

TELKOM SA SOC LIMITED

Group Interim Results

for the six months ended
30 September 2018



Telkom

Telkom SA SOC Limited

(incorporated in the Republic of South Africa)
Registration number 1991/005476/30
JSE share code: TKG

ISIN: ZAE000044897
JSE bond code: BITEL
("Telkom" or "the company")

Contents

Special note regarding forward-looking statements

Many of the statements included in this document, as well as verbal statements that may be made by us or by officers, directors or employees acting on our behalf, constitute or are based on forward-looking statements.

All statements, other than statements of historical facts, including, among others, statements regarding our convergence and other strategies, 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 the use of terminology such as "may", "will", "should", "expect", "envisage", "intend", "plan", "project", "estimate", "anticipate", "believe", "hope", "can", "is designed to" or similar phrases, although the absence of such words does not necessarily mean that a statement is not forward-looking. These forward-looking statements involve a number of 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 annual report, which is available on Telkom's website at www.telkom.co.za/ir.

We caution you not to place undue reliance on these forward-looking statements. All written and verbal forward-looking statements attributable to us, or persons acting on our 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.

Pro forma information

Certain information presented in these results constitutes pro forma financial information. Pro forma financial information is the responsibility of the board of directors and is presented for illustrative purposes only.

Because of its nature, the pro forma financial information may not fairly present Telkom's operating results. It has not been audited or reviewed or otherwise reported on by our external joint auditors.

Voluntary early retirement packages (VERP) and voluntary severance package (VSP) costs of R282 million and the related tax impact of R80 million (the pro forma adjustments), which was effected and accounted for in the interim period ended 30 September 2018, constitutes pro forma financial information to the extent that it is not extracted from the segment disclosure included in the reviewed condensed consolidated interim financial statements for the six months ended 30 September 2018 (refer to page 5). This pro forma financial information has been presented to eliminate the impact of the pro forma adjustments from the consolidated financial results to achieve a comparable analysis year on year. The pro forma adjustments have been calculated in terms of the group accounting policies disclosed in the consolidated financial statements for the year ended 31 March 2018, except for the changes in accounting policies as a result of the adoption of the accounting pronouncements effective 1 January 2018.

The joint independent auditors' review report does not report on all the information contained in this announcement/financial results.

Shareholders are therefore advised that in order 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 information contained in this document is also available on Telkom's investor relations website www.telkom.co.za/ir.

Telkom SA SOC Limited is listed on the JSE Limited. Information may be accessed on Reuters under the symbol TKGJJ and on Bloomberg under the symbol TKG. SJ. Information contained on Reuters and Bloomberg is provided by a third party and is not incorporated by reference herein. Telkom has not approved or verified such information and does not accept any liability for the accuracy of such information.

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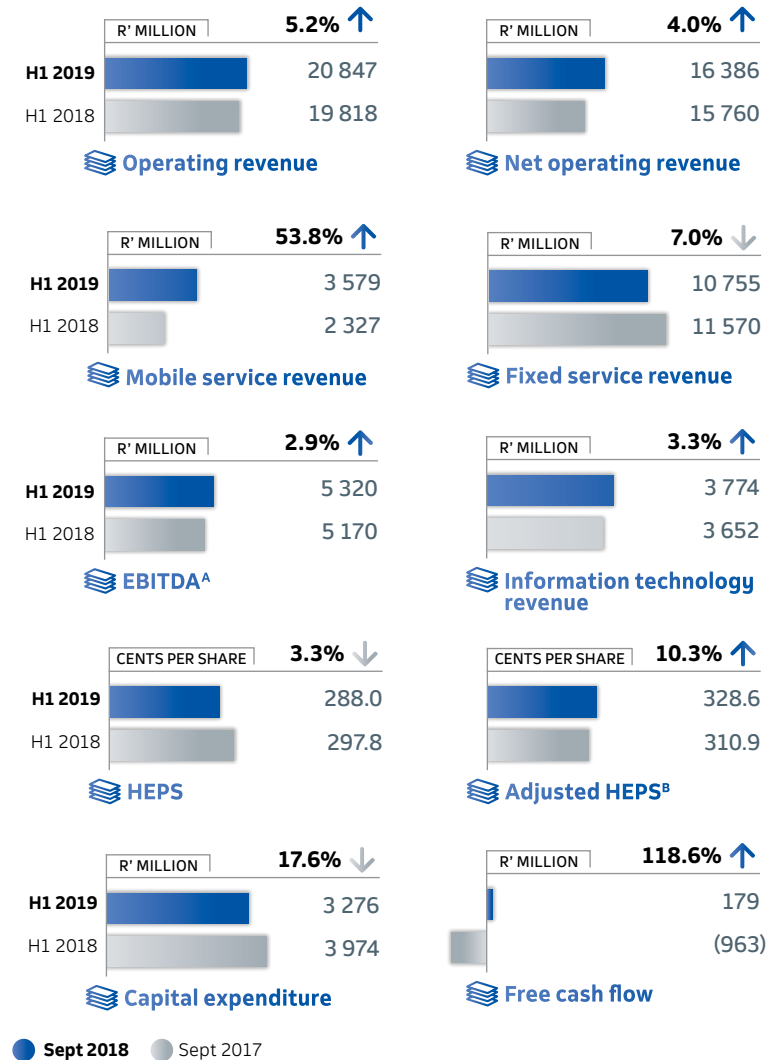
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^A The EBITDA balance referred to above includes the significant financing component of R75 million and R66 million in the prior period recognised in accordance with IFRS 15 Revenue from contracts with customers. The significant financing component is included in operating revenue as a separate component of revenue. Excludes a once-off impact of R282 million relating to voluntary early retirement package (VERP) and voluntary severance package (VSP) costs.

^B Excluding the impact of VERP and VSP costs of R282 million and related tax impact of R80 million.

Report structure

The Telkom group consists of Openserve, Telkom Consumer, BCX and Other. "Other" includes Yellow Pages (known as Trudon), Gyro, VS Gaming and Corporate Centre.

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 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.

Yellow Pages is a local advertising and marketing company that provides services and digital solutions to local businesses. Yellow Pages' business units operate in South Africa and Namibia.

Results from operations

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 has been presented to assist a user to analyse the underlying performance of the business. The applicable criteria on the basis of which this pro forma financial information has been reported as adjusted and is prepared as set out below.

	Reported September 2018 Rm	Adjustment Rm	Adjusted September 2018 ^B Rm
Operating expenses	11 540	(282)	11 258
Employee expenses	5 569	(282)	5 287
EBITDA	5 038	282	5 320
Operating profit	2 236	282	2 518
Taxation	494	80	574
Profit for the period	1 419	202	1 621
Basic earnings per share (cents)	276.0		316.6
Headline earnings per share (cents)	288.0		328.6

^B Excluding the impact of VERP and VSP costs of R282 million and the related tax impact of R80 million.

The September 2017 comparative financial information has been restated as a result of a prior period adjustment relating to the adoption of IFRS 15 Revenue from contracts with customers. IFRS 9 Financial instruments was adopted without restating comparative financial information. The IFRS 9 adjustment arising from the implementation of the expected credit loss model is therefore not reflected in the restated statement of financial position as at 1 April 2017 and 31 March 2018 respectively, but is recognised as an adjustment to the opening balance of retained earnings as at 1 April 2018.

The group adjusted profit after tax^B remained flat at R1 621 million (September 2017: R1 628 million) mainly attributable to a 2.9 percent^A increase on earnings before interest, taxation, depreciation and amortisation (EBITDA), mainly driven by a 4.0 percent increase in net revenue offset by higher selling, general and administrative (S,G & A) costs. Adjusted profit for the period was further impacted by a 5.3 percent increase in depreciation and a 25.9 percent increase in finance charges and fair value movements resulting in a 10.3 percent increase in adjusted headline earnings per share (HEPS). Including the VERP and VSP costs, profit for the period declined 12.8 percent to R1 419 million and HEPS reduced by 3.3 percent to 288.0 cents.

01

Overview of our business

Pretoria, South Africa
– 13 November 2018,
Telkom SA SOC Limited
(JSE: TKG) announced
group results for the
six months ended
30 September 2018.



Message from group chief executive officer: Siphso Maseko

Telkom delivered satisfactory performance with operating revenue and EBITDA growth of 5.2 percent and 2.9 percent^A respectively, as our investment strategy bears fruit. This is despite a challenging operating environment, where the country slipped into a technical recession while the consumer remained under pressure from increases in VAT, fuel prices and a weaker currency.

The mobile business was a growth driver with an impressive service revenue growth of 53.8 percent to R3.6 billion supported by strong customer growth of 50.0 percent to 6.5 million, with a blended average revenue per user (ARPU) of R104, as our affordable data-led products and broadband product propositions continue to resonate well with our customers. The accelerated performance was underpinned by increased capital expenditure and increased store footprint. Openserve and Gyro also contributed positively to the group. Openserve marginally increased its revenue, despite the decline in traditional revenue, while Gyro continued to grow external revenue and the mast and tower portfolio tenancy ratio.

Notwithstanding the satisfactory performance, we felt the negative impact of the weak economic environment on our enterprise business as BCX, which serves all sectors of the economy, continues to be under pressure due to the tough economic environment. In addition to the weak economy, **BCX's performance continues to be impacted by the decline in voice revenue.** While fixed voice revenue declined by 12.4 percent and fixed data revenue was flat due to the accelerated decline in traditional products, I am pleased that the new revenue streams are compensating for the decline in our traditional revenue streams albeit at a lower margin. The declining traditional revenue is at a higher margin than the new revenue streams and our focus is to stimulate data traffic growth to preserve the overall margin. Our ongoing investment in new revenue streams has enabled the group to grow revenue in evolving technology, offsetting the shrinkage in traditional revenue.

Our capital investment of R3.3 billion, with a capex to revenue ratio of 15.7 percent, was at the lower end of our guidance.

Mobile and fibre remain key capex focus areas with impressive returns in mobile service revenue. The investment in fibre to the home was rationalised in the period as we continue to focus on areas which show a propensity for higher connectivity rates. Our fibre to the home connectivity rate has improved to 35.6 percent, when compared to 24.5 percent in the prior year.

We expect our capex to revenue ratio to be at the top end of our guidance by the end of the financial year, as we continue to invest in our new revenue streams. Our core and backhaul networks are largely modernised, and we are completing the upgrade of our access network with multiple technologies as customers become more technology agnostic.

Our investment in new technologies to drive future revenue streams necessitates the evolution of our skills base and the acquisition of various capabilities within our organisation. Our focus remains on creating efficiency and effectiveness in the context of growing the business and achieving operational excellence through human capital investments. We continue working on understanding the leadership and operational capability sets required to drive performance. This may include the reorganisation of functions, identification of skill gaps and, in certain instances, possible redundancies. Where we have identified gaps, we continue to be deliberate about the process to close out and generate value, while creating the necessary diversity among our teams. We continue to invest in talent within our organisation to retain key skills and ensure our future competitiveness.

Siphso Maseko
Group chief executive officer









^A The EBITDA balance referred to above includes the significant financing component of R75 million and R66 million in the prior period recognised in accordance with IFRS 15 Revenue from contracts with customers. The significant financing component is included in operating revenue as a separate component of revenue. Excludes a once-off impact of R282 million relating to voluntary early retirement package (VERP) and voluntary severance package (VSP) costs.



Overview of our business

Financial capital

Key salient features

-  **Group operating revenue¹ up 5.2 percent to R20.8 billion**
-  **EBITDA^A up 2.9 percent to R5.3 billion**
-  **EBITDA margin^A of 25.5 percent**
-  **Capex of R3.3 billion with capex to revenue ratio of 15.7 percent**
-  **Free cash flow up 118.6 percent to R179 million**
-  **HEPS down 3.3 percent to 288.0 cents**
-  **Adjusted HEPS^B up 10.3 percent to 328.6 cents**
-  **Interim dividend of 112 cents, down 5.1 percent from 118 cents**

Financial information summary

	September 2018 Rm	September 2017 Rm	%
Gross operating revenue ¹	20 847	19 818	5.2
EBITDA ^A	5 320	5 170	2.9
EBITDA margin (%) ^A	25.5	26.1	(0.6)
Capital expenditure	3 276	3 974	17.6
Free cash flow	179	(963)	118.6
Net debt	7 829	6 714	16.6
Headline earnings per share (cents)	288.0	297.8	(3.3)
Adjusted headline earnings per share (cents) ^B	328.6	297.8	10.3
Effective tax rate (%) ^B	26.2	26.7	
Capex to revenue (%)	15.7	20.1	
Net debt to EBITDA (times) ^A	0.7	0.7	
Return on invested capital (%) ^A	10.6	11.4	

¹ The adoption of IFRS 15 resulted in a marginal reduction in revenue of R79 million in the current period (H1 Sept 2017: R41 million). The implementation of IFRS 15 also highlighted a prior period error of R250 million relating to the recognition of Mobile CPE revenue to dealer stores. The impact on EBITDA is neutral.

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^B Excluding the impact of VERP and VSP costs of R282 million and related tax impact of R80 million.

Group revenue¹ growth driven by the mobile business

Group revenue increased 5.2 percent to **R20.8 billion**, mainly driven by a 53.8 percent increase in mobile service revenue. Fixed data and information technology revenues also contributed positively to the revenue. Fixed voice revenue declined 12.4 percent as customers migrate to newer technologies. Underpinning our revenue growth was ongoing capital investment in key growth areas. Our new revenue streams continue to grow albeit at a lower margin. This attests to the success of our investment strategy.

Group EBITDA^A growth despite costs inflation

Group EBITDA grew 2.9 percent to **R5.3 billion^A** with an EBITDA margin of **25.5 percent^A** benefitting from the growth in revenue and containment of operating costs below inflation. Direct expenses grew at a rate faster than revenue growth due to strong customer growth which resulted in higher acquisition costs. Our EBITDA margin remains relatively flat compared to the prior year. The change in revenue mix as we evolve from traditional revenue to new revenue streams places pressure on EBITDA margin, as the declining traditional revenue carries a higher margin compared to the new revenue streams. This requires a larger uptake to preserve overall margins.

Group HEPS reflects underlying performance

Reported HEPS decreased 3.3 percent to 288.0 cents per share mainly due to voluntary early retirement package (VERP) and voluntary severance package (VSP) costs in the current period of R282 million and the related tax impact of R80 million. The underlying performance also improved.

Adjusted HEPS, excluding the impact of VERP and VSP costs, increased by 10.3 percent to 328.6 cents^B. Basic earnings per share increased 1.8 percent^B to 316.6 cents^B benefitting from EBITDA growth.

Group capital investment for future growth

Our capital investment of **R3.3 billion**, with a capex to revenue ratio of **15.7 percent**, was at the lower end of our guidance. Mobile and fibre remain key capex focus areas with impressive returns in mobile service revenue.

The investment in fibre to the home was rationalised during the period as we continue to focus on areas which show a propensity for higher connectivity rates. Our fibre to the home connectivity rate has improved to **35.6 percent**, when compared to **24.5 percent** in the prior year. We expect our capex to revenue ratio to be in line with our guidance by the end of the financial year, as we continue to invest in our new revenue streams. Our core and backhaul networks are largely modernised, and we are completing the upgrade of our access network with multiple technologies as customers become more technology agnostic.

Refer to page 12 for each business unit's profit and loss. The detailed performance of each business unit is addressed in the productive capital section starting on page 14.



Overview of our business

Financial capital *continued*

Group capital expenditure

	September 2018 Rm	September 2017 Rm	%
Fibre	598	1 177	(49.2)
Mobile	1 352	1 185	14.1
OSS/BSS programme	134	213	(37.1)
Network rehabilitation/sustainment	81	145	(44.1)
Service on demand	560	622	(10.0)
Core Network	383	295	29.8
Other	37	61	(39.3)
Telkom	3 145	3 698	(15.0)
BCX	106	262	(59.5)
Other			
Yellow Pages	20	6	233.3
Gyro	5	8	(37.5)
Total	3 276	3 974	(17.6)

Strong balance sheet to fund future growth

Despite the increase in net debt to R7 829 million in the current financial period from R6 714 million as at 31 March 2018, we remain lowly geared with a net debt to EBITDA^A ratio of 0.7 times^A. The group cash balances reduced to R2 314 million from R2 698 million as at 31 March 2018. The growth in borrowings is in line with our strategy to fund capital expenditure through long-term debt as we move to an optimal capital structure.

	September 2018 Rm	March 2018 Rm	%
Bank and cash balances	2 314	2 698	(14.2)
Borrowings	(10 143)	(9 412)	7.8
Net debt	(7 829)	(6 714)	16.6
Net debt to EBITDA (times)^A	0.7	0.6	0.1

^A The EBITDA balance referred to above includes the significant financing component of R75 million and R66 million in the prior period recognised in accordance with IFRS 15 Revenue from contracts with customers. The significant financing component is included in operating revenue as a separate component of revenue. Excludes a once-off impact of R282 million relating to voluntary early retirement package (VERP) and voluntary severance package (VSP) costs.

Free cash flow improved on increased cash from operations and lower capex

Free cash flow recovered from negative R963 million in the prior period to positive R179 million. The improvement was mainly due to an 18.9 percent decrease in the cash paid for capital expenditure and 13.0 percent increase in operating free cash flow.

Free cash flow

	September 2018 Rm	September 2017 Rm	%
Cash generated from operations	4 051	3 873	4.6
Interest received	195	125	56.0
Finance charges paid	(346)	(264)	31.1
Taxation paid	(497)	(723)	(31.3)
Cash generated from operations before dividend paid	3 403	3 011	13.0
Cash paid for capital expenditure	(3 224)	(3 974)	(18.9)
Free cash flow	179	(963)	118.6

Progress against medium-term guidance

	FY2019 – FY2021	H1 FY2019 Actual
Operating revenue	Mid-single digit	5.2%
EBITDA margin ^A	24% – 27%	25.5%
Capex to revenue	16% – 20%	15.7%
Net debt to EBITDA ^A	≤ 1	0.7

Note: Exclude corporate action.



Overview of our business

Financial capital *continued*

Segment performance

Inter-company revenue and transfer pricing was included to measure and assess performance and allocate resources. The comparative segment numbers have been restated to include transfer pricing.

	Openserve Rm	Consumer Rm	BCX Rm	Other Rm	Eliminations Rm	Group Rm
September 2018						
Revenue	8 665	9 056	10 222	1 927	(9 023)	20 847
Fixed	8 665	4 257	5 231	68	(6 593)	11 628
Mobile		4 799			(88)	4 711
Information technology			4 877		(1 103)	3 774
Other			114	1 859	(1 239)	734
Costs of contracts with customers	3	1 835	1 340	184	(186)	3 176
Payments to other operators	445	807	403	–	(370)	1 285
Net revenue	8 217	6 414	8 479	1 743	(8 467)	16 386
Other income	181	261	50	398	(698)	192
Operating expenses ¹	5 809	6 473	7 168	973	(9 165)	11 258
Employee expenses ¹	2 144	462	2 587	104	(10)	5 287
Selling, general and administrative expenses	2 353	5 500	4 130	586	(8 682)	3 887
Service fees	912	219	288	195	(218)	1 396
Operating leases	400	292	163	88	(255)	688
EBITDA ^A	2 589	202	1 361	1 168	–	5 320
EBITDA margin (%) ^A	29.9	2.2	13.3	60.6		25.5
Capital expenditure	1 649	1 354	106	167		3 276

¹ Excludes the VERP and VSP costs of R282 million.

^A The EBITDA balance referred to above includes the significant financing component of R75 million and R66 million in the prior period recognised in accordance with IFRS 15 Revenue from contracts with customers. The significant financing component is included in operating revenue as a separate component of revenue. Excludes a once-off impact of R282 million relating to VERP and VSP costs.

	Openserve Rm	Consumer Rm	BCX Rm	Other Rm	Eliminations Rm	Group Rm
September 2017						
Revenue	8 589	7 900	10 685	3 010	(10 366)	19 818
Fixed	8 589	4 685	5 593	71	(6 663)	12 275
Mobile		3 215			(72)	3 143
Information technology			5 004		(1 352)	3 652
Other			88	2 939	(2 279)	748
Costs of contracts with customers	44	1 312	1 355	219	(43)	2 886
Payments to other operators	575	556	460	–	(419)	1 172
Net revenue	7 970	6 032	8 870	2 791	(9 903)	15 760
Other income	199	283	1	345	(599)	229
Operating expenses	5 768	6 356	6 907	2 290	(10 502)	10 819
Employee expenses	2 107	496	2 486	272	(1)	5 360
Selling, general and administrative expenses	2 446	5 469	4 158	1 685	(10 227)	3 531
Service fees	788	156	173	301	(43)	1 375
Operating leases	427	235	90	32	(231)	553
EBITDA	2 401	(41)	1 964	846	–	5 170
EBITDA margin (%)	28.0	(0.5)	18.4	28.1		26.1
Capital expenditure	2 295	1 185	262	232		3 974



Productive capital



Openserve's revenue continues to be resilient through its drive to promote next generation fibre and ethernet products, despite a decline in voice revenue. We are committed to modernising and commercialising the network and continue to drive the migration of legacy products to next generation fibre-based products. In line with the strategy, we have announced a minimum fibre to the home speed offering starting at 10 Mbps, effective from January 2019.

Revenue increased 0.9 percent to R8 665 million, mainly driven by growth in fibre to the businesses connected of which 59.5 percent are utilising our ethernet base products. Across the fibre ecosystem, we see steady growth and have continued our journey to provide value-based pricing to our clients. In this endeavour we will introduce increased bandwidth and optimise pricing to stimulate further connectivity growth. We have been prudent in our investment across our fibre to the home strategy, and have improved our fibre to the home connectivity rate to 35.6 percent, compared to 24.5 percent in the prior year. In addition, we have embarked on a strategy to migrate our access copper-based broadband customers to a fibre-based service where viable, and we are confident that this strategy will result in increased access to high-speed broadband data connectivity.

In conjunction with the commercialisation of our network we saw a marked improvement in our service delivery. This was achieved by continuous operational efficiency. As a result, EBITDA increased **7.8 percent to R2 589 million, with an EBITDA margin of 29.9 percent, 1.9 percentage points higher** than the prior year.

Capital investment of R1 649 million focused on network modernisation. We have seen our national optical footprint expanding by over 10 000 kilometres to 161 119 kilometres, with over 2.6 million premises next generation access fibre passed. To meet the demands of increased speed, capacity, lower latency and the digitalisation of the network fabric, the ongoing deployment of packet optical transport network across national and regional fibre routes, gives us the opportunity to deploy technologies that can enable an exponential increase in data traffic. Through the deployment, we have the ability to introduce higher speed offerings of up to 200 Mbps to our fibre-to-the-home base. The improved technology evolution has continued to drive our consumption, with an increase of 25.1 percent on fixed-line broadband data.

Customer experience is an essential component in driving commercialisation. Openserve remains committed to improving service delivery and customer expectations, renewing existing clients and attracting new clients to our network. We have focused our assurance and fulfilment practices to improve our access network experience. We have migrated more than 87 percent of our workforce onto a digital workforce allocation platform, thereby enabling flexibility and nimbleness with our service delivery contributing to improved customer experience.





Productive capital *continued*

Telkom Consumer

Telkom Consumer's performance was driven by the mobile business, which was underpinned by our capital investment in the wireless network, extension of distribution channels, increased store footprint and innovative data-led products which have resonated well with customers. To capitalise on the success of our mobile business, we have begun migrating selected traditional fixed-line customers to wireless technologies, such as LTE.

Telkom Consumer operating revenue grew **14.6 percent**, driven by a **53.8 percent growth in mobile service revenue to R3 579 million**. The impressive growth in the mobile business was supported by **50.0 percent growth in subscribers to 6.5 million**, with the blended ARPU increasing by **12.8 percent to R104**. Post-paid subscribers increased by **25.4 percent** to 1.7 million subscribers. Our innovative FreeMe plan remains the core value proposition within our post-paid offering. To this end, **41.1 percent** of our post-paid subscribers have adopted the FreeMe product suite as their base plan. Pre-paid subscribers increased **60.7 percent** to **4.9 million** with the ARPU increasing by **33.5 percent to R71**. To achieve a quality of service network offering and to broaden our coverage domain, we increased our integrated sites by 27.2 percent to **4 383 sites**.

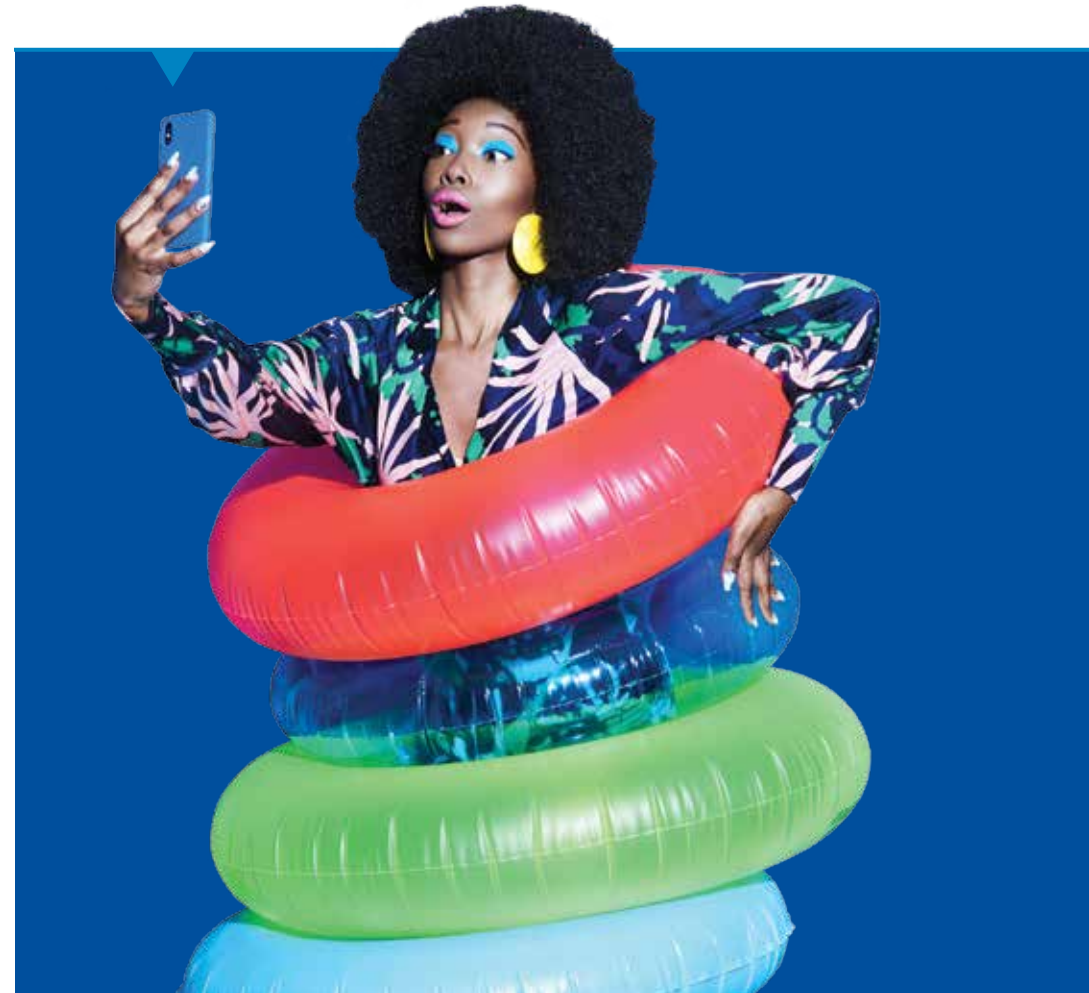
Mobile data was a major contributor to revenue with a **55.8 percent growth**, supported by **121 percent growth** in data usage. The refarming of our 1800 MHz spectrum is paying dividends with smartphone subscribers increasing by **83.9 percent to 3.8 million**. Our fixed wireless access and WiFi continue to do well with an increase of 22.1 percent to more than 962 000 customers, driven by our popular "deal of the month", improved quality and the footprint expansion of our LTE network.

In the period, Telkom launched the first Unlimited LTE offering, including VoLTE and attractive calling rates and an extension of VoLTE across the entire LTE portfolio. We are seeing significantly more fibre customers, albeit from a low base, driven by an increase in new-to-franchise businesses and the migration of DSL customers to fibre. Our fibre acceleration has been stimulated by the ongoing onboarding of third party fibre network service providers to extend the fibre reach.

Our content offering LIT video, music on mobile and LIT TV streaming device for fixed-broadband is gaining momentum. Upon review of the LIT proposition, we have now architected a full bouquet of streaming bundles (daily, weekly and monthly), which provide customers access to cheaper streaming data with LIT content partners. Sales for FreeMe recurring data bundles have steadily increased since the introduction of LIT services on the 2GB and higher services. We have strengthened our position in the content space by also offering enhanced gaming options and online video games and hardware, software and accessories. We seek to stimulate broadband growth through the broadband services offering, as consumers increase their needs in the world of lifestyle and entertainment. Our LIT streaming bundles offer cheaper streaming data to LIT content partners. We also drive broadband growth by offering online video games, hardware, software and accessories.

We have instituted specific initiatives to counter the decline in the **fixed business**, such as innovative fixed-broadband products (led by the Unlimited product suite as well as customer speed upgrade migrations) and content offerings. In addition, we have begun migrating selected traditional fixed-line customers to wireless technologies.

Our drive to improve the **customer experience** is driven by our "Serving is the New Selling" campaign. This aims to focus on people, processes, systems and simplifying the overall value chain. Key initiatives included establishing a service culture, expanding service capabilities to our stores and introducing "walk-in customer care" as part of our channel reach, having dedicated specialised service teams to pro-actively deal with customer service challenges, improving customer service journeys and the automation of certain processes.





Productive capital *continued*

BCX

The trading environment continues to be challenging as the country entered a technical recession resulting in reduced and deferred spending by large corporates in South Africa. In addition, public sector ICT spend has remained subdued. The performance of BCX has been adversely affected by this environment as well as the higher than anticipated voice revenue decline.

Revenue declined 4.3 percent to R10 222 million, mainly attributable to the decline in voice revenue which was down 11.9 percent. The voice revenue decline is more pronounced in the public sector and SMME sector. BCX continues to retain the large enterprise customer base and the enterprise revenues remained flat compared to the previous year. The revenue from customer premise equipment growth is a positive leading indicator for future growth in data revenues.

EBITDA at R1 361 million is 30.7 percent lower than previous year due mainly to the decline in the voice revenue and the high cost structure of the organisation. We have commenced with the initiatives to contain cost to improve the profitability of the organisation. The second phase of cost containment initiatives is underway, and these include the consolidation of the offices and datacentres, simplification of the organisational structure, reduction of the executive and middle management structure and rationalisation of the product portfolio.

The legal integration of 34 entities to form one BCX is progressing very well. The focus this year was to create one organisation, common processes and or single Go-To-Market model. We created two solution centres - telecommunication solutions and IT solutions - to enable better focus and ensure that we service customers more effectively. The initial feedback from customers, primarily medium and large enterprises, is positive.





Productive capital *continued*

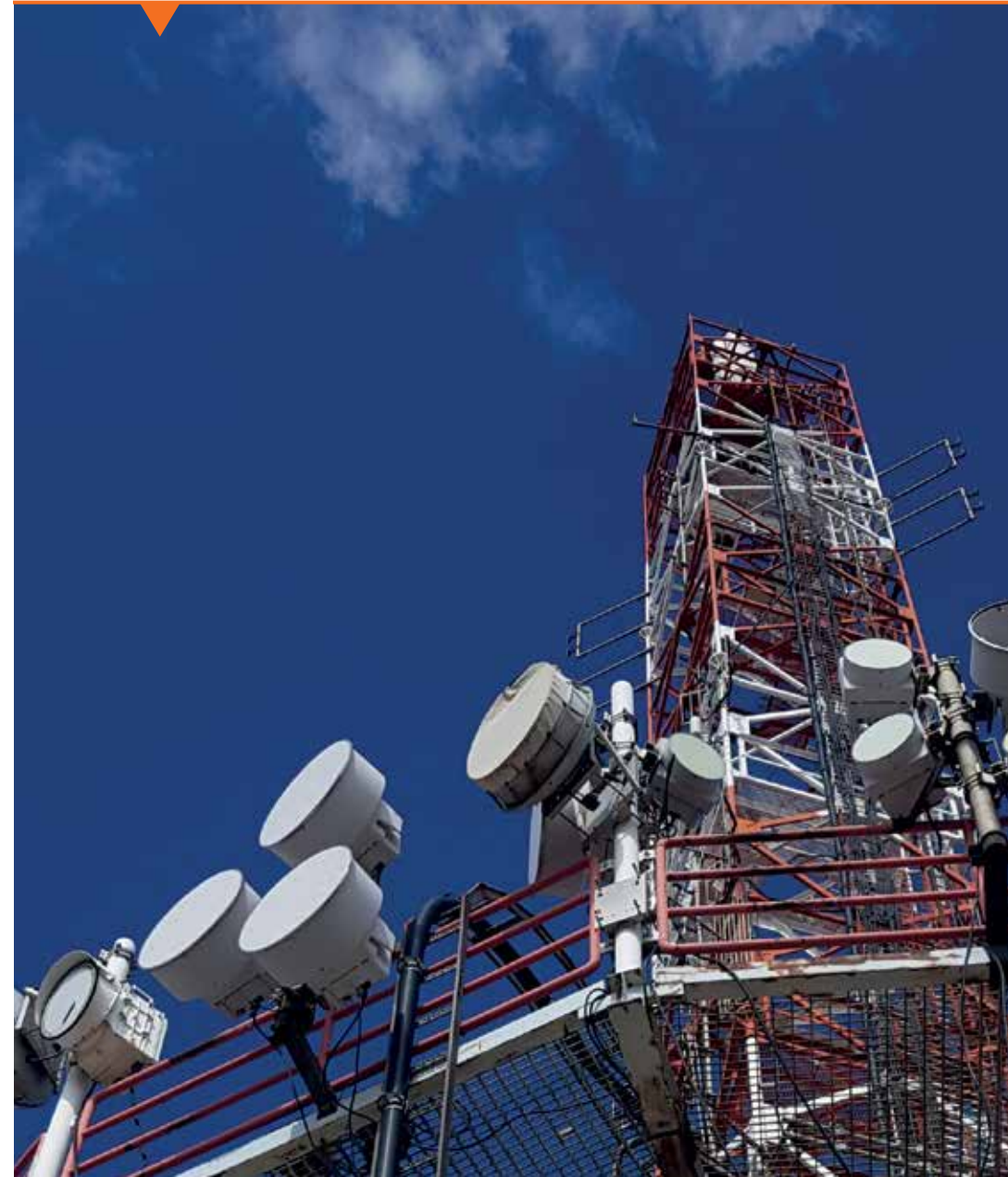
Gyro

Gyro continues to establish a solid foundation for revenue opportunities and asset value enhancement for the tower and property portfolios. Gyro's focus has been to optimise the tower portfolio, undertake development planning for select properties and optimise property related expenses for the group and divisions. The tower portfolio remains the staple source of external revenue, and it is the area of primary focus as we strive to increase external revenue.

During the period under review, we undertook revenue enhancement initiatives in Gyro's tower portfolio. As a result, **our mast and towers external revenue grew 21.7 percent to R314 million, from the 1 300 co-located towers**. These initiatives are ongoing, as we continue to optimise the existing tower portfolio while also adding newly built towers and acquisitions where possible. We have assessed the entire portfolio for suitability of co-location (multi-tenancy) and have introduced **3 000 additional towers** to potential tenants for new tenancy possibilities. To take advantage of further external revenue opportunities, we are removing redundant equipment from 1 380 co-located towers and have identified 650 sites for new tower construction.

We currently have **40 properties in the development pipeline** of which we have undertaken market research, with a full portfolio study to be completed during the second half of the year. Rezoning is currently in process. We expect significant progress on preliminary concept design, costing and tenant recruitment by the end of the year, which will allow us to begin project development where rental revenue has been secured. We have reviewed the current group and divisions space demand and occupancy in major metropolitan areas and have embarked on a short-term and long-term solution for office space user demand optimisation.

The objective to reduce **rental expenditure** to third party landlords, in markets where Telkom and Gyro properties offer suitable accommodation, is at the core of the short-term solution. We have identified leases for BCX, Yellow Pages and Openserve in Cape Town, Durban, Port Elizabeth and Johannesburg that can be replaced with a more cost-effective tenancy. This initiative will be extended to other major cities throughout the country. The second phase of the office user demand optimisation project entails consolidation of the divisions in major metropolitan areas into newly developed buildings, to optimise productivity.





Productive capital *continued*



YELLOW PAGES *(known as Trudon)*

Yellow Pages, known as Trudon, is evolving from a largely print sales organisation to a technology enabled organisation focused on small businesses. The business has started implementing its new operating model including the introduction of a lean resourcing structure and cost optimisation initiatives.

The business has continued the transformation journey towards a digitalised business. Central to this has been the establishment of workstreams that look at implementing an agile and cost efficient operating model. As part of the journey, the business is nearing completion of the reorganisation process, including the recruitment of new digital skills which are critical to the success of the business in the digital economy.

The business has also expanded its third party channels and is piloting a tied agency model, which will allow individual agents to sell Yellow Pages products through the online portal. This approach, combined with improved self-service and digital acquisition channels, is expected to increase penetration of Yellow Pages services in traditionally underserved areas of the market. In addition, new bundles, such as Yellow Pages Sync, have been launched to ensure an easier product selection for customers, while offering enhanced value and competitive pricing, relative to other offerings in the market.

The first phase of rebuilding the Yellow Pages directory platform is now live, offering customers an improved user experience and functionality, including the ability to register a business online. The second phase of the platform relaunch will go live in November 2018. This will offer customers a central dashboard where performance of the various Yellow Pages products can be tracked as well as the order functionality of a range of Yellow Pages products and services.





Overview of our business

Human capital

Our investment in new technologies to drive future revenue streams necessitates the evolution of our skills base and the acquisition of various capabilities within our organisation.

Telkom acknowledges that the external environment including technology advancements, regulatory changes and increased competition have driven the need for an internal review of the environment. This will allow us to become more flexible and responsive in how we, as an organisation, cultivate distinct cultures that advances competitive advantage. The key consideration will be how much value our employees create as part of the structural capitals of our organisation, which looks at a combination of tangible and non-tangible resources. The measurement of value creation forms part of the elements of our human capital strategy, with consideration to understanding our execution challenge.

Our focus remains on creating efficiency and effectiveness in the context of growing the business and achieving operational excellence through human capital investments. We continue working on understanding the leadership and operational capability sets required to drive performance. This may include the reorganisation of functions, identification of skill gaps and, in certain instances, possible redundancies. Where we have identified gaps, we continue to be deliberate about the process to close out and generate value, while creating the necessary diversity among our teams.

We continue to invest in talent within our organisation to retain key skills and ensure our future competitiveness. In the period under review, we continued to monitor, review and invest in our top talent. Our highlights for the period include:

- > A total of 2 792 management employees reviewed for talent mapping and succession planning.
- > Succession plans were updated for senior roles.
- > A strong focus was placed on identifying people-related challenges across each division, and there is a plan to address these challenges and minimise talent risks for the business.

In June 2018, we launched our Top Flight and Step Up programmes, which are aimed at developing high potential senior executives across the group. The programme, which is grounded on the principles of continuous learning, took the form of a blended learning intervention with a combination of structured and unstructured learning components.



Intellectual capital

Our operating business model has aligned into business units to ensure that we better focus on customer segments, on which, the IT model was redesigned.

The priority for the chief information officer of each division is customer service and experience across the delivery platforms as well as the automation of back-office functions. This will improve efficiencies, reduce cycle time and costs, and eliminate manual activities where possible as IT plays an enabling function in this environment.

The next generation network (NGN) platform accommodates the full integration of order fulfilment, assurance and billing capabilities required to support our fixed and mobile consumer customers. We have made progress with the migration of consumer fixed-line customers onto the NGN platform, and we are now supporting our consumer customer base from a single converged fixed-mobile platform.

Telkom's IT focus will shift more intentionally to comprehensive digital platforms. The journey that we are defining will allow us to engage with our customers and suppliers, as well as transact with them seamlessly through self-service or social media. On this journey, we will further automate back-office processes and eliminate mundane and repetitive tasks, which will ensure timeous start-to-finish processes.

IT service management will be a top priority in the continued success of these services. We have also considered the impact of a software-defined network and network field virtualisation on the business, as this will further enhance customer experience, network performance and management.

Through our ongoing information security management programme, Telkom is continually implementing new and upgraded information security and cybersecurity systems to ensure appropriate and effective protection, detection and prevention of cyberattacks and cybercrime. Key to our cyber strategy is the deployment of active cybersecurity incident detection and response capabilities. We have also established a cyber and information security assurance capability to monitor the effectiveness of the information security management initiatives.

An additional, but crucial layer of cybersecurity defence is delivered by our employees. Telkom has rolled out a continual information security awareness programme to all its employees and third parties. This equips all levels of business with the necessary cyber awareness to ensure that employees and third parties understand their roles in cybersecurity.

Cyberthreats and active cyberattacks not only require continual action and awareness within our own business, but also on the part of our customers. Telkom, through BCX, is developing partnerships with internationally accredited cybersecurity practitioners and service providers. These partnerships will allow us to take the same effective technologies, processes and protection that Telkom is building for our own internal business protection, and extend these advanced cybersecurity offerings to our customers to improve their business environments.



Overview of our business

Social and relationship capital

We recognise that sustainable transformation is at the core of our broad-based black economic empowerment (B-BBEE) status, and we apply a beyond-compliance perspective when addressing our B-BBEE status. Through the group's commitment to B-BBEE certification, Telkom's rating has improved from level 6 to level 4, and BCX was rated level 3.

We continue with initiatives to improve the B-BBEE certification status of the group. These include a transformation and compliance plan to address the priority elements, the implementation of an aggressive skills development programme and the cascading down of the B-BBEE certification plan and targets at an individual level.

The Telkom Enterprise and Supplier Development (ESD) programme continues to drive our beyond-compliance perspective to develop black-owned businesses in the ICT sector. This initiative is aimed at enhancing market access opportunities, driving ICT innovation, and fostering inclusive participation of majority black-owned ICT businesses in Telkom's supply and value chain. ESD is an important part of our social commitment to B-BBEE.

Telkom continues to invest in attracting, developing and employing young talent through a myriad of programmes ranging from educational support for high school learners, bursary programmes for further education and training, learnerships as well as support for young entrepreneurs.

The Centre of Excellence Postgraduate programme is aimed at allowing young graduates to perform research in a world-class environment and develop much needed ICT skills. Through the programme, approximately 240 full-time postgraduate students study towards an MSc or PhD qualification each year.



Natural capital

Our natural capital management approach is guided by our Environmental and Climate Change policies.

To ensure an integrated approach to environmental management, the principles guiding these policies are reviewed annually to assist Telkom to minimise those activities that may negatively impact the environment and to ensure compliance of environmental legislation, associated regulations and applicable local and international standards.

While Telkom is categorised as a medium to low risk organisation for environmental impact, we are committed to addressing the causes and adapting to the impacts of climate change. Telkom has participated in the Carbon Disclosure project over the past seven years.

Replacement of water dependent cooling towers for heating, ventilation and air-conditioning (HVAC) systems in the Cape Town area are in different stages of completion. Additionally, cooling towers for emergency power systems are being replaced with radiators to lessen Telkom's dependency on water and the associated risks to business continuity.

- > To date, eight of 10 HVAC projects have been concluded at a total cost of R10.5 million. The remaining two projects are due for completion by December 2018 at a further cost of R10 million.
- > It is estimated that these changes will bring about a total annual saving of 131 224 kL of water.
- > Nine projects to replace the emergency power system cooling towers are due for completion by the end of December 2018 at a total cost of R24.9 million.
- > Assuming similar trends in future emergency power requirements, 11 695 kL of water could be saved annually due to the foregoing changes.

Overview of our business Outlook

Looking forward, we believe that our operating environment will continue to be challenging with macro-economic conditions not being favourable to growth, and the private and public sectors respectively deferring spend on ICT. Our strategy therefore will be more focussed on pockets of growth, while we continue extracting efficiencies from past investments and driving a sustainable cost management approach.

We will continue to allocate capital diligently, including monitoring the return we make on our investments. The capital investment to date is already bearing fruit with our new revenue streams, such as mobile service revenue and fixed data revenue, driving growth for the group. This will, however, not compensate for the decline in traditional voice revenue. We will continue to manage the decline in traditional revenue streams by proactively migrating customers from traditional to new revenue streams. We are mindful of the migration from traditional to new revenue streams that are at lower margins with increased costs to serve. The new call termination rate glide path will further put our margins under pressure. As a result, we are embarking on various initiatives to manage costs over the guidance period to maintain overall margins. These mainly include, among others, decommissioning components of our network as we migrate customers from copper, retire IT systems and optimise staff to align with the new operating model. As a group, we are committed to containing costs and maintaining margins according to our medium-term guidance despite pressures from the regulator, a weak economic environment and a decline in voice revenue.

In the **consumer environment**, we intend to accelerate the migration of customers to newer technologies, particularly in areas where our customers are on copper, as we move them to fixed wireless access (LTE) and fibre networks, in order to retain our customers and maintain market share. To support the migration strategy, we intend to accelerate our investment in our network for coverage and capacity and continue to utilise our 4G spectrum efficiently as the bulk of our traffic is on our 4G network.

In addition, we have entered into a roaming agreement that will further strengthen our ability to accelerate mobile network deployment. The new roaming agreement will provide us with seamless roaming, expanded access to LTE coverage (4G) and enhanced high-value location coverage. This will enable us to provide improved customer experience and allow us to extend our coverage footprint. We will also be partnering with over-the-top players to provide data-led propositions to our customers and increase our focus on improving the overall fixed-line customer experience.

In the **wholesale environment**, we will continue to review our network technology including consolidating various disparate networks to drive economies of scale. We continue to optimise our network footprint by analysing our current deployed network. We will upgrade where necessary, and decommission other components of our network as we migrate customers from copper using alternative technology where deemed optimal. In the fibre space, we will focus on connecting homes to ensure return in line with our commercialisation strategy and migrate customers to fibre in areas where we have already rolled out fibre.

In the **BCX environment**, we expect a continued decline in voice and spend. The public sector will continue to be under pressure and hence we are pursuing strategies to mitigate the impact. We aim to accelerate data growth while also improving the profitability of IT services and scale new technologies. We will accelerate metro ethernet rollout while also focussing on growing Cloud revenue. We understand the importance of addressing our cost structure and we will, among others, review our portfolio and divest where necessary and rationalise our executive and management structures. We will further consolidate delivery structures, streamline our product portfolio overheads and automate IT operations processes.

The regulatory trajectory remains uncertain and suggests possible future regulation of wholesale fixed services and downward pressure on data retail prices.

There is now certainty on the call termination rates for the next three years, starting 1 October 2018. ICASA has also identified several segments of fixed wholesale services as priority markets which could result in wholesale revenue reduction. Indications are that ICASA will begin its detailed market enquiry on the mobile wholesale market in the new year. ICASA's identification of wholesale mobile market could however be positive for the group.

We expect high demand spectrum to be licensed within the next 12 to 18 months. However, the 700 MHz and 800 MHz bands will only be commercially available after completion of digital migration and restacking. We also expect the Electronic Communication Amendment Bill to be passed within the next few months. We will continue to engage ICASA and other regulatory bodies to ensure that the regulatory regime is fair and will promote competition while being conducive to continued investment in infrastructure.



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 of 23 of 112.14144 cents per share. The declared dividend is payable on Monday, 3 December 2018 to shareholders recorded in

the register of the company at close of business on Friday, 30 November 2018. The dividend will be subject to a local dividend withholding tax rate of 20 percent, which will result in a net interim dividend of 89.71315 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 Limited's tax reference number is 9/414/001/710.

Salient dates with regards to the ordinary interim dividend

Declaration date	Tuesday, 13 November 2018
Last date to trade cum dividend	Tuesday, 27 November 2018
Shares trade ex-dividend	Wednesday, 28 November 2018
Record date	Friday, 30 November 2018
Payment date	Monday, 3 December 2018

Share certificates may not be dematerialised or rematerialised between Wednesday, 28 November 2018, and Friday, 30 November 2018, both days inclusive.

On Monday, 3 December 2018, 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.

02

Operational
data



Operational data

	September 2018	September 2017	%
Subscribers			
Broadband subscribers			
Fixed broadband subscribers ¹	974 181	999 311	(2.5)
Mobile broadband subscribers	4 751 688	2 848 568	66.8
Fixed subscribers			
Closer subscribers	781 542	806 647	(3.1)
Internet all access subscribers ²	550 606	533 550	3.2
Fixed access lines ('000) ³	2 566	2 840	(9.6)
Revenue per fixed access line (ZAR)	2 175	2 265	(4.0)
Fixed voice ARPU	359.09	365.09	(1.6)
Fixed broadband ARPU	194.42	188.03	3.4
Managed data network sites	45 385	46 844	(3.1)
Mobile subscribers			
Active mobile subscribers ⁴	6 545 101	4 364 508	50.0
Pre-paid	4 877 613	3 035 173	60.7
Post-paid	1 667 488	1 329 335	25.4
ARPU (Rand)	104.28	92.46	12.8
Pre-paid	70.68	52.96	33.5
Post-paid	191.47	183.81	4.2
Pre-paid churn (%)	53.2	52.1	(1.1)
Post-paid churn (%)	12.5	12.0	(0.5)

¹ Includes xDSL and FTTH lines of which 6 420 (September 2017: 6 985) are internal lines.

² Includes Telkom Internet ADSL, ISDN and WIMAX subscribers.

³ Includes copper voice and broadband, ISDN and FLLA. Excludes Telkom internal lines.

⁴ Based on a subscriber who has participated in a revenue-generating activity within the last 90 days.

	September 2018	September 2017	%
Volumes			
Fixed broadband data volumes (petabytes)	488	390	25.1
Mobile broadband data volumes (petabytes)	159	72	120.8
Total fixed-line traffic (millions of minutes)	5 630	6 449	(12.7)
Network			
Ports activated via MSAN access	1 446 800	1 413 594	2.3
Fibre to the home	393 101	300 506	30.8
Fibre to the cabinet	2 286 595	2 123 523	7.7
Mobile sites integrated	4 383	3 445	27.2
LTE sites integrated	2 607	1 945	34.0
Active fibre connectivity rate (%)	35.6	24.5	11.1
Group employees⁵	17 862	18 522	(3.6)
Telkom company employees	9 952	10 050	(1.0)
Consumer	1 151	1 384	(16.8)
Openserve	8 527	8 375	1.8
Corporate Centre	274	291	(5.8)
BCX group employees ⁶	7 432	7 778	(4.4)
Yellow Pages group employees	380	483	(21.3)
Gyro employees ⁶	98	211	(53.6)

⁵ Based on number of group permanent employees.

⁶ 132 Gyro employees were transferred to BCX group.



03

Financial performance

Key salient features

- Group operating revenue¹ up 5.2 percent to R20.8 billion
- EBITDA^a up 2.9 percent to R5.3 billion
- EBITDA margin^a of 25.5 percent
- Capex of R3.3 billion with capex to revenue ratio of 15.7 percent
- Free cash flow up 118.6 percent to R179 million
- HEPS down 3.3 percent to 288.0 cents
- Adjusted HEPS^a up 10.3 percent to 328.6 cents
- Interim dividend of 112 cents, down 5.1 percent from 118 cents

Financial performance information

Pro forma condensed consolidated interim statement of profit and loss*

	Adjusted September 2018* Rm	Restated September 2017 Rm	%
Revenue from contracts with customers	20 847	19 818	5.2
Payments to other operators	1 285	1 172	(9.6)
Costs of contracts with customers	3 176	2 886	(10.0)
Net operating revenue	16 386	15 760	4.0
Other income	192	229	(16.2)
Operating expenses	11 258	10 819	(4.1)
Employee expenses	5 287	5 360	1.4
Selling, general and administrative expenses	3 887	3 531	(10.1)
Service fees	1 396	1 375	(1.5)
Operating leases	688	553	(24.4)
EBITDA	5 320	5 170	2.9
Depreciation, amortisation, impairment and write-offs	2 802	2 660	(5.3)
Operating profit	2 518	2 510	0.3
Investment income	120	64	87.5
Finance charges and fair value movements	443	352	(25.9)
Finance charges	568	358	(58.7)
Foreign exchange and fair value movement	(125)	(6)	1 983.3
Profit before taxation	2 195	2 222	(1.2)
Taxation	574	594	3.4
Profit for the period	1 621	1 628	(0.4)

Notes

Revenue from contracts with customers grew 5.2 percent, supported by impressive growth in mobile revenues. Traditional fixed voice continued to decline while fixed data revenues remain flat.

Payments to other operators increased 9.6 percent mainly because of higher payments to mobile operators in line with the 44.5 percent increase in our mobile voice and subscription revenue.

Costs of contracts with customers increased 10.0 percent following an increase in mobile acquisition cost driven by the 60.7 percent increase in mobile pre-paid subscribers.

Operating expenses increased due to:

- Selling, general and administrative expenses** mainly due to higher maintenance driven by the increase in mobile sites and an increase in marketing expenditure from our consumer segment.
- Operating leases** as a result of the 27.2 percent increase in mobile sites.

Partially offset by:

- Employee expenses** driven by the group headcount decrease of 3.6 percent to 17 862 full time employees

Group positively impacted by the 4.0 percent increase in net revenue while operating expenses increased 4.1 percent. The lower-than-the-inflation growth in operating expenses is attributable to our continued focus on cost-efficiency initiatives as part of our ongoing business transformation.

Depreciation, amortisation, impairments and write-offs increased 5.3 percent mainly impacted by the increase in capital expenditure, partially offset by the extension of useful lives.

Investment income increased mainly due to higher cash balances.

Finance charges increased largely driven by higher borrowings partly offset by lower forex and fair value movements buoyed by a fair value gain on the revaluation of the cell captive.

Operating revenue

	September 2018 Rm	Restated September 2017 Rm	%
Fixed	11 628	12 275	(5.3)
Voice and subscriptions	5 456	6 378	(14.5)
Usage	2 039	2 357	(13.6)
Subscriptions	3 417	4 021	(15.0)
Interconnection	410	320	28.1
Fixed-line domestic	176	171	2.9
Fixed-line international	234	149	57.0
Data	4 889	4 872	0.3
Data connectivity	3 387	3 356	0.9
Internet access and related services	995	951	4.6
Managed data network services	488	545	(10.5)
Multi-media services	19	20	(5.0)
Customer premises equipment sales and rentals	789	640	23.4
Sales	269	139	93.5
Rentals	520	501	3.8
Other revenue	83	65	27.7
Mobile	4 711	3 143	49.9
Mobile voice and subscriptions	789	546	44.5
Mobile interconnection	120	68	77.9
Mobile data	2 669	1 713	55.8
Mobile handset and equipment sales	1 058	750	41.1
Significant financing component revenue	75	66	13.6
Information technology	3 774	3 652	3.3
Other	734	748	(1.9)
Yellow Pages	353	421	(16.2)
Gyro	317	260	21.9
VS Gaming	9	9	-
BCX - Fastnet	55	58	(5.2)
Total¹	20 847	19 818	5.2

Revenue variance explanations

Fixed-line voice usage and subscription revenue decreased by 14.5 percent to R5 456 million (September 2017: R6 378 million) as the declining trend accelerated in the current period driven by migration to new technologies and a 9.6 percent decline in the number of fixed access lines.

Fixed interconnection revenue increased 28.1 percent to R410 million (September 2017: R320 million) mainly due to the international interconnection revenues which improved by the weakening of the Rand against foreign currencies.

Fixed-line data revenue is flat at R4 889 million (September 2017: R4 872 million).

Fixed data connectivity services increased 0.9 percent to R3 387 million (September 2017: R3 356 million) due to a decline in traditional revenue streams, offset by the increase in fibre and new data products including fibre to the home and metro-ethernet.

Internet access and related services revenue increased 4.6 percent to R995 million (September 2017: R951 million) driven by the 3.2 percent increase in Internet all access subscribers.

Managed data network services revenue decreased 10.5 percent to R488 million (September 2017: R545 million) mainly due to a 3.1 percent decrease in the number of managed network sites to 45 385 (September 2017: 46 844) mainly supported by site consolidations from customers.

Mobile voice and subscriptions revenue increased 44.5 percent to R789 million (September 2017: R546 million). This is attributed to a 50 percent increase in the number of active mobile subscribers.

Mobile data revenue increased 55.8 percent to R2 669 million (September 2017: R1 713 million) driven by our strategy to focus on data which led to an increase in mobile data traffic.

Information technology increased 3.3 percent to R3 774 million (September 2017: R3 652 million) mainly due to an increase in the application solutions revenue line.

¹ The adoption of IFRS 15 resulted in a marginal reduction in revenue of R79 million in the current period (September 2017: R41 million). The implementation of IFRS 15 also highlighted a prior period error of R250 million relating to the recognition of Mobile CPE revenue to dealer stores.

Condensed consolidated statement of financial position*

	September 2018 Rm	Restated March 2018 Rm	%
Assets			
Non-current assets	36 706	36 417	0.8
Property, plant and equipment	30 725	30 377	1.1
Intangible assets	4 598	4 492	2.4
Other investments	73	100	(27.0)
Employee benefits	752	627	19.9
Other financial assets	125	60	108.3
Finance lease receivables	244	262	(6.9)
Deferred taxation	189	499	(62.1)
Current assets	15 209	14 083	8.0
Inventories	1 384	1 435	(3.6)
Contract assets	1 679	1 425	17.8
Income tax receivable	49	54	(9.3)
Finance lease receivables	111	112	(0.9)
Trade and other receivables	7 716	6 657	15.9
Other financial assets	426	163	161.3
Other investments	1 530	1 509	1.4
Cash and cash equivalents	2 314	2 728	(15.2)
Total assets	51 915	50 500	2.8
Equity and liabilities			
Equity attributable to owners of the parent	28 903	26 936	7.3
Share capital	5 050	5 050	-
Share-based compensation reserve	452	377	19.9
Non-distributable reserves	1 574	1 579	(0.3)
Retained earnings	21 827	19 930	9.5
Non-controlling interest	371	359	3.3
Total equity	29 274	27 295	7.3
Non-current liabilities	8 854	10 278	(13.9)
Interest-bearing debt	7 401	7 165	3.3
Provisions	701	2 432	(71.2)
Financial liabilities	96	-	100.0
Deferred revenue	493	502	(1.8)
Deferred taxation	163	179	(8.9)
Current liabilities	13 787	12 927	6.7
Trade and other payables	7 476	6 878	8.7
Shareholders for dividend	60	58	3.4
Interest-bearing debt	2 742	2 247	22.0
Provisions	1 294	1 504	(14.0)
Deferred revenue	1 697	1 597	6.3
Income tax payable	295	363	(18.7)
Other financial liabilities	223	250	(10.8)
Credit facilities utilised	-	30	(100.0)
Total liabilities	22 641	23 205	(2.4)
Total equity and liabilities	51 915	50 500	2.8

Notes

Property, plant and equipment constitutes largely of fixed and mobile network equipment. The growth is driven by additions of R2 913 million, partially offset by depreciation of R2 363 million.

Intangible assets constitutes largely of software and goodwill. The increase in intangibles is driven by additions of R363 million, mainly attribute to software acquisitions, partially offset by amortisation.

Employee benefits increased supported by a higher discounted rate.

Deferred tax asset reduction of 62.1 percent is attributable to a R225 million additional liability raised in Telkom SA SOC Limited relating to the actuarial gains recognised on the post-employment benefit plans. This movement was accounted for in other comprehensive income. An additional R86 million decrease in the deferred tax asset was accounted for in the taxation expense relating to the utilisation of temporary differences in the holding company financial statements.

Contract asset recognised in accordance with the adoption of IFRS 15. The 17.8 percent increase is supported by the 41.1 percent increase in mobile handset and equipment sales.

Trade receivables increased 15.9 percent from R6 657 million to R7 716 million driven by the increased revenue.

Current portion of other financial assets and liabilities increased to R426 million and decreased to R223 million respectively due to the spot rate as at 30 September 2018 depreciating against the average rate on our forward exchange book resulting in a mark-to-market asset.

Interest bearing debt has increased largely due to increased borrowings to fund capital expenditure and optimise the capital structure of the group.

The reduction in provisions is largely due the benefit received from the increase in the discount rate applied in the calculation of the Telkom Retirement Fund liability position. The adjustment was accounted for in other comprehensive income.

Trade payables grew largely due to an increase in accruals supported by the 5.7 percent increase in direct and operating expenses, excluding the VERP and VSP costs of R282 million.

Condensed consolidated provisional statement of cash flows*

	September 2018 Rm	September 2017 Rm	%
Cash flows from operating activities	2 163	1 517	42.6
Cash receipts from customers	20 223	19 886	1.7
Cash paid to suppliers and employees	(16 172)	(16 013)	1.0
Cash generated from operations	4 051	3 873	4.6
Interest received	195	125	56.0
Finance charges paid	(346)	(264)	31.1
Taxation paid	(497)	(723)	(31.3)
Cash generated from operations before dividend paid	3 403	3 011	13.1
Dividend paid	(1 240)	(1 494)	(17.0)
Cash flows utilised for investing activities	(3 163)	(3 878)	(18.4)
Proceeds on disposal of property, plant and equipment and intangible assets	40	52	(23.1)
Additions to assets for capital expansion	(3 224)	(3 974)	(18.9)
Investments made by FutureMakers	(13)	-	100.0
Realisation of investment in other financial assets	34	44	(22.7)
Cash flows from financing activities	616	2 182	(71.8)
Loans raised	1 500	4 930	(69.6)
Loans repaid	(850)	(2 494)	(65.9)
Purchase of shares for the Telkom share plan and subsidiaries long-term incentive share scheme	(47)	-	100.0
Finance lease repaid	(14)	(3)	366.7
Repayment of derivatives	(104)	(299)	(65.2)
Proceeds from derivatives	131	48	172.9
Net decrease in cash and cash equivalents	(384)	(179)	114.5
Net cash and cash equivalents at 1 April	2 698	1 519	77.6
Effect of foreign exchange rate gains on cash and cash equivalents	-	3	(100.0)
Net cash and cash equivalents at the end of the period	2 314	1 343	72.3

* Does not represent pro forma information reported.

Notes

Cash generated from operations improved in line with our 2.9 percent increase in EBITDA^A.

Increased finance charges paid is largely due to increased borrowings.

Taxation paid decreased primarily due to lower current taxation in the current period.

Reduction in payments relating to additions to assets for capital expansion are largely due to reduction in capex roll-out.

The reduction in loans raised is largely due to disciplined working capital management as well as lower capital expenditure.

^A The EBITDA balance referred to above includes the significant financing component of R75 million and R66 million in the prior period recognised in accordance with IFRS 15 Revenue from contracts with customers. The significant financing component is included in operating revenue as a separate component of revenue. Excludes a once-off impact of R282 million relating to voluntary early retirement package (VERP) and voluntary severance package (VSP) costs.

Condensed consolidated interim financial statements

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).

Board approval

These condensed consolidated interim financial statements were authorised for issue on 9 November 2018 by the Telkom SA SOC Limited board of directors and published on 13 November 2018.

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 independent joint auditors PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc. in accordance with International Standards on Review Engagements (ISRE) 2410.

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Independent auditor's review report on the condensed consolidated interim financial statements for the six months ended 30 September 2018

To the Shareholders of Telkom SA SOC Limited

We have reviewed the condensed consolidated interim financial statements of Telkom SA SOC Limited, as set out on pages 48 to 93 of the accompanying Telkom condensed consolidated interim financial statements for the period ended 30 September 2018, which comprise the condensed consolidated statement of financial position as at 30 September 2018 and the related condensed consolidated statements of profit and 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 condensed consolidated interim financial statements in accordance with 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. 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 condensed consolidated 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 interim financial statements.

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Chief Executive Officer: T D Shango
Management Committee: S N Madikane, J S Masondo, P J Mthibe, C Richardson, F Tonelli, C Volschenk
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.

SizweNtsalubaGobodo Inc., 20 Morris Street East, Woodmead, 2191, PO Box 2939, Saxonwold, 2132
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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 2018 are not prepared, in all material respects, in accordance with the International Financial Reporting Standards, 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
9 November 2018

Sizwe Ntsaluba Gobodo Grant Thornton Inc.

SizweNtsalubaGobodo Grant Thornton Inc.

Director: SY Lockhat
Registered Auditor
Johannesburg
9 November 2018

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

for the period ended 30 September 2018

	Notes	Reviewed Six months ended 30 September 2018 Rm	Restated Six months ended 30 September** 2017 Rm
Revenue from contracts with customers	3	20 847	19 818
Payments to other operators		1 285	1 172
Costs of contracts with customers		3 176	2 886
Net operating revenue	3	16 386	15 760
Other income		192	229
Operating expenses		11 540	10 819
Employee expenses	4	5 569	5 360
Selling, general and administrative expenses		3 887	3 531
Service fees		1 396	1 375
Operating leases		688	553
Depreciation of property, plant and equipment	4	2 363	2 336
Amortisation of intangible assets	4	353	359
Write-offs, impairments/(reversals) and losses of property, plant and equipment and intangible assets	4	86	(35)
Operating profit		2 236	2 510
Investment income and income from associates		120	64
Finance charges and fair value movements		443	352
Finance charges		568	358
Foreign exchange and fair value movements		(125)	(6)
Profit before taxation		1 913	2 222
Taxation	5	494	594
Profit for the period		1 419	1 628

	Notes	Reviewed Six months ended 30 September 2018 Rm	Restated Six months ended 30 September** 2017 Rm
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange gains on translating foreign operations*		26	4
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gains		1 913	678
Defined benefit plan asset ceiling limitation		-	2
Income tax relating to actuarial gains		(225)	(63)
Other comprehensive income for the period, net of taxation		1 714	621
Total comprehensive income for the period		3 133	2 249
Profit attributable to:			
Owners of Telkom		1 373	1 592
Non-controlling interests		46	36
Profit for the period		1 419	1 628
Total comprehensive income attributable to:			
Owners of Telkom		3 087	2 213
Non-controlling interests		46	36
Total comprehensive income for the period		3 133	2 249
Basic earnings per share (cents)	6	276.0	310.9
Diluted earnings per share (cents)	6	272.1	305.9

* This component of OCI does not attract any tax.

** Restated. Please refer to note 2.3, 2.4 & 2.5.

Condensed consolidated interim statement of financial position

at 30 September 2018

	Notes	Reviewed Six months ended 30 September 2018 Rm	Restated year ended 31 March** 2018 Rm	Restated 1 April ** 2017 Rm
Assets				
Non-current assets		36 706	36 417	34 125
Property, plant and equipment	7	30 725	30 377	27 918
Intangible assets	7	4 598	4 492	4 720
Other investments	9	73	100	40
Employee benefits	8	752	627	635
Other financial assets	9	125	60	60
Finance lease receivables		244	262	310
Deferred taxation	12	189	499	442
Current assets		15 209	14 083	13 852
Inventories	10	1 384	1 435	1 384
Income tax receivable		49	54	9
Finance lease receivables		111	112	237
Contract assets	19	1 679	1 425	960
Trade and other receivables	19	7 716	6 657	7 136
Other financial assets	9	426	163	126
Other investments	9	1 530	1 509	2 388
Cash and cash equivalents	11	2 314	2 728	1 612
Assets of disposal groups classified as held for sale		-	-	12
Total assets		51 915	50 500	47 989
Equity and liabilities				
Equity attributable to owners of the parent		28 903	26 936	27 508
Share capital		5 050	5 050	5 208
Share-based compensation reserve		452	377	452
Non-distributable reserves		1 574	1 579	1 376
Retained earnings		21 827	19 930	20 472
Non-controlling interests		371	359	337
Total equity		29 274	27 295	27 845

	Notes	Reviewed Six months ended 30 September 2018 Rm	Restated year ended 31 March** 2018 Rm	Restated 1 April ** 2017 Rm
Non-current liabilities		8 854	10 278	7 004
Interest-bearing debt	15	7 401	7 165	4 744
Employee related provisions	16	659	2 388	1 536
Non-employee related provisions	16	42	44	56
Other financial liabilities	9	96	-	-
Deferred revenue		493	502	529
Deferred taxation	12	163	179	139
Current liabilities		13 787	12 927	13 140
Trade and other payables	17	7 476	6 878	7 516
Shareholders for dividend*	13	60	58	25
Interest-bearing debt	15	2 742	2 247	1 541
Employee related provisions	16	1 097	1 340	1 397
Non-employee related provisions	16	197	164	124
Deferred revenue		1 697	1 597	1 571
Income tax payable		295	363	433
Other financial liabilities	9	223	250	440
Credit facilities utilised	11	-	30	93
Total liabilities		22 641	23 205	20 144
Total equity and liabilities		51 915	50 500	47 989

* Includes dividend payable to non-controlling interests of Yellow Pages.

** Restated. Please refer to note 2.3 & 2.6.

Condensed consolidated interim statement of changes in equity

for the period ended 30 September 2018

	Reviewed Six months ended 30 September 2018 Rm	Restated Six months ended 30 September** 2017 Rm
Balance at 1 April (as previously reported)	27 385	27 906
Attributable to owners of Telkom	27 026	27 569
Non-controlling interests	359	337
IFRS 15 – Revenue from contracts with customers retrospective application	(90)	(61)
IFRS 9 – Financial instruments adjustment to opening balance for expected credit loss provision	61	–
Restated balance at 1 April	27 356	27 845
Total comprehensive income for the period	3 133	2 249
Profit for the period	1 419	1 628
Other comprehensive income	1 714	621
Exchange gains on translating foreign operations	26	4
Net defined benefit plan remeasurements	1 688	617
Dividend declared* (refer to note 26)	(1 242)	(1 596)
Increase in share-compensation reserve	74	49
Increase in treasury shares	(47)	–
Balance at end of the period	29 274	28 547
Attributable to owners of Telkom	28 903	28 223
Non-controlling interests	371	324

* Dividend declared includes dividend to the non-controlling interests of Yellow Pages and the BCX group.

** Restated. Please refer to note 2.3, 2.5 and 2.6.

Condensed consolidated interim statement of cashflows

for the period ended 30 September 2018

	Notes	Reviewed Six months ended 30 September 2018 Rm	Reviewed Six months ended 30 September 2017 Rm
Cash flows from operating activities		2 163	1 517
Cash receipts from customers		20 223	19 886
Cash paid to suppliers and employees		(16 172)	(16 013)
Cash generated from operations	22	4 051	3 873
Interest received		195	125
Finance charges paid	24	(346)	(264)
Taxation paid	25	(497)	(723)
Cash generated from operations before dividend paid		3 403	3 011
Dividend paid	26	(1 240)	(1 494)
Cash flows utilised for investing activities		(3 163)	(3 878)
Proceeds on disposal of property, plant and equipment and intangible assets		40	52
Additions to assets for capital expansion		(3 224)	(3 974)
Realisation of investment in other financial assets		34	44
Investments made by FutureMakers		(13)	–
Cash flows from financing activities		616	2 182
Loans raised	23	1 500	4 930
Loans repaid	23	(850)	(2 494)
Purchase of shares for the Telkom and subsidiaries long term incentive share scheme		(47)	–
Finance lease repaid	23	(14)	(3)
Repayment of derivatives		(104)	(299)
Proceeds from derivatives		131	48
Net decrease in cash and cash equivalents		(384)	(179)
Net cash and cash equivalents at 1 April		2 698	1 519
Effect of foreign exchange rate gains on cash and cash equivalents		–	3
Net cash and cash equivalents at end of the period	11	2 314	1 343

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

1. Corporate information

Telkom SA SOC Limited (Telkom), the ultimate parent of the group, is a company incorporated and domiciled in the Republic of South Africa (South Africa) whose shares are publicly traded on the JSE stock exchange. The main objective of Telkom, its subsidiaries and associates (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.

2. Basis of preparation and accounting policies

2.1 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 are disclosed in South African Rand, which is also the group'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 initially (and sometimes 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 for the entire year and these reviewed financial statements should be read in conjunction with the audited annual financial statements for the year ended 31 March 2018 which have been prepared in accordance with IFRS.

In an effort to declutter the notes based on materiality, certain comparatives in the notes have been aggregated or disaggregated in relation to the comparative period.

2.2 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 consolidated annual financial statements for the year ended 31 March 2018, with the exception of the judgements and estimates related to the adoption of IFRS 15 Revenue from contracts with customers (refer to note 2.3.1), IFRS 9 Financial instruments (refer to note 2.3.2) and the useful lives of property, plant and equipment (refer to note 4).

2.3 Significant accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the previous financial year and corresponding interim period, except for the adoption of the new and amended standards 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.

2.3 Significant accounting policies (continued)

The group has adopted IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments in the current period.

The group has restated the prior period financial statements as a result of the adoption of the changes in the new revenue standard.

2.3.1 Adoption of IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard replaces revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard requires the entities in the Telkom group to apportion revenue earned from contracts to the identified performance obligations in the contracts on a relative stand-alone selling price basis, based on a five-step model.

The standard also requires the capitalisation of costs incremental to obtaining the contract and recognition of these costs as an expense over the contract term. Telkom has applied the practical expedient to only defer costs related to contracts with terms over 12 months.

The group is in the business of supplying fixed voice and data services to post and pre-paid customers and the sale of subscription based value-added voice services and calling plans. The group also sells fixed line customer premises equipment and services both for voice and data needs. The mobile communication services include voice and data services and customer premises equipment. Sundry revenue includes directory services and wireless data services. The equipment and services are sold both on their own in separate identified contracts with customers and together as a bundled package of goods and/or services.

In accordance with the transition provisions in IFRS 15, the group has adopted the new standard using the fully retrospective approach and has restated comparative numbers for the 31 March 2018 and 30 September 2017 financial periods respectively.

The group applied the following practical expedients when applying IFRS 15 retrospectively:

- > The group did not restate comparative numbers for contracts that were completed contracts at 1 April 2017.
- > The group did not restate comparative numbers for contracts that began and ended in the same annual reporting period.

The group previously disclosed a line item in the statement of profit or loss and other comprehensive income called "Cost of sales". Following the adoption of IFRS 15, this line item has been renamed to "Costs of contracts with customers". The nature of the items included in this line item has remained consistent from the prior reporting period.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

2. Basis of preparation and accounting policies (continued)

2.3 Significant accounting policies (continued)

2.3.1 Adoption of IFRS 15 Revenue from contracts with customers (continued)

The nature and changes in the financial statements were as follows:

Type of item affected	Nature and characteristics of the item affected	Nature of change required on implementation of the new standard	Impact
2.3.1.1 Contract costs	The group incurs commission costs in relation to contracts entered into with customers. Commission costs are paid based on new contracts entered into.	Where the costs incurred relate to the acquisition of a contract, the standard requires the costs to be capitalised and recognised as an expense over the contract terms engaged with the customer.	The adoption of the standard has led to a higher level of costs qualifying for deferral over the contract term. This has led to a reduction in costs recognised at the date of initial application as the costs are now initially accounted for as a prepaid expense and recognised as an expense over the contract term.
2.3.1.2 Installation fee revenue	The group earns installation fees for various installation services attached to the provision of fixed and mobile services. Installation fees are recognised for both fixed term and month-to-month contracts.	Where the payment of an installation fee provides the customer with a material substantive right, the installation fee is to be recognised over an estimated customer relationship period as opposed to recognition on the date that delivery is completed.	The group had previously recognised installation fees on fixed term contracts over an estimated customer relationship period. Where installation fees were received in relation to month-to-month service contracts, the installation fees were previously recognised on the date of completion of the installation service. The adoption of the standard has resulted in the deferral of installation fees over the estimated customer relationship period. This led to a reduction in revenue in the comparative statement of profit or loss and will lead to an increase in revenue in future periods as the revenue is recognised over the customer relationship period.
2.3.1.3 Fixed-line and Mobile customer premises equipment	The group bundles voice, data and customer premises equipment together in its post-paid contracts. Revenue related to the customer premises equipment is recognised once control of the equipment has been transferred to the customer. Customers settle the obligation relating to the equipment over the contract term. The term is usually in excess of 12 months.	Revenue relating to each item bundled together in a contract will be recognised based on the allocated transaction price. The transaction price will be allocated based on the relative stand-alone selling price of each item in the bundle. The group has elected to apply the practical expedient to not recognise a significant financing component for any contract which is less than 12 months. Where the contract term exceeds 12 months, a portion of the transaction price allocated to customer premises equipment will be recognised as significant financing component revenue over the contract term.	<p>Fixed-line:</p> <p>The group previously did not recognise revenue allocated to equipment where the equipment was provided to the customer as a "free" element of a bundle. The adoption of IFRS 15 has resulted in a portion of the service revenue attributable to the "free" elements in fixed-line contracts being recognised upfront as opposed to being recognised over the contract term. This has resulted in an increase in customer premises equipment revenue and a reduction in service revenue.</p> <p>Mobile:</p> <p>The group has historically been allocating revenue primarily to the main data, voice and equipment elements in a contract. Revenue was not previously allocated to a financing component. The adoption of IFRS 15 has resulted in a reduction in customer premises equipment revenue as a larger portion of the total transaction price is now allocated to service related revenue as well as the recognition of a significant financing component.</p>

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

2. Basis of preparation and accounting policies (continued)

2.3 Significant accounting policies (continued)

2.3.1 Adoption of IFRS 15 revenue from contracts with customers (continued)

The following accounting policies are applicable to revenue recognition and the related disclosures following the adoption of the new standard:

Deferred contract costs

Deferred expense assets are disclosed as part of other receivables and amortised over the contract term. The amortised costs are included as part of cost of contracts with customers or other operating expenses as determined by the costs of contracts with customers policy.

Significant financing component

A model was designed to determine whether a significant financing component exists. This model calculates the financing component on a contract-by-contract basis. If the financing component is less than 5% of the total transaction price allocated to the customer premises equipment, it is deemed not to be significant and the finance component will not be recognised separately.

2.3.2 Adoption of IFRS 9 Financial Instruments

The new standard includes the final classification and measurement model for financial assets and liabilities as well as the new expected credit loss (ECL) model for the impairment of financial assets that replaces the incurred loss model prescribed in IAS 39. The IAS 39 classification model for financial liabilities has been retained, however changes in own credit risk will be presented in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 also includes new requirements for general hedge accounting.

Initial classification and measurement

The group has assessed the implications and concluded that the new standard has no impact on the initial classification and measurement of financial instruments.

Impairment

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

The group has elected the simplified approach to recognise lifetime expected losses for its trade and finance lease receivables and contract assets as permitted by IFRS 9. The group has assessed and concluded that due to the short-term nature of its trade and other receivable balances, the trade receivable balances are not significantly exposed to the impact of changes in the macro-economic environment. The provision model will therefore not include economic environmental changes as assumptions applied in deriving the expected loss on its trade, other receivables and finance lease receivables.

The group has historically been raising provisions for bad debt based on incurred losses. Impairments of all other financial assets that are not measured using the simplified approach will be calculated as the difference between the carrying value of the asset and the present value of the expected cashflows, discounted at the original effective interest rate of the instrument.

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

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

Hedge accounting

Subsequent to making the decision which informed the transition disclosures in the 31 March 2018 financial statements, the group has elected to apply the practical expedient included in IFRS 9 to continue to apply hedge accounting in accordance with the requirements of IAS 39.

Transition

The group is applying IFRS 9 retrospectively, applying the practical expedients relating to the accounting for expected credit losses, in terms of which the opening balance of retained earnings has been adjusted in the current financial period.

The impairment loss on trade receivables was previously recognised where it was assessed that the receivable was impaired. The impairment was based on an assessment of the extent to which customers had defaulted on payments due and an assessment of their ability to make payments based on their creditworthiness and historical write-offs experience. The adoption of IFRS 9 has resulted in a reduction of the allowance for credit losses of R61 million due to a lower estimated loss based on the revised model.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

2. Basis of preparation and accounting policies (continued)

2.4 Prior period error - mobile CPE revenue recognition

As part of the IFRS 15 implementation process, the group reassessed the revenue recognition principles and the judgement applied to mobile CPE sales to independently owned dealer stores. It was identified that upon transfer of a device to a dealer, revenue was recognised relating to the sales of devices. At this point the group would also recognise the cost of sale relating to the inventory transferred to the dealer.

Subsequent to this transaction, in the event where a device would be bundled with a post-paid mobile contract, Telkom would recognise revenue again as a second transaction relating to the device sold with the post-paid contract.

At this point the group would reimburse the dealer for the device and recognise the cost of reimbursement as a cost of sale transaction. The accounting treatment adopted resulted in the overstatement of operating revenue and corresponding cost of sales.

There was however no material impact on the net operating revenue, EBITDA, profit before tax or basic earnings per share and headline earnings per share. The previous accounting treatment had no impact on the statement of financial position as it only resulted in an overstatement of the revenue and cost of sales line items respectively.

Taking into account the agent versus principal rules defined in IFRS 15, the accounting treatment for the current period has been corrected to only reflect a device sale once the device has been sold outright to an end customer or been bundled in a post-paid contract.

The tables below reflect the adjustments for each materially affected line item as part of the adoption of the new standards and the correction of the prior period error. The adjustments to each affected sub-total and total line item on the financial statements have also been included. All unaffected line items making up these total balances have not been disclosed.

2. Basis of preparation and accounting policies (continued)

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

Six months ended 30 September 2017

	As previously reported Rm	IFRS 15 Rm	Mobile CPE restatement Rm	Restated Rm
Operating revenue	20 109	(41)	(250)	19 818
Voice**	6 983	(59)	-	6 924
Interconnection**	388	-	-	388
Data*	6 507	78	-	6 585
Customer premises equipment**	1 766	(126)	(250)	1 390
Significant financing component**	-	66	-	66
Sundry revenue	813	-	-	813
Information technology	3 652	-	-	3 652
Payments to other operators	1 172	-	-	1 172
Costs of contracts with customers	3 146	(10)	(250)	2 886
Net operating revenue	15 791	(31)	-	15 760
Basic earnings per share (cents)	316.9	(6.0)	-	310.9
Diluted earnings per share (cents)	311.9	(6.0)	-	305.9

* Includes an R8 million restatement relating to installation fees. Refer to note 2.3.1.2 and 2.3.1.3.

** Refer to note 2.3.1.3.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

2. Basis of preparation and accounting policies (continued)

2.6 Adjustments to the condensed consolidated interim statement of financial position

	Notes	As at 31 March 2018			As at 1 April 2017		
		As previously reported Rm	IFRS 15 Rm	Restated Rm	As previously reported Rm	IFRS 15 Rm	Restated Rm
Assets							
Current assets		14 127	(44)	14 083	13 912	(60)	13 852
Contract assets	19	–	1 425	1 425	–	960	960
Trade and other receivables	19	8 126	(1 469)	6 657	8 156	(1 020)	7 136
Total assets		50 544	(44)	50 500	48 049	(60)	47 989
Equity and liabilities							
Equity attributable to owners of the parent		27 026	(90)	26 936	27 569	(61)	27 508
Retained earnings		20 020	(90)	19 930	20 533	(61)	20 472
Deferral of incremental contract costs	2.3.1.1	–	149	–	–	118	–
Deferral of installation fee revenue	2.3.1.2	–	(46)	–	–	(1)	–
Earlier recognition of fixed-line customer premises equipment revenue and recognition of significant financing component	2.3.1.3	–	32	–	–	27	–
Lower recognition of mobile customer premises equipment revenue and recognition of significant financing component	2.3.1.3	–	(225)	–	–	(205)	–
Total equity		27 385	(90)	27 295	27 906	(61)	27 845
Non-current liabilities		10 240	38	10 278	7 004	–	7 004
Deferred revenue		464	38	502	529	–	529
Current liabilities		12 919	8	12 927	13 139	1	13 140
Current portion of deferred revenue		1 589	8	1 597	1 570	1	1 571
Total liabilities		23 159	46	23 205	20 143	1	20 144
Total equity and liabilities		50 544	(44)	50 500	48 049	(60)	47 989

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

2. Basis of preparation and accounting policies *(continued)*

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

Information on standards issued by the IASB, but not effective for the current financial year, has been provided below where it is expected that the new standards will have a material impact on the group.

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

The following new standard in issue has not yet been adopted and is not yet effective. The standard is effective for the 31 March 2020 financial period.

2.7.1 IFRS 16 Leases

IFRS 16 Leases, issued by the IASB in January 2016, is effective for reporting periods beginning on, or after, 1 January 2019.

IFRS 16 Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The standard will affect primarily the accounting for the group's operating leases.

In the case where the group is a lessee, the long term operating leases will be recognised as non-current assets and financial liabilities in the statement of financial position. In the statement of comprehensive income, the lease expense profile will be front-loaded for individual leases and presented as depreciation and interest rather than as an operating expense (with the exception of variable rentals which will be expensed as incurred). This will result in many of the group's key performance indicators being affected – EBITDA being a case in point. The statement of cash flows will be affected too, with payments needing to be split between repayments of principal and interest.

The group is currently assessing the effects of IFRS 16 and cannot provide an estimate of the effects of the new lease standard until a detailed review has been performed.

The group is planning to adopt the standard by processing a cumulative adjustment to retained earnings as at 1 April 2019 and recognising the respective right-of-use assets and liabilities at that date. The group will also adopt the practical expedient in IFRS 16 to apply the new standard to all contracts being accounted for under IAS 17 and IFRIC 4 at 1 April 2019 and to apply the principles outlined in IFRS 16 for identifying a lease to all new contracts entered into after that date.

3. Segment information

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

The CODM reviews the performance of the operating segments on a net operating revenue and EBITDA basis. For this purpose, the reportable segments have been determined as Openserve, Consumer, BCX and "Other".

During the prior interim period, the reportable segments were determined as Fixed Stream, Mobile Stream, BCX and "Other" for EBITDA. In the current period, the review of EBITDA has been performed at the same segmental level as net operating revenue. The comparative segment note has been restated to reflect this change.

The EBITDA balance referred to above is adjusted to include the significant financing component recognised in accordance with IFRS 15 Revenue from contracts with customers. The significant financing component is included in operating revenue as a separate component of revenue.

"Other" includes Swiftnet, Yellow Pages, Gyro Group and other business units.

In the current period, the CODM has also included intercompany revenue and transfer pricing (excluded from the performance measures assessed by the CODM during the previous interim period) in the measure of performance used to assess performance and allocate resources. The comparative segment note has been restated to include transfer pricing.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

3. Segment information (continued)

The current period EBITDA for segmental purposes has been normalised for the following:
- Voluntary severance and retirement expenses of R282 million.

September 2018	Openserve Rm	Consumer Rm	BCX Rm	Other Rm	Consolidated Rm
Revenue from contracts with external customers*	2 159	8 876	9 089	723	20 847
<i>Revenue recognised over time</i>					
Voice	-	3 348	2 897	-	6 245
Interconnection	410	121	-	-	531
Data	1 697	4 166	1 695	-	7 558
Information technology	-	-	3 774	-	3 774
Significant financing component revenue	-	75	-	-	75
<i>Revenue recognised at a point in time</i>					
Customer premises equipment	-	1 156	623	68	1 847
Sundry revenue	52	10	100	655	817
Payments to other operators	(441)	(806)	(38)	-	(1 285)
Costs of contracts with customers	(3)	(1 835)	(1 154)	(184)	(3 176)
Segment net external operating revenue	1 715	6 235	7 897	539	16 386
Intersegmental operating revenue	6 506	180	1 133	1 204	9 023
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	2 589	202	1 361	1 168	5 320
Reconciliation of operating profit to profit before tax					
<i>Normalisations</i>					
Voluntary severance and retirement package expenses					(282)
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments					5 038
Depreciation, amortisation, impairments/(reversals), write-offs and losses					(2 802)
Operating profit					2 236
Investment income and income from associates					120
Finance charges and fair value movements					(443)
Profit before taxation					1 913
Other segment information					
Capital expenditure of property, plant and equipment and intangible assets	1 649	1 354	106	167	3 276

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

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

3. Segment information (continued)

	Openserve** Rm	Consumer** Rm	BCX** Rm	Other** Rm	Consolidated** Rm
September 2017					
Revenue from contracts with external customers*	2 045	7 702	9 301	770	19 818
<i>Revenue recognised over time</i>					
Voice	–	3 557	3 367	–	6 924
Interconnection	325	63	–	–	388
Data	1 686	3 136	1 763	–	6 585
Information technology	–	–	3 652	–	3 652
Significant financing component revenue	–	66	–	–	66
<i>Revenue recognised at a point in time</i>					
Customer premises equipment	–	872	518	–	1 390
Sundry revenue	34	8	1	770	813
Payments to other operators	(568)	(555)	(49)	–	(1 172)
Costs of contracts with customers	(44)	(1 312)	(1 307)	(223)	(2 886)
Segment net external operating revenue	1 433	5 835	7 945	547	15 760
Intersegmental operating revenue	6 544	198	1 384	2 240	10 366
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	2 401	(41)	1 964	846	5 170
Reconciliation of operating profit to profit before tax					
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments					5 170
Depreciation, amortisation, impairments/(reversals), write-offs and losses					(2 660)
Operating profit					2 510
Investment income and income from associates					64
Finance charges and fair value movements					(352)
Profit before taxation					2 222
Other segment information					
Capital expenditure of property, plant and equipment and intangible assets	2 295	1 185	262	232	3 974

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 associated 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 related to major customers is included in the segment information above.

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

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

** Restated. Refer to note 2.3, 2.4 and 2.5.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

	Reviewed Six months ended 30 September 2018 Rm	Reviewed Six months ended 30 September 2017 Rm
4. Operating expenses		
Employee expenses	5 569	5 360
Included in the employee expenses is a R282 million (30 September 2017: Rnil) provision for voluntary severance and retirement packages.		
Depreciation, amortisation, impairments/(reversals), write-offs and losses	2 802	2 660
Depreciation of property, plant and equipment	2 363	2 336
Amortisation of intangible assets	353	359
Write-offs, impairments/(reversals) and losses of property, plant and equipment and intangible assets	86	(35)

During the period, the group reassessed the useful lives on certain technologies. The reassessment takes into account the group's current CAPEX strategy and changes in the technological environment. The reassessment of useful lives had the net effect of decreasing the depreciation expense for the period ended 30 September 2018 by R236 million (30 September 2017: R91 million decrease in depreciation and amortisation). Depreciation for the remaining useful life of the group's assets will be increased by this amount.

Provision for credit losses

The group accounts for specific provisions for credit losses where there are indicators of impairment identified relating to a trade receivable balance. For the period under review the group reassessed provisions raised at 31 March 2018. The expected losses, based on management's best estimate in the previous reporting period have not materialised as expected and management has subsequently reversed the provision for credit losses raised on these specific debtors. This has resulted in a reduction in the provision for credit losses expense of R157 million in the current period.

	Reviewed Six months ended 30 September 2018 Rm	Reviewed Six months ended 30 September 2017 Rm
5. Taxation	494	594
Normal company taxation	427	622
Deferred taxation	67	(33)
Foreign tax	-	5

The taxation expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. The estimated average tax rate used for the period ended 30 September 2018 is 25.9%, compared to 26.7% for the period ended 30 September 2017.

	Reviewed Six months ended 30 September 2018 Rm	Restated Six months ended 30 September 2017 Rm
6. Earnings per share		
Total operations		
Basic earnings per share (cents)*	276.0	310.9
Diluted earnings per share (cents)*	272.1	305.9
Headline earnings per share (cents)*	288.0	297.8
Diluted headline earnings per share (cents)*	284.0	293.1
Reconciliation of weighted average number of ordinary shares:	Number of shares	Number of shares
Weighted ordinary shares in issue	511 140 239	526 948 700
Weighted average number of treasury shares	(13 629 708)	(14 869 186)
Weighted average number of shares outstanding	497 510 531	512 079 514
Reconciliation of diluted weighted average number of ordinary shares:		
Weighted average number of shares outstanding	497 510 531	512 079 514
Expected future vesting of shares	7 031 347	8 268 074
Diluted weighted average number of shares outstanding	504 541 878	520 347 588
<i>* 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.</i>		
Total operations		
Reconciliation between earnings and headline earnings:		
Profit for the period	1 419	1 628
Non-controlling interests	(46)	(36)
Profit attributable to owners of Telkom	1 373	1 592
Profit on disposal of property, plant and equipment and intangible assets	(20)	(32)
Write-offs, impairments/(reversals) and losses of property, plant and equipment and intangible assets	86	(35)
Taxation effects**	(6)	-
Headline earnings	1 433	1 525
Dividend per share (cents)	236.73	291.00

The calculation of dividend per share is based on total dividends of R1 210 million declared on 28 May 2018 (30 September 2017: R1 532 million). 511,140,239 number of ordinary shares were outstanding on the date of the dividend declaration (30 September 2017: 526,948,700). Total dividends declared as per the statement of changes in equity for the period includes R32 million (30 September 2017: R70 million) relating to dividends declared to non-controlling interests of Yellow Pages and the BCX group.

** The taxation impact consists of a R6 million increase (30 September 2017: Rnil) in tax expense related to recoupment of tax on write-offs of property, plant and equipment and intangible assets.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

	Reviewed Six months ended 30 September 2018 Rm	Audited Year end 31 March 2018 Rm
7. Capital additions and disposals		
Property, plant and equipment		
Additions	2 913	7 416
Disposals	(17)	(19)
	2 896	7 397
Intangible assets		
Additions	363	493
Disposals	(3)	(4)
	360	489

Finance charges of R32 million (31 March 2018: R135 million) were capitalised to property, plant and equipment in the current financial period.

	Reviewed Six months ended 30 September 2018 Rm	Audited Year end 31 March 2018 Rm
8. Employee benefits		
	752	627
Telkom Pension Fund asset	23	22
Post retirement medical aid net plan asset	729	605

The balances recognised for the employee benefit assets have been calculated taking into account the actuarially determined asset ceiling in terms of IAS 19.

	Reviewed Six months ended 30 September 2018 Rm	Audited Year end 31 March 2018 Rm
9. Other financial assets, liabilities and investments		
Non-current other investments:	73	100
FutureMakers*	63	50
Equity investment in Number Portability Company**	6	6
BCX group interest in associates and joint ventures**	4	44
Current other investments at fair value:		
Investment in Cell Captive	1 530	1 509
Non-current other financial assets consist of:	125	60
Asset finance receivables	125	29
NGA loans	-	31
Current portion of other financial assets at fair value:		
- Derivative instruments	378	163
Forward exchange contracts	200	14
Firm commitments	156	149
Interest rate swaps	22	-
- Asset finance receivables	48	-
Non-current other financial liabilities consist of:		
Asset finance payables	(96)	-
Current other financial liabilities at fair value:		
- Derivative instruments	(186)	(250)
Forward exchange contracts	(29)	(222)
Firm commitments	(149)	(5)
Interest rate swaps	(8)	(23)
- Asset finance payables	(37)	-

* Accounted for at fair value.

** Equity accounted.

Derivatives not designated as hedging instruments

The group uses forward exchange contracts and interest rate swaps to economically hedge its foreign exchange and interest rate exposures.

Derivative instruments are measured at fair value through profit or loss.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

9. Other financial assets, liabilities and investments (continued)

Fair value hedge

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

An increase in fair value of the forward exchange contracts, designated as fair value hedges, of R270 million (31 March 2018: decrease of R319 million) has been recognised in finance charges and fair value movements and offset with a similar loss (31 March 2018: gain) on the hedged items (property, plant and equipment and inventory).

10. Inventories

	Reviewed Six months ended 30 September 2018 Rm	Audited Year end 31 March 2018 Rm
Gross inventories	1 384	1 435
Write-down of inventories to net realisable value	1 559	1 643
	(175)	(208)

11. Net cash and cash equivalents

	Reviewed Six months ended 30 September 2018 Rm	Audited Year end 31 March 2018 Rm
Cash disclosed as current assets	2 314	2 728
Cash and bank balances	1 557	1 669
Short-term deposits	757	1 059
Credit facilities utilised	-	(30)
Net cash and cash equivalents	2 314	2 698
Undrawn borrowing facilities	6 250	5 250

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 2018, R5.5 billion (31 March 2018: R4.5 billion) of these undrawn facilities were committed.

12. Deferred taxation

Deferred taxation balance is made up as follows:

	Reviewed Six months ended 30 September 2018 Rm	Audited Year end 31 March 2018 Rm
Deferred taxation assets	26	320
Deferred taxation liabilities	189	499
	(163)	(179)

The decrease in the deferred tax balance in the current period is attributable to a R225 million additional liability raised in Telkom SA SOC Limited relating to the actuarial gains recognised on the post-employment benefit plans. This movement was accounted for in other comprehensive income. An additional R86 million decrease in the deferred tax asset was accounted for in the taxation expense relating to the utilisation of temporary differences in the holding company financial records.

At 31 March 2018, the group did not recognise deferred tax of R335 million in respect of temporary differences and tax losses amounting to R1 200 million that could be carried forward against future taxable income. These differences originated in Telkom company in the prior year. There was no unrecognised deferred tax asset at 30 September 2018.

The adoption of IFRS 15 Revenue from contracts with customers and IFRS 9 Financial instruments has had no impact on the deferred tax asset position as a result of the limitation of the deferred tax asset applied in the Telkom company results.

13. Financial risk management

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.

13.1 Liquidity risk

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

Liquidity risk is managed by the group's Treasury department in accordance with policies and guidelines formulated by the group's Executive Committee. In terms of its borrowing requirements, the group ensures that sufficient facilities exist to meet its immediate obligations.

Compared to the 31 March 2018 financial year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

13. Financial risk management (continued)

13.1 Liquidity risk (continued)

As at 30 September 2018, the contractual maturities of the group's financial liabilities were as follows:

September 2018	Notes	Carrying amount Rm	Total contractual cash flows Rm	0 - 12 months Rm	1 - 2 years Rm	2 - 5 years Rm	> 5 years Rm
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	15	10 065	10 325	2 703	3 100	2 222	2 300
Trade and other payables	17	7 476	7 476	7 476	-	-	-
Finance lease liabilities	15	78	78	39	39	-	-
Shareholders for dividend		60	60	60	-	-	-
Derivative financial liabilities							
Interest rate swaps	9	8	8	8	-	-	-
Firm commitments	9	149	149	149	-	-	-
Forward exchange contracts	9	29	29	29	-	-	-
		17 865	18 125	10 464	3 139	2 222	2 300

March 2018	Notes	Carrying amount Rm	Total contractual cash flows Rm	0 - 12 months Rm	1 - 2 years Rm	2 - 5 years Rm	> 5 years Rm
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	15	9 320	9 672	2 204	3 657	2 001	1 810
Credit facilities utilised	11	30	30	30	-	-	-
Trade and other payables	17	6 878	6 878	6 878	-	-	-
Finance lease liabilities	15	92	92	43	49	-	-
Shareholders for dividend		58	58	58	-	-	-
Derivative financial liabilities							
Interest rate swaps	9	23	23	23	-	-	-
Firm commitments	9	5	5	5	-	-	-
Forward exchange contracts	9	222	222	222	-	-	-
		16 628	16 980	9 463	3 706	2 001	1 810

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

13. Financial risk management (continued)

13.2 Fair value of financial instruments

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

Type of financial instrument – group	Fair value at 30 September 2018 Rm	Valuation technique	Significant inputs
Derivative assets	378	Discounted cash flows	Yield curves Market interest rates
Derivative liabilities	(186)		Market foreign exchange rates
Investment in Cell Captive assets	1 530	Quoted market prices adjusted for counterparty credit risk	Market prices
Investment in FutureMakers	63	Discounted cash flows	Cash flow forecasts and market related discount rates
Interest-bearing debt	(10 371)	Discounted cash flows and quoted bond prices	Market interest rate Market foreign exchange rate

13. Financial risk management (continued)

13.2 Fair value of financial instruments (continued)

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. This value is not necessarily indicative of the amounts that the group could realise in the normal course of business. 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 discounted at market interest rates. As a result, they differ from their carrying values.

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

Notes to the condensed consolidated interim financial statements

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13. Financial risk management (continued)

13.3 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:

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

	Hierarchy levels*	Reviewed Six months ended 30 September 2018 Rm	Audited Year end 31 March 2018 Rm
Assets measured at fair value			
Investment in Cell Captive preference shares	Level 2	1 530	1 509
Investment made by FutureMakers	Level 3	63	50
Forward exchange contracts	Level 2	200	14
Interest rate swaps	Level 2	22	–
Firm commitments	Level 2	156	149
Liabilities measured at fair value			
Forward exchange contracts	Level 2	(29)	(222)
Interest rate swaps	Level 2	(8)	(23)
Firm commitments	Level 2	(149)	(5)
Liabilities measured at amortised cost			
Interest-bearing debt consisting of:			
Listed debt	Level 2	(10 371)	(9 694)

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

14. Acquisition and disposal of subsidiaries

14.1 Subsidiaries classified as held for sale in the period

In the prior period BCX initiated a review of its investment portfolio. At 31 March 2018, management had identified its full African portfolio and the Smart Office Connexion group as held for sale.

During the current period management reversed the decision to dispose of its African subsidiaries in the Southern African Development Community (SADC). The investment in Nigeria and Tanzania remains classified as held for sale.

The mandate provided to management by the Board to dispose of the Smart Office Connexion group expired in June 2018. Management has continued with the negotiations regarding the sale and will be resubmitting a proposal for the approval to continue with sale negotiations. The conclusion of the sale is no longer considered highly probable within the next 12 months and the assets are no longer classified as held for sale.

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

Notes to the condensed consolidated interim financial statements

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	Rm
14. Acquisition and disposal of subsidiaries	
<i>(continued)</i>	
14.1 Subsidiaries classified as held for sale in the period	
<i>(continued)</i>	
African subsidiaries	
Revenue	161
Expenses	(165)
Net finance costs and fair value movements	(7)
Loss before tax	(11)
Taxation	(1)
Loss for the period	(12)
Total non-current assets	29
Total current assets	150
Total non-current liabilities	4
Total current liabilities	102

The assets above have been revalued to the lower of the carrying value at the date of classification as held for sale and the fair value less costs to sell in the prior period.

There was no additional impairment loss recognised on these assets in the current financial period.

	Reviewed Six months ended 30 September 2018 Rm	Audited Year end 31 March 2018 Rm
15. Interest-bearing debt		
Non-current interest-bearing debt	7 401	7 165
Local debt	7 237	7 005
Foreign debt	125	111
Finance leases	39	49
Current portion of interest-bearing debt	2 742	2 247
Local debt	2 700	2 200
Foreign debt	3	4
Finance leases	39	43

The current portion of interest-bearing debt of R2 742 million (31 March 2018: R2 247 million) for group as at 30 September 2018 is expected to be repaid from operational cash flow and other borrowings.

During the period under review additional loans to the value of R1 500 million (30 September 2017: R4 930 million) in the form of commercial paper were raised. No material transaction fees were raised upon the issue of these debt instruments. The instruments have an average interest rate of 7.77% and are repayable over an average term of 6 months.

	Reviewed Six months ended 30 September 2018 Rm	Audited Year end 31 March 2018 Rm
16. Provisions		
Non-current employee related provisions	659	2 388
Subsidiary defined benefit plans	31	21
Telephone rebates	409	402
Telkom Retirement Fund	219	1 965
Current portion of employee related provisions	1 097	1 340
Annual leave	686	577
Post-retirement medical aid	-	6
Telephone rebates	39	39
Bonus and other benefits	372	718
Non-current non-employee related provisions		
Other	42	44
Current portion of non-employee related provisions		
Other	197	164

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 15-26 days (31 March 2018: 22-30 days) depending on the number of years service, which must be taken within a 12-19 month (31 March 2018: 12-19 month) leave cycle. The leave cycle is reviewed annually and is in accordance with legislation.

Bonus and other benefits

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.

During the period under review, the group initiated a voluntary severance and retrenchment process. At reporting date a provision of R282 million relating to the scheme has been recognised (30 September 2017: Rnil).

Non-employee related provisions

Other provisions relate to the ICASA licence fee provision, a restoration provision, provisions for legal matters and contingent consideration relating to prior year business combinations.

Telkom Retirement Fund

The decrease in the Telkom Retirement Fund obligation is primarily driven by the increase in the discount rate from 8.80% to 9.90%. This resulted in an actuarial gain of R1 851 million.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

	Reviewed Six months ended 30 September 2018 Rm	Audited Year end 31 March 2018 Rm
17. Trade and other payables	7 476	6 878
Trade and other payables	3 055	3 273
Finance cost accrued	183	74
Accruals	4 238	3 531

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

Included in the current and prior year balance is the refund from SARS of R854 million and related interest. Refer to note 20.

	Reviewed Six months ended 30 September 2018 Rm	Audited Year end 31 March 2018 Rm
18. Commitments		
Capital commitments authorised	6 306	9 270
Commitments against authorised capital expenditure	5 524	4 350
Authorised capital expenditure not yet contracted	782	4 920

Capital commitments comprise of 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.

	Reviewed Six months ended 30 September 2018 Rm	Restated Year end 31 March 2018 Rm
19. Trade and other receivables and contract assets	7 716	6 657
Trade receivables	6 732	4 949
Gross trade receivables	7 346	5 787
Impairment of receivables	(614)	(838)
Prepayments and other receivables	984	1 708
Contract assets	1 679	1 425
Gross contract assets	1 801	1 520
Impairment of contract assets	(122)	(95)
Allowance account for credit losses	736	933
Opening balance as previously reported	933	596
Adoption of IFRS 9 financial instruments	(61)	-
Charged to selling, general and administrative expenses (refer to note 4)	53	644
Receivables written-off	(189)	(307)

The repayment terms of trade receivables vary between 21 days and 45 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.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

20. Contingencies

CONTINGENT LIABILITIES

Other than the disclosures below, there have been no significant movement noted on the contingent positions as reported in the 31 March 2018 financial statements.

HIGH COURT

Radio Surveillance Security Services (Pty) Ltd (RSSS)

In December 2011, RSSS served a summons on Telkom for the sum of R216 million. Telkom defended the matter. The trial was finalised in March 2018. Judgement was granted in April 2018. The claim of RSSS was dismissed with costs. RSSS made an application for leave to appeal to the Supreme Court of Appeal, which was dismissed. The matter is considered settled.

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.

CONTINGENT ASSETS

TAX MATTERS

As noted in the prior year consolidated annual financial statements, the tax treatment of the loss that arose in prior years on the sale of foreign subsidiaries is based on a specific set of circumstances and a complex legislative environment. On 4 August 2016, SARS issued a tax assessment relating to the 2012 period. After consultation with external specialist tax and legal advisors, the group disagreed with SARS' audit findings, however the tax refund received, relating to the 2012 sale, remains contingent and will only be recognised once the matter has been resolved with SARS. The matter is continually being assessed to ensure that developments are appropriately reflected in the financial statements. Refer to note 17. The matter has been heard in the tax court and Telkom is awaiting judgement on the matter.

21. Related parties

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

With shareholders:

Government of South Africa*

Related party balances

	Reviewed Six months ended 30 September 2018 Rm	Restated Six months ended 30 September 2017 Rm	Restated Year end 31 March 2018 Rm
Finance lease receivable	234	311	229
Trade receivables	989	842	1 784
Provision for doubtful debt	(199)	(109)	(223)

Related party transactions

Revenue	(2 048)	(2 760)	(4 176)
Individually significant revenue**	(667)	(600)	(1 179)
South African Police Services	(290)	(276)	(529)
SITA (Pty) Ltd	(106)	(113)	(218)
Department Of Justice	(42)	(56)	(93)
Department of Correctional Services	(47)	(44)	(96)
Province of KZN Health Service	(41)	(40)	(78)
Department of Defence***	(33)	(34)	(66)
KZN: Ethekwini Municipality	(23)	-	(40)
Department of Home Affairs***	(20)	(4)	(2)
City of Johannesburg Metropolitan Municipality***	(37)	(6)	(4)
Eastern Cape Department of Health	(28)	(27)	(53)
Collectively significant revenue**	(1 381)	(2 160)	(2 997)

* In the current financial period, a related party was identified that was not included in the prior year disclosure. Comparatives have been restated to include this related party.

** The nature of the individually and collectively significant revenue consists mostly of data revenue. Comparatives are restated due to the change in the top ten entities.

*** Individually significant from the current period.

At 30 September 2018, the Government of South Africa held 40.5% (30 September 2017: 39.3%) of Telkom's shares, and had the ability to exercise significant influence, and the Public Investment Corporation held 12% (30 September 2017: 11.9%) of Telkom's shares.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

	Reviewed Six months ended 30 September 2018 Rm	Restated Six months ended 30 September 2017 Rm	Restated Year end 31 March 2018 Rm
21. Related parties <i>(continued)</i>			
With entities under common control:			
Major public entities*			
<i>Related party balances</i>			
Trade receivables	64	32	56
Provision for doubtful debt	(4)	(3)	(11)
Trade payables	(1)	(1)	(2)
<i>Related party transactions</i>			
Revenue	(228)	(289)	(566)
Total expenses	107	110	224
Individually significant expenses	105	107	218
<i>South African Post Office</i>	23	23	43
<i>Eskom</i>	82	84	175
Rent received	(13)	(13)	(26)
Individually significant rent received: <i>South African Post Office</i>	(10)	(10)	(20)
Collectively significant rent received	(3)	(3)	(6)
Rent paid	13	11	23
Individually significant rent paid: <i>South African Post Office</i>	8	8	17
Collectively significant rent paid	5	3	6
Key management personnel compensation: (Including directors and prescribed officers' emoluments)			
<i>Related party transactions</i>			
Short-term employee benefits	81	104	247
Post-employment benefits	6	8	15
Termination benefits	3	13	25
Equity compensation benefits	20	15	(3)

* Comparative balances have been restated to include the related party balances, revenue and expenses of the group subsidiaries.

21. Related parties *(continued)*

Terms and conditions of transactions with related parties

Except as indicated above, outstanding balances at 30 September 2018 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 2018, 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.

22. Reconciliation of profit for the period to cash generated from operations

	Reviewed Six months ended 30 September 2018 Rm	Reviewed Six months ended 30 September 2017 Rm
Cash generated from operations	4 051	3 873
Profit for the period	1 419	1 628
Finance charges and fair value movements	443	352
Taxation	494	594
Investment income and income from associates	(120)	(64)
Interest received from trade receivables	(71)	(61)
Non-cash items	2 752	2 332
Depreciation, amortisation, impairment and write-offs	2 802	2 660
Decrease in provisions	(155)	(326)
Sale of property, plant and equipment	(20)	(18)
Foreign exchange movements	(40)	-
Share based payment expenses	74	49
Deferred revenue	91	(33)
Movement in working capital	(866)	(908)
Inventories	(74)	(280)
Accounts receivable	(763)	40
Accounts payable	(29)	(668)

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

	Reviewed Six months ended 30 September 2018 Rm	Reviewed Six months ended 30 September 2017 Rm
23. Net debt reconciliation		
Total interest-bearing debt at reporting date	10 143	8 809
Total interest-bearing debt at the beginning of the period	9 412	6 285
Loans raised	1 500	4 930
Loans repaid	(850)	(2 494)
Finance leases repaid	(14)	(3)
Foreign exchange revaluation on loans	14	12
Other interest accruals	-	8
Finance charges capitalised to interest-bearing debt	81	71

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

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

	Reviewed Six months ended 30 September 2018 Rm	Reviewed Six months ended 30 September 2017 Rm
24. Finance charges paid	(346)	(264)
Finance charges and fair value movements per statement of profit or loss and other comprehensive income	(443)	(352)
Non-cash items	97	88
Movements in interest accruals and interest on uncertain tax provisions	175	112
Net discount amortised	82	71
Foreign exchange revaluation on loans	14	12
Borrowing costs capitalised	(32)	(101)
Hedging costs	(157)	110
Fair value adjustment*	(24)	(116)
Unrealised foreign exchange loss	39	-

* The fair value adjustment includes a gain of R4 million (30 September 2017: Rnil) related to assets designated as at fair value through profit or loss.

	Reviewed Six months ended 30 September 2018 Rm	Reviewed Six months ended 30 September 2017 Rm
25. Taxation paid	(497)	(723)
Net tax payable at the beginning of the period	(309)	(424)
Current taxation	(427)	(622)
Interest accrued and uncertain tax provisions	(7)	(13)
Net tax payable at the end of the period	246	336

	Reviewed Six months ended 30 September 2018 Rm	Reviewed Six months ended 30 September 2017 Rm
26. Dividend paid	(1 240)	(1 494)
Dividend payable at the beginning of the period	(58)	(25)
Declared during the period - Dividend on ordinary shares	(1 210)	(1 526)
Dividends declared to non-controlling interests	(32)	(70)
Dividend payable at the end of the period	60	127

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2018

27. Significant events and transactions

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

On 23 August 2018, all Board members were elected as per the Annual General Meeting ordinary resolutions.

Dividends

The Telkom Board declared an ordinary dividend of 237 cents per share on 28 May 2018 which was paid on 25 June 2018 to shareholders registered on 22 June 2018.

Employee Share Plan

In May and June 2018, Telkom purchased 2,201,629 shares from the market through Rossal, a wholly owned subsidiary, for the purposes of the employee share plan.

Allocation of shares in terms of the Telkom Employee Share Plan

On 25 May 2018, the Board approved the sixth 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 101 191 and 31 500 shares vested to Sipho Maseko and Deon Fredericks, respectively in June 2018.

Appointment of new group chief financial officer and executive director

Telkom announced on 27 June 2018 that Deon Fredericks would step down as group chief financial officer and executive director with effect 30 June 2018. Tsholofelo Molefe has been appointed as the new group chief financial officer and as an executive director of the Telkom Board with effect from 1 July 2018.

Retirement of non-executive director

Telkom announced on 24 July 2018 that Mr Itumeleng Kgaboesele, an independent non-executive director, would be retiring from the Telkom Board with effect from 23 August 2018.

Appointment of new external auditors

On 23 August 2018, the AGM ratified the appointment of PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc. for appointment as the joint external auditors for the group for the financial year ending 31 March 2019.

28. Events after the reporting date

Dividends

The Telkom Board declared an ordinary dividend of 112.14 cents per share on 13 November 2018, payable on 3 December 2018 to shareholders registered at the close of business on 30 November 2018.

BCX Section 189 Process

On 7 November 2018, BCX issued a company-wide communication advising its employees that it had served unions with a notice in terms of section 189 of the Labour Relations Act. The notice invites the unions to attend the first CCMA facilitated consultation session meeting.

Conclusion of Telkom and Vodacom roaming and facilities leasing agreement

On 7 November 2018, Telkom and Vodacom concluded a new roaming and facilities agreement. The roaming agreement covers 2G, 3G and LTE roaming with seamless handovers between Telkom and Vodacom networks. The facilities leasing agreement will allow Telkom to use Vodacom towers, antennas and shelters to build out its own network. Telkom currently has a roaming agreement with MTN which expires in June 2019. The company will conduct a phased transition from the current roaming agreement, which will be concluded by the end of the contract period.

Other matters

The directors are not aware of any other matter or circumstance since the financial period ended 30 September 2018 and the date of this report, or otherwise dealt with in the financial statements, which significantly affects the financial position of the group and the results of its operations.

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Today's presentation



