
Operating lease income	(14)	(13)	(27)
Key management personnel compensation:			
(Including directors and prescribed officers' emoluments)			
Related party transactions			
Short-term employee benefits	102	81	272
Post-employment benefits	9	6	17
Termination benefits	3	3	13
Equity compensation benefits	14	20	22

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

19. Related parties continued

Terms and conditions of transactions with related parties

Except as indicated above, outstanding balances at 30 September 2019 are unsecured 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 period ended 30 September 2019, 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.

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

	Reviewed six months ended 30 September 2019 Rm	Restated six months ended 30 September 2018 Rm
Cash generated from operations	4 446	3 988
Profit before tax	1 243	1 866
Finance charges and fair value movements	1 002	438
Investment income and income from associates	(53)	(110)
Interest received from trade receivables	(71)	(71)
Non-cash items	3 322	2 741
Depreciation, amortisation, impairment and write-offs	3 412	2 791
Decrease in expected credit loss provision	(109)	–
Decrease in provisions	(544)	(155)
Sale of property, plant and equipment	(12)	(20)
Foreign exchange movements	(18)	(40)
Share based payment expenses	98	74
Deferred revenue	495	91
Movement in working capital	(997)	(876)
Inventories	(76)	(68)
Trade receivables, contract assets, finance lease receivables and other receivables	(1 037)	(767)
Trade and other payables and prepayments	116	(41)

21. Net debt reconciliation

	Reviewed six months ended 30 September 2019 Rm	Restated six months ended 30 September 2018 Rm
Total interest-bearing debt at reporting date	12 742	10 131
Total interest-bearing debt at the beginning of the period	10 241	9 397
Loans raised	5 550	1 500
Loans repaid	(3 155)	(850)
Finance leases repaid/reclassified to lease liabilities	(42)	(11)
Foreign exchange revaluation on loans	2	14
Finance charges capitalised to interest-bearing debt	146	81

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 flows from operating activities.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2019

22. 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.

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, resigned 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.

23. Events after the reporting date

Dividends

The Telkom Board approved an ordinary dividend of 71.53 cents per share on 8 November 2019 for declaration on 12 November 2019, payable on 2 December 2019 to shareholders registered at the close of business on 29 November 2019.

Other matters

The directors are not aware of any other matter or circumstance since the financial period ended 30 September 2019 and the date of this report, or otherwise dealt with in the interim financial statements, which significantly affects the financial position of the group and the results of its operations.

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