# Consolidated Annual Financial Statements

for the year ended
31 March 2017


*Tomorrow starts today*

Telkom

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

**Telkom SA SOC Ltd**
(Registration number 1991/005476/30)
JSE share code: TKG
ISIN: ZAE000044897

**Group secretary**
Ephy Motlhamme

**Transfer secretaries**
Computershare Investor Services Proprietary Limited
PO Box 61051 Marshalltown, 2107

**Sponsor**
The Standard Bank of South Africa Limited
Standard Bank Centre
30 Baker Street, Rosebank, 2196

**Board of Directors**
JA Mabuza (Chairman),
SN Maseko (Group chief executive officer),
DJ Fredericks (Group chief financial officer),
S Botha, G Dempster, N Kapila,
I Kgaboesele, K Kweyama, K Mzondeki,
F Petersen-Lurie, R Tomlinson,
LL von Zeuner, Dr H Touré



# Contents

## Consolidated annual financial statements 31 March 2017



www.telkom.co.za

# Directors' responsibility statement

The directors are responsible for the preparation of the annual financial statements of the company and the group. The directors are also responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the group's assets.

In presenting the accompanying financial statements, International Financial Reporting Standards were followed and applicable accounting policies were used incorporating prudent judgements and estimates.

The external auditors are responsible for independently auditing and reporting on the annual financial statements.

In order for the directors to discharge their responsibilities, management continues to develop and maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner. The internal controls include a risk-based system of internal auditing and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the group's policies and procedures.

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

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

The directors are satisfied that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, Telkom SA SOC Ltd continues to adopt the going concern basis in preparing the annual financial statements.

Against this background, the directors of the group accept responsibility for the annual financial statements, which were approved by the board of directors on 1 June 2017 and are signed on their behalf by:

**Jabu Mabuza**
Chairman of the Telkom board

**Sipho Maseko**
Group chief executive officer

Centurion
1 June 2017



# Certificate from the group company secretary

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

I further certify that Telkom and its directors have, during the 12 months ended 31 March 2017, complied with JSE Listings Requirements and the disclosure requirement for continued listing on the JSE imposed by the JSE Limited.

**Ephy Motlhamme**
Group company secretary
1 June 2017

# Directors' report

**To the members of Telkom SA SOC Limited**

The directors have pleasure in submitting the annual financial statements of the group for the year ended 31 March 2017.

## Nature of business

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

## Financial results

Profit for the year ended 31 March 2017 was R3 854 million (March 2016: R2 321 million) representing basic earnings per share of 738.8 cents per share (March 2016: 432.4 cents per share) and headline earnings per share of 721.1 cents per share (March 2016: 323.0 cents per share). Full details of the financial position and results of the group are set out in the accompanying company and group annual financial statements.

## Dividends

Interim ordinary dividend number 19 of 131.23874 cents per share declared payable on Monday, 5 December 2016 to shareholders recorded in the register of the group at close of business on Friday, 2 December 2016.

Final ordinary dividend number 20 of 290.75253 cents per share (March 2016: 270 cents per share) declared payable on Monday, 3 July 2017 to shareholders recorded in the register of the group at close of business on Friday, 30 June 2017.

## Subsidiaries, associates and other investments

108

Particulars of the material subsidiaries of the group are set out in note 40 of the accompanying group annual financial statements.

The attributable interest of the group in the after tax earnings of its subsidiaries for the year ended 31 March 2017 was:

| Report | 2017 R million | Restated 2016 |
|---|---|---|
| Aggregate amount of profit after taxation | 1 199 | 400 |

## Share capital

80

Details of the authorised, issued and unissued share capital of the company as at 31 March 2017 are contained in note 22 of the accompanying annual financial statements.

## Share repurchase

In April 2016 Telkom purchased 4 109 101 shares from the market through Rossal No 65 (Pty) Limited for the purpose of the employee share plan.

## Borrowing powers

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

## Capital expenditure and commitments

98

Details of the company and group's capital commitments on property, plant and equipment as well as intangible assets are set out in note 36 of the accompanying group annual financial statements.

## Events subsequent to reporting date

110

Events subsequent to the reporting date are set out in note 42 of the accompanying group annual financial statements.

## Directorate

The following changes occurred in the composition of the board of directors from 1 April 2016 to the date of this report:

**Appointment**

| | |
|---|---|
| H Touré | 19 October 2016 |

**Resignations**

| | |
|---|---|
| RN Ntjeke (Ntshingila) | 3 November 2016 |
| T Skweyiya (Dingaan) | 10 May 2017 |

**The board of directors at the date of this report is as follows:**

JA Mabuza (Chairman)
SN Maseko (Group chief executive officer)
DJ Fredericks (Group chief financial officer)
SL Botha
GW Dempster
N Kapila
I Kgaboesele
KT Kweyama
KW Mzondeki
F Petersen-Lurie
RG Tomlinson
LL von Zeuner
Dr H Touré

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

## Directors' interest

At 31 March 2017, the following directors held a beneficial interest in the shares of Telkom SA SOC Ltd.

**Executive**

| | |
|---|---|
| SN Maseko | 52 520 |
| DJ Fredericks | 48 711 |

**Non-executive**

| | |
|---|---|
| JA Mabuza | 26 000 |
| I Kgaboesele | 12 000 |
| KW Mzondeki | 267 |

# Audit committee report

## Introduction

The audit committee presents its report for the financial year ended 31 March 2017. The report is presented in accordance with the group's Memorandum of incorporation, the requirements of the Companies Act, No. 71 of 2008 (the Act), as well as the recommendations contained in the third King Report on Governance for South Africa (King III). Amongst others, the audit committee's operations are also guided by a formal charter that is in line with the JSE Listings Requirements.

## Membership

The membership of the committee comprised the following independent non-executive directors:

I Kgaboesele (chairman)
KW Mzondeki
LL von Zeuner
RG Tomlinson
T Skweyiya (Dingaan)

## Duties performed

During the financial year ended 31 March 2017, the committee convened (seven) times to discharge both its statutory and board responsibilities. As an overview only, and not to be regarded as an exhaustive list, the committee carried out the following duties:

> In conjunction with the risk committee reviewed the appropriateness of the identified significant risks and the management and control thereof
> Reviewed the group's statement on internal control systems prior to endorsement by the board
> Satisfied itself that the internal audit coverage plans made provision for effectively addressing the risk areas of the business
> Considered the results of work performed by, and the conclusions of the internal audit function, in relation to:
- corporate governance
- risk management
- financial systems, internal control and reporting
- internal financial controls

> Assessed and evaluated the independence and effectiveness of the internal audit functions, in accordance with its mandate
> Assessed the effectiveness of the combined assurance forum
> Reviewed and was satisfied with the performance and expertise of the group chief financial officer
> Assumed responsibility for the appointment of independent external auditors retention, compensation, resignation or dismissal of the external auditors, as well as their terms of engagement and oversight of the work of the external auditors who report directly to the committee
> Considered any material problems, reservations and observations, or any potentially contentious accounting treatments or judgements, or significant unusual transactions, or going concern issues arising from the external audit
> Reviewed and recommended for adoption by the board the interim and annual financial information that is publicly disclosed, including the integrated report
> Reviewed the adequacy of management's corrective action taken in response to significant internal and external audit findings
> In conjunction with the risk committee obtained regular updates from management regarding compliance matters
> In conjunction with the risk committee obtained regular updates on the status of material open litigation and other proceedings and the related reserves
> In conjunction with the risk committee, reviewed the adequacy and effectiveness of the control framework and governance structures implemented within the IT environment.

The committee is satisfied that it has fulfilled it's obligations in respect of the Audit Committee Charter.



The committee is satisfied that it has fulfilled its obligations in respect of the audit committee charter.

## Fraud at Trudon

During the year a major fraud was discovered at Trudon, a subsidiary of the group. The fraud was perpetrated by a senior IT official over a number of years. The fraud, along with other accounting irregularities related to the fraud, led to a prior period restatement to Intangible assets, property, plant and equipment, prepayments as well as tax.

Investigations commissioned by management highlighted that the fraudulent activity was perpetrated as a result of management override. This type of fraud was difficult to detect due to management's familiarity with the day-to-day operations, his high level of authority and, in some cases, his input in designing and implementing controls.

A group-wide response was promptly initiated on discovery of the fraud and is being finalised to confirm that robust governance; adequately designed and implemented internal financial controls and rigorous management oversight is in place to support a strong control environment.

As part of our continuous commitment to improving the internal control environment we are also making changes to align to the new operating model.

## Going concern

Based on the results and the committee's assessment that the going concern basis of accounting was appropriately applied, the committee is comfortable in recommending to the board that no material uncertainties which existed negatively impacts the going concern status of the group and all the entities in the group.

## Conclusion

Based on the results of the formally documented review of the group's system of internal controls and risk management, including the design, implementation and effectiveness of the internal financial controls conducted by Telkom audit services during the 2017 financial year and considering information and explanations given by management and discussions with the external auditors on the results of the audit, the audit committee has considered all significant control matters and associated action plans. Having regard to the aforementioned and apart from the Trudon fraud, nothing has come to the attention of the audit committee that leads it to conclude that the group's system of internal controls and risk management are not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

The audit committee is satisfied that Ernst & Young Inc and Nkonki Inc are independent and were appointed in terms of the requirements of section 90(2) of the Companies Act, No. 71 of 2008 and nominated the re-appointment of Ernst & Young Inc. and Nkonki Inc. as registered auditors for the 2018 financial year.

1 June 2017

# Independent auditor's report

## TO THE SHAREHOLDERS OF TELKOM SA SOC LIMITED

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated and separate financial statements of Telkom SA SOC Ltd and its subsidiaries (the group) set out on pages 3 to 111, which comprise the consolidated and separate statement of financial position as at 31 March 2017, and the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position as at 31 March 2017, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audit of the group. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of the group. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

| Key audit matter | How our audit addressed the matter |
|---|---|
| **Financial irregularities at subsidiary, Trudon (Pty) Ltd** ***(Consolidated financial statements)***<br><br>As is disclosed in Notes 2.2.3 and 2.5 to the financial statements, during the current year a number of financial irregularities were identified in the subsidiary, Trudon (Proprietary) Limited ("Trudon"). As a result the management of Trudon commissioned forensic and criminal investigations to quantify the extent and impact of the irregularities.<br><br>The nature of the irregularities primarily related to fictitious invoices received from fictitious suppliers who were controlled by the General Manager of IT at the subsidiary.<br><br>The impact of these invoices resulted in restatements to Intangible assets and prepayments where these invoices had been capitalised in the past. In addition the wear and tear claimed on intangible assets and the invoices which were expensed needed to be added back for tax purposes based on Senior Counsel opinion obtained by the subsidiary.<br><br>The matter was considered a key audit matter as it required our involvement ("primary team") to assist the auditor of Trudon ("component auditor") in determining the changes in audit strategy in response to the fraud identified and in performing procedures to recalculate the restatement determined by management of the subsidiary.<br><br>The audit team was required to consider the extent of reliance on investigators or accountants hired by the subsidiary; the assessment of the validity, completeness and valuation of the remaining intangible assets; and the accuracy and completeness of the estimate of the tax restatement.<br><br>Given that the tax adjustment is based on the population of fraudulent invoices and these invoices date back to 2004 there were practical challenges in identifying the completeness of these invoices. Multiple approaches and techniques were used to identify the invoices which included manual verification, the use of forensic methods (including subpoenaed information) and analysis of Trudon enterprise resource planning data. | Our audit procedures involved, amongst others, the following:<br><br>The primary audit team engaged with the component audit team at more regular intervals and participated more extensively in planning and other meetings.<br><br>The primary team also requested additional procedures to be performed during planning to further consider the risk of fraud and the effectiveness of entity level and transactional level controls. Risk assessments were considered and adjusted based on the result of planning activities.<br><br>In respect of the restatement the primary team discussed the procedures to be performed with the component team. Procedures performed by component auditor included, amongst others: Assessing the work performed by third party forensic investigators and re-performed key procedures on a sample basis.<br>> Inspecting the underlying invoices of intangible assets and enquiring of operational management to understand these assets<br>> Assessing the completeness of the population of invoices used to determine the taxation restatement through examination of general ledger, accounts payable, and cashbook data in the ERP system with cross referencing to work performed in prior years and work performed by forensic investigators<br>> Recalculation of the restatement to intangible assets, taxation and prepayments<br>> Audit work performed in the current year was performed using significantly lower thresholds for selecting items to test. This increased testing across all areas of the financial statements<br>> Involving forensic experts to consider the extent of procedures performed |

# Independent auditor's report – continued

| Key audit matter | How our audit addressed the matter |
|---|---|
| **Deferred tax assessment**<br>***(Consolidated and separate financial statements)***<br><br>As disclosed in notes 2.3 and 17 to the financial statements, the group has significant unrecognised deferred tax assets in respect of provisions and other allowances.<br><br>The recognised deferred tax asset is determined by taking into account management's best estimate of future taxable income calculated over the period which management believes to be the most reliable estimate for purposes of IAS 12 calculations of deferred tax assets.<br><br>We focussed our audit attention on the matter because of the significant judgment and estimation involved in determining the period used as well as the forecasted future taxable income for the purpose of assessing the value of the deferred tax asset recognised. We focussed specifically on the following areas:<br>> Adjustments to future taxable profits relating to charges between Telkom and newly established Gyro group: There is a higher degree of uncertainty associated to these adjustments as the commercial terms of the envisaged transactions between Telkom and the Gyro group have not be concluded and are subject to further deliberations between stakeholders<br><br>> Adjustments to forecasted future taxable profits of the company to account for the extended roll out of planned strategic products: The impact of the products on Telkom's future taxable income is subject to a higher degree of uncertainty as strategic decisions are still pending after which product development, pricing and regulatory considerations, amongst others, need to be finalised | Our audit procedures involved, amongst others, the following:<br>> We evaluated management's calculation of the deferred tax balance, the future taxable income as well as the period used in the calculation in terms of IFRS. Taking into account the group's tax position, we evaluated the timing of forecasted taxable profits per the board approved 3 year business plans using our knowledge and experience of the industry and of the application of relevant tax legislation<br>> We engaged with various executives responsible for the financial, tax, legal and operational considerations on which the assumptions were based in order to assess the reasonability thereof in terms of our knowledge and understanding of the business and evidence provided by management in support of the estimates<br>> We involved our tax specialists to assess the reasonability of the tax adjustments processed to the forecast taxable income for temporary and permanent differences incorporated into the taxable profits calculation taking into account their experience reviewing Telkom's tax computations<br>> We assessed the deferred tax asset recognised for impairment taking into account the future taxable profit calculation and actual utilisation of the deferred tax asset against the forecasts<br>> We considered alternative assumptions or outcomes relating to the commercial terms of the Gyro group transactions as well as planned products and the impact thereof on the company's future taxable income<br>> We assessed whether the evidence obtained in performing our procedures resulted in convincing evidence in support the valuation of the deferred tax asset as required by IAS 12 |

| Key audit matter | How our audit addressed the matter |
|---|---|
| **Accounting for revenue from client contracts sold as part of a significant related party transaction**<br>***(Separate financial statements)***<br><br>The company entered into a significant related party transaction on 1 November 2016 whereby it sold its Enterprise Business as a going concern to BCX (Pty) Ltd. This included the transfer of existing contracts with clients to BCX.<br><br>In terms of the agreement and the terms and conditions of the third party client contracts with cession clauses, written consent from third parties had to be obtained for the cession and delegation of client contracts to BCX to be effective. For client contracts without cession clauses, in terms of the common law position in South Africa, Telkom's obligations under the client contracts could not be transferred from Telkom to BCX without the consent of the third party affected thereby.<br><br>The process of obtaining client consent is an administratively intensive process that is likely to span over more than one financial year. Consequently the revenue from client contracts had to be accounted for as third party revenue in Telkom company with a corresponding service fee cost for the sub-contracting services delivered by BCX until such time cession and delegation of client contracts to BCX is completed and effective.<br><br>We focussed our effort on this matter as it was an unusual material related party transaction; the revenue from the Enterprise contracts sold to BCX on 1 November 2016 was significant to the company's operating revenue; and the accounting treatment required robust discussion with management to understand the terms of the sale and the terms and conditions in the third party client contracts.<br><br>Refer to note 4 – Operating revenue. | > We evaluated management's accounting interpretations to determine whether we agreed with the manner in which IFRS had been applied to account for the revenue from the Enterprise client contracts sold to BCX<br>> Given the complexities around intercompany transactions and the substance over legal form considerations, we involved our internal IFRS and legal specialists to analyse the agreements and other relevant information, including the limited legal due diligence undertaken by the company legal advisors on the material customer contracts relating to the Enterprise transaction<br>> We requested the related party's external auditor to independently assess the accounting for the intercompany revenue in both the holding and subsidiary company and held extensive discussions with them during the process<br>> We included our internal IFRS and legal specialists in discussions held with the company in-house and external legal advisors on the legal form of the transaction<br>> We critically assessed the legal advice received by Telkom from management's legal advisor on the common law principles relevant for the transaction relating to the transfer of contracts under the circumstances relevant for sale agreement |

# Independent auditor's report – continued

**Other Information**

The directors are responsible for the other information. The other information comprises the information included in the annual report as well as the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act of South Africa. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the directors for the consolidated financial statements**

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

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

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

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

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

> Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

> Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

> Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

> Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

> Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

> Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**Report on other legal and regulatory requirements**

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that:

> Ernst and Young Inc. has been the auditor of Telkom SA SOC Limited client for 19 years. EY has been the appointed auditor of Telkom since 1998.

> This is the first year that Nkonki Inc. has been appointed as a joint auditor for Telkom SA SOC Limited. Nkonki was involved in the audit as subcontractor to EY for the 11 previous years, since 2006.

The engagement partners on the audit resulting in this independent auditor's report is Delanie Lamprecht and Brian Mungofa.

Ernst & Young Inc.

*Ernst & Young Inc.*
Director – Delanie Lamprecht
Registered Auditor
Chartered Accountant (SA)
1 June 2017

Nkonki Inc.

*Nkonki Inc.*
Executive - Brian Mungofa
Registered Auditor
Chartered Accountant (SA)
1 June 2017

# Statements of profit or loss and other comprehensive income

for the year ended 31 March 2017

| | Notes | Group 2017 Rm | Group Restated* 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|---|
| Operating revenue | 4 | **40 970** | 37 325 | **35 422** | 32 106 |
| Payments to other operators | 6.1 | **2 618** | 2 793 | **2 627** | 2 813 |
| Cost of sales** | 6.2 | **6 498** | 5 011 | **3 669** | 3 100 |
| Enterprise subcontracting costs*** | | **–** | – | **5 513** | – |
| **Net operating revenue** | | **31 854** | 29 521 | **23 613** | 26 193 |
| Other income | 5 | **734** | 1 281 | **3 017** | 1 308 |
| **Operating expenses** | | **21 713** | 22 026 | **16 352** | 19 477 |
| Employee expenses | 6.3 | **10 562** | 12 165 | **6 530** | 10 105 |
| Selling, general and administrative expenses | 6.4 | **7 237** | 5 796 | **6 469** | 5 600 |
| Service fees** | 6.5 | **2 869** | 2 965 | **2 492** | 2 792 |
| Operating leases | 6.6 | **1 045** | 1 100 | **861** | 980 |
| **EBITDA** | | **10 875** | 8 776 | **10 278** | 8 024 |
| Depreciation of property, plant and equipment | 6.7 | **4 752** | 4 448 | **4 458** | 4 305 |
| Amortisation of intangible assets | 6.7 | **766** | 880 | **628** | 799 |
| Write-offs, impairment and losses of property, plant and equipment and intangible assets | 6.7 | **143** | 170 | **143** | 170 |
| **Operating profit** | | **5 214** | 3 278 | **5 049** | 2 750 |
| Investment income | 7 | **219** | 203 | **522** | 812 |
| **Finance charges and fair value movements** | 8 | **888** | 622 | **801** | 618 |
| Finance charges | | **618** | 521 | **558** | 489 |
| Foreign exchange and fair value movements | | **270** | 101 | **243** | 129 |
| **Profit before taxation** | | **4 545** | 2 859 | **4 770** | 2 944 |
| Taxation expense | 9 | **691** | 538 | **65** | 359 |
| **Profit for the year** | | **3 854** | 2 321 | **4 705** | 2 585 |
| **Other comprehensive income** | | | | | |
| **Items that will be reclassified subsequently to profit or loss** | | | | | |
| Exchange losses on translating foreign operations | | **(61)** | (9) | **–** | – |
| **Items that will not be reclassified to profit or loss** | | | | | |
| Defined benefit plan actuarial (losses)/gains | | **(30)** | 191 | **(32)** | 191 |
| Defined benefit plan asset ceiling limitation | | **(6)** | 86 | **(6)** | 86 |
| **Other comprehensive (loss)/income for the year, net of taxation****** | | **(97)** | 268 | **(38)** | 277 |
| **Total comprehensive income for the year** | | **3 757** | 2 589 | **4 667** | 2 862 |
| **Profit attributable to:** | | | | | |
| Owners of Telkom | | **3 797** | 2 210 | **4 705** | 2 585 |
| Non-controlling interest | | **57** | 111 | **–** | – |
| **Profit for the year** | | **3 854** | 2 321 | **4 705** | 2 585 |
| **Total comprehensive income attributable to:** | | | | | |
| Owners of Telkom | | **3 700** | 2 478 | **4 667** | 2 862 |
| Non-controlling interest | | **57** | 111 | **–** | – |
| **Total comprehensive income for the year** | | **3 757** | 2 589 | **4 667** | 2 862 |
| Basic earnings per share (cents) | 10 | **738.8** | 432.4 | | |
| Diluted earnings per share (cents) | 10 | **724.1** | 425.8 | | |

** Refer to note 2.2.3, 2.2.4 and 2.5*
*** Refer to note 6.2 for the reclassification for Telkom company.*
**** Subcontracting costs relating to Enterprise customers which were sold to BCX on 1 November 2016 from Telkom, refer to note 4.*
***** No tax effect due to Telkom company's limitation of deferred tax asset.*



# Statements of financial position

at 31 March 2017

| | Notes | Group 2017 Rm | Group Restated* 2016 Rm | Group Restated* 2015 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Non-current assets** | | **34 125** | 33 689 | 30 695 | **35 465** | 34 049 |
| Property, plant and equipment | 12 | **27 918** | 25 350 | 24 471 | **24 938** | 24 459 |
| Intangible assets | 13 | **4 720** | 4 405 | 2 830 | **2 991** | 2 604 |
| Investments in subsidiaries | 15.1 | **–** | – | – | **6 201** | 3 274 |
| Other investments | 15.2 | **40** | 2 318 | 2 231 | **140** | 2 335 |
| Employee benefits | 29 | **635** | 846 | 452 | **635** | 846 |
| Other financial assets | 20 | **60** | 55 | 28 | **–** | – |
| Finance lease receivables | 16 | **310** | 281 | 413 | **310** | 281 |
| Deferred taxation | 17 | **442** | 434 | 270 | **250** | 250 |
| **Current assets** | | **13 912** | 12 864 | 11 100 | **11 297** | 9 927 |
| Inventories | 18 | **1 384** | 971 | 638 | **859** | 506 |
| Income tax receivable | 34 | **9** | 43 | 3 | **–** | – |
| Current portion of finance lease receivables | 16 | **237** | 207 | 200 | **237** | 207 |
| Trade and other receivables | 19 | **8 156** | 7 341 | 5 369 | **6 770** | 5 257 |
| Current portion of other financial assets | 20 | **126** | 1 754 | 1 247 | **78** | 1 735 |
| Current portion of other investments | 15.2 | **2 388** | – | – | **2 388** | – |
| Cash and cash equivalents | 21 | **1 612** | 2 548 | 3 643 | **965** | 2 222 |
| Assets of disposal group classified as held for sale | 11 | **12** | – | – | **1 409** | – |
| **Total assets** | | **48 049** | 46 553 | 41 795 | **48 171** | 43 976 |
| **Equity and liabilities** | | | | | | |
| **Equity attributable to owners of the parent** | | **27 569** | 25 975 | 24 741 | **27 916** | 25 367 |
| Share capital | 22 | **5 208** | 5 208 | 5 208 | **5 208** | 5 208 |
| Share-based compensation reserve | 23 | **452** | 241 | 126 | **431** | 241 |
| Non-distributable reserves | 24 | **1 376** | 1 507 | 1 507 | **753** | 795 |
| Retained earnings | | **20 533** | 19 019 | 17 900 | **21 524** | 19 123 |
| Non-controlling interest | 25 | **337** | 390 | 299 | **–** | – |
| **Total equity** | | **27 906** | 26 365 | 25 040 | **27 916** | 25 367 |
| **Non-current liabilities** | | **7 004** | 7 104 | 5 272 | **6 716** | 6 616 |
| Interest bearing debt | 26 | **4 744** | 4 566 | 3 244 | **4 661** | 4 306 |
| Employee related provisions | 27 | **1 536** | 1 665 | 1 264 | **1 516** | 1 645 |
| Non-employee related provisions | 27 | **56** | 66 | 61 | **10** | 9 |
| Deferred revenue | 28 | **529** | 656 | 687 | **529** | 656 |
| Deferred taxation | 17 | **139** | 151 | 16 | **–** | – |
| **Current liabilities** | | **13 139** | 13 084 | 11 483 | **13 539** | 11 993 |
| Trade and other payables | 30 | **7 516** | 7 134 | 5 635 | **8 657** | 6 820 |
| Shareholders for dividend | 35 | **25** | 22 | 19 | **23** | 20 |
| Current portion of interest bearing debt | 26 | **1 541** | 703 | 1 612 | **1 507** | 520 |
| Current portion of employee related provisions | 27 | **1 397** | 2 231 | 1 882 | **1 067** | 2 009 |
| Current portion of non-employee related provisions | 27 | **124** | 142 | 303 | **39** | 72 |
| Current portion of deferred revenue | 28 | **1 570** | 1 708 | 1 502 | **1 498** | 1 457 |
| Income tax payable | 34 | **433** | 683 | 344 | **305** | 653 |
| Current portion of other financial liabilities | 20 | **440** | 455 | 185 | **440** | 442 |
| Credit facilities utilised | 21 | **93** | 6 | 1 | **3** | – |
| **Total liabilities** | | **20 143** | 20 188 | 16 755 | **20 255** | 18 609 |
| **Total equity and liabilities** | | **48 049** | 46 553 | 41 795 | **48 171** | 43 976 |

** Refer to note 2.2.3 and 2.6*

# Consolidated statement of changes in equity

for the year ended 31 March 2017

| Group | Attributable to equity holders of Telkom | | | | | | |
|---|---|---|---|---|---|---|---|
| | Share capital Rm | Non-distributable reserves Rm | Share-based compensation reserve Rm | Restated* Retained earnings Rm | Total Rm | Non-controlling interest Rm | Total equity Rm |
| **Balance at 31 March 2015** | 5 208 | 1 507 | 126 | 18 023 | 24 864 | 363 | 25 227 |
| Restatement (refer to note 2) | | | | (123) | (123) | (64) | (187) |
| **Restated balance at 1 April 2015** | 5 208 | 1 507 | 126 | 17 900 | 24 741 | 299 | 25 040 |
| **Total comprehensive income** | | (9) | – | 2 487 | 2 478 | 111 | 2 589 |
| Profit for the year | | | | 2 210 | 2 210 | 111 | 2 321 |
| Other comprehensive income | | (9) | – | 277 | 268 | – | 268 |
| Exchange losses on translating foreign operations | | (9) | | | (9) | | (9) |
| Net defined benefit plan remeasurements | | | | 277 | 277 | | 277 |
| **Transactions with owners recorded directly in equity** | | | | | | | |
| **Contributions by and distributions to owners** | | | | | | | |
| Revaluation of the cell captive transferred to non-distributable reserves (refer to note 24) | | 9 | | (9) | – | | – |
| Increase in share-based compensation reserve (refer to note 23) | | | 115 | | 115 | | 115 |
| Acquisition of non-controlling interest | | | | (68) | (68) | (32) | (100) |
| Dividend declared | | | | (1 291) | (1 291) | | (1 291) |
| **Contributions by and distributions to non-controlling interest** | | | | | | | |
| Dividends declared (refer to note 25) | | | | | – | (114) | (114) |
| Acquisition of subsidiary with non-controlling interests | | | | | | 126 | 126 |
| **Balance at 31 March 2016** | 5 208 | 1 507 | 241 | 19 019 | 25 975 | 390 | 26 365 |
| **Total comprehensive income** | | **(61)** | **–** | **3 761** | **3 700** | **57** | **3 757** |
| Profit for the year | | | | **3 797** | **3 797** | **57** | **3 854** |
| Other comprehensive income | | **(61)** | **–** | **(36)** | **(97)** | **–** | **(97)** |
| Exchange losses on translating foreign operations | | **(61)** | | | **(61)** | | **(61)** |
| Net defined benefit plan remeasurements | | | | **(36)** | **(36)** | | **(36)** |
| **Transactions with owners recorded directly in equity** | | | | | | | |
| Revaluation of the cell captive transferred to non-distributable reserves (refer to note 24) | | **152** | | **(152)** | **–** | | **–** |
| Increase in share-based compensation reserve (refer to note 23) | | | **201** | | **201** | | **201** |
| Increase in treasury shares (refer to note 24) | | **(205)** | | | **(205)** | | **(205)** |
| Vesting of Telkom share plan (refer to note 24) | | **11** | **(11)** | | **–** | | |
| Purchase of Telkom shares by subsidiaries (refer to note 24) | | **(28)** | | | **(28)** | | **(28)** |
| Increase in subsidiaries share-compensation reserve (refer to note 23) | | | **21** | | **21** | | **21** |
| Disposal of non-controlling interest (refer to note 11) | | | | | **–** | **(3)** | **(3)** |
| Dividend declared | | | | **(2 095)** | **(2 095)** | | **(2 095)** |
| **Contributions by and distributions to non-controlling interest** | | | | | | | |
| Dividends declared (refer to note 25) | | | | | | **(107)** | **(107)** |
| Acquisition of subsidiary with non-controlling interests (refer to note 11) | | | | | | **–** | **–** |
| **Balance at 31 March 2017** | **5 208** | **1 376** | **452** | **20 533** | **27 569** | **337** | **27 906** |

Group – continued

* Refer to note 2.6.

# Statement of changes in equity

for the year ended 31 March 2017

| Company | Attributable to equity holders of Telkom | | | | |
|---|---|---|---|---|---|
| | Share capital Rm | Non-distri-butable reserves Rm | Share-based compen-sation reserve Rm | Retained earnings Rm | Total Rm |
| **Balance at 1 April 2015** | 5 208 | 786 | 126 | 17 561 | 23 681 |
| **Total comprehensive income** | | | | 2 862 | 2 862 |
| Profit for the year | | | | 2 585 | 2 585 |
| **Other comprehensive loss** | | | | 277 | 277 |
| Net defined benefit plan remeasurements | | | | 277 | 277 |
| **Transactions with owners recorded directly in equity** | | | | | |
| Revaluation of the cell captive transferred to non-distributable reserves (refer to note 24) | | 9 | | (9) | – |
| Increase in share-based compensation reserve (refer to note 23) | | | 115 | | 115 |
| Dividend declared | | | | (1 291) | (1 291) |
| **Balance at 31 March 2016** | 5 208 | 795 | 241 | 19 123 | 25 367 |
| **Balance at 1 April 2016** | **5 208** | **795** | **241** | **19 123** | **25 367** |
| **Total comprehensive income** | | | | **4 667** | **4 667** |
| Profit for the year | | | | **4 705** | **4 705** |
| **Other comprehensive income** | | | | **(38)** | **(38)** |
| Net defined benefit plan remeasurements | | | | **(38)** | **(38)** |
| **Transactions with owners recorded directly in equity** | | | | | |
| Revaluation of the cell captive transferred to non-distributable reserves (refer to note 24) | | **152** | | **(152)** | **–** |
| Increase in share-based compensation reserve (refer to note 23) | | | **201** | | **201** |
| Vesting of Telkom share plan (refer to note 24) | | **11** | **(11)** | | **–** |
| Increase in treasury shares (refer to note 24) | | **(205)** | | | **(205)** |
| Dividend declared | | | | **(2 114)** | **(2 114)** |
| **Balance at 31 March 2017** | **5 208** | **753** | **431** | **21 524** | **27 916** |



# Statements of cash flows

for the year ended 31 March 2017

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | **2017 Rm** | Restated** 2016 Rm | **2017 Rm** | 2016 Rm |
| **Cash flows from operating activities** | | **5 542** | 6 701 | **4 797** | 6 549 |
| Cash receipts from customers | | **39 961** | 37 690 | **34 013** | 32 481 |
| Cash paid to suppliers and employees | | **(31 051)** | (28 996) | **(26 651)** | (24 526) |
| Cash generated from operations | 31 | **8 910** | 8 694 | **7 362** | 7 955 |
| Interest received | | **453** | 465 | **440** | 419 |
| Dividend received | 32 | **–** | – | **152** | 195 |
| Finance charges paid | 33 | **(469)** | (768) | **(380)** | (678) |
| Taxation paid | 34 | **(1 181)** | (288) | **(666)** | (52) |
| Cash generated from operations before dividend paid | | **7 713** | 8 103 | **6 908** | 7 839 |
| Dividend paid | 35 | **(2 171)** | (1 402) | **(2 111)** | (1 290) |
| **Cash flows from investing activities** | | **(6 637)** | (8 215) | **(6 588)** | (8 462) |
| Proceeds on disposal of property, plant and equipment and intangible assets | | **230** | 567 | **194** | 535 |
| Additions to assets for capital expansion* | | **(8 479)** | (5 891) | **(8 116)** | (5 694) |
| Decrease/(increase) in repurchase agreements | | **1 634** | (534) | **1 634** | (534) |
| Loans advanced to subsidiaries | | **–** | – | **(250)** | (15) |
| Acquisition of subsidiary, net of cash acquired | 11 | **(22)** | (2 255) | **–** | – |
| Investments made by FutureMakers | 15 | **–** | (13) | **–** | – |
| Acquisition of non controlling interest by BCX | 11 | **–** | (89) | **–** | – |
| Acquisition of subsidiary | 11 | **–** | – | **–** | (2 654) |
| Investment in FutureMakers | 15 | **–** | – | **(50)** | (100) |
| **Cash flows from financing activities** | | **69** | 412 | **528** | 590 |
| Loans raised | | **2 431** | 4 020 | **2 431** | 4 015 |
| Loans repaid | | **(1 539)** | (3 746) | **(1 202)** | (3 608) |
| Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme | | **(234)** | – | **(205)** | – |
| Finance lease repaid | | **(43)** | (430) | **–** | (412) |
| Repayment of net derivatives | | **(673)** | (62) | **(625)** | (62) |
| Proceeds from net derivatives | | **127** | 630 | **129** | 657 |
| **Net decrease in cash and cash equivalents** | | **(1 026)** | (1 102) | **(1 263)** | (1 323) |
| Net cash and cash equivalents at beginning of year | | **2 542** | 3 642 | **2 222** | 3 543 |
| Effect of foreign exchange rate gains on cash and cash equivalents | | **3** | 2 | **3** | 2 |
| **Net cash and cash equivalents at end of year** | 21 | **1 519** | 2 542 | **962** | 2 222 |

** Includes R48 million (2016: R83 million) inventory purchases in the current financial year.*

*** R50 million restated from additions to assets for capital expansion to cash paid to suppliers due to financial irregularities at of the subsidiaries (Trudon). Refer to note 2.2.3.*

# Notes to the consolidated annual financial statements

for the year ended 31 March 2017

## 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. The main objective of Telkom, its subsidiaries and associate (the group) is to supply telecommunication, multimedia, technology, information, mobile communication services and other related information technology services to the group customers, as well as mobile communication services, in Africa. The group's services and products include:

> fixed-line retail voice services to post-paid, pre-paid and private payphone customers using PSTN (Public Switched Telephone Network) lines, including ISDN (Integrated Services Digital Network) lines, and the sale of subscription based value-added voice services and calling plans

> fixed-line customer premises equipment rental, sales and services both voice and data needs and these include PABX, computers, routers, modems, telephone handsets and other ancillary equipment

> interconnection services, including terminating and transiting traffic from South African mobile operators, as well as from international operators and transiting traffic from mobile to international destinations;

> fixed-line data services, including domestic and international data transmission services, such as point-to-point leased lines, ADSL (Asymmetrical Digital Subscriber Line) services, packet-based services, managed data networking services and internet access and related information technology services

> W-CDMA (Wideband Code Division Multiple Access), a 3G next generation network, including fixed voice services, data services and nomadic voice services

> mobile communication services, including voice services, data services and handset sales through its mobile brand called Telkom Mobile

> Business Connexion provides business solutions based on information and communication technology and manages ICT systems and products, services and solution throughout Africa

> other services including directory services, through Trudon (Pty) Ltd, wireless data services, through Swiftnet (Pty) Ltd and included internet services outside South Africa

Convergence is one of our key strategic initiatives in building a sustainable future for Telkom. We will lead the provision of Converged Services in South Africa in support of our mission statement: Seamlessly connecting people to a better life. The strategy is to transform Telkom into an integrated fixed, mobile, IT and content provider, leveraging our unique strengths in the fixed, mobile and IT markets in order to drive sustainable revenue growth, defend our core business and create efficiencies over the longer term.

## 2 Significant accounting policies

**2.1 Basis of preparation**

The consolidated annual financial statements comply with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), the Companies Act of South Africa, 2008, the JSE Listings Requirements and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council.

The consolidated annual financial statements are presented in South African Rand, which is the group's presentation currency. All financial information presented in Rand has been rounded to the nearest million.

The financial statements are prepared on a historical cost basis, with the exception of certain financial instruments initially (and sometimes subsequently) measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. Details of the group's significant accounting policies are set out below and are consistent with those applied in the previous financial year except for the adopted standards as listed below:

**The following new standards and amendments to standards have been early adopted.**

| Standard(s), Amendment(s) | Salient feature of the changes | Effective date |
|---|---|---|
| IFRS 12 Disclosure of Interests in Other Entities | Amendment clarifying the scope of IFRS 12 with respect to interests in entities classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. This amendment has been adopted and has no impact on the group. | 1 January 2017 |
| IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses | The amendment clarifies that an entity needs to consider whether any tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendment provides guidance on how an entity should determine future taxable profits and explains in which circumstances taxable profit may include the recovery of some assets for more than their carrying amount. This amendment has been adopted and does not have an impact on the group. | 1 January 2017 |



**2 Significant accounting policies** – continued

**2.1 Basis of preparation** - continued

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

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the group. Information on those expected to be relevant to the group's financial statements is provided below.

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 not either adopted or listed below are not expected to have a material impact on the group's financial statements.

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

| Pronouncement | Title | Effective date |
|---|---|---|
| IFRS 2 Share -based Payments | Amendment on the classification and measurement of share-based payment transactions. The amendment addresses the following:<br>i) Effects of vesting conditions on cash settled share-based payments<br>ii) Accounting for modification of terms and conditions on cash settled share based payments that changes to equity-settled payments<br>iii) Classification of share-based payments with net settled features. This amendment is likely to have an impact on the group, however the materiality of the impact has not been assessed. The amendment will be adopted on 31 March 2018 reporting period | 1 January 2018 |
| IFRS 4 Insurance Contracts | Applying IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts. Two amendments to IFRS 4 aiming to address the interaction between the two standards:<br>i) Insurers that meet specified requirements are granted a temporary exemption from IFRS 9<br>ii) Introduction of an optional accounting policy choice to allow the insurers to apply the overlay approach to designated financial assets when it first applies IFRS 9. The impact of the amendment has not been assessed. The amendment will be adopted on 31 March 2018 reporting period | 1 January 2018 |
| IFRS 7 Financial Instruments Disclosures | a) Amendments requiring disclosures about the initial application of IFRS 9 The impact of the amendment is being assessed<br>b) Additional hedge accounting disclosures resulting from the introduction of a hedge accounting chapter in IFRS 9. The group plans to adopt and apply this standard in its 31 March 2019 financial reporting period, with Interim results 30 September 2018 (30 September 2017 comparative information being the first set of financial statement that will be affected) | 1 January 2018* |
| IFRS 10 Consolidated Financial Statements | Amendment of the accounting for a split of gains or losses on the loss of control between:<br>(i) the recognition of gains or losses in profit or loss of a parent company<br>(ii) the elimination against the carrying amounts of investments in the existing associate/joint venture and former subsidiary when control over the subsidiary is lost. This amendment will not have an impact on the group | TBA |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | The amendment clarifies the exchange rate to use in transactions that involve advance consideration paid or received in foreign currency.<br>The amendment will be adopted on 31 March 2018 reporting period. | 1 January 2018 |
| IAS 7 Statement of Cash Flow Disclosure Initiative | This amendment requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment has not been adopted and will have an impact on disclosures for the Telkom group. | 1 January 2017 |

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**2 Significant accounting policies** – continued
**2.1 Basis of preparation** - continued

**Standards and interpretations in issue not yet adopted and not yet effective** - continued

| Pronouncement | Title | Effective date |
|---|---|---|
| IAS 28 Investment in Associates or Joint Ventures | See IFRS 10 Consolidated Financial Statements<br>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28): Narrow scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. Adoption of this amendment will not have an impact on the group. | **TBA** |
| IAS 28 Investment in Associates or Joint Ventures | Amendment clarifying that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture. The impact of the amendment has not been assessed. | **1 January 2018** |
| IAS 39 Financial Instruments: Recognition and Measurement | Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet their 'own use' scope exception.<br>The group plans to adopt and apply this standard in its 31 March 2019 financial reporting period, with Interim results 30 September 2018 (30 September 2017 comparative information) being the first set of financial statement that will be affected.<br>The impact is however in the process of being quantified. | **1 January 2018*** |
| IAS 40 Investment Property | Amendment clarifying the requirements on transfers to or from investment property. The impact of the amendment has not been assessed. The amendment will be adopted for the 31 March 2018 reporting period. | **1 January 2018** |

**IFRS 9 Financial Instruments**
IFRS 9 Financial Instruments (2014) is effective for periods beginning on or after 1 January 2018 and will replace substantially all of the requirements relating to the recognition and measurement of financial instruments in IAS 39 Financial instruments: Recognition and Measurement. The new standard includes the final classification and measurement model for financial assets and liabilities as well as the new expected credit losses (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 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements.

The group has started assessing the impact of IFRS 9 but is not yet in a position to provide quantified information. Based on the analysis done so far, the main areas of expected impact are as follows:
> The classification and measurement of the group's financial assets will need to be reviewed based on the new criteria that consider the assets' contractual cashflows and the business model in which they are managed
> IFRS 9 will affect the way the group currently recognises credit losses in the profit and loss (P&L) statement. An expected credit loss-based impairment will need to be recognised on the group's trade receivables (see note 19) and financial assets currently classified as held-to-maturity (see note 15) unless classified as held at fair value through profit or loss in accordance with the new criteria. The ECL model is not expected to cause a major increase in allowances for short-term trade receivables because of their short-term nature. The group will make use of the practical expedients in the standard, in particular the use of the provision matrix, which should help in measuring the loss allowance for short-term trade receivables



**2 Significant accounting policies** – continued

**2.1 Basis of preparation** - continued
**IFRS 15 Revenue from contracts with customers**
IFRS 15 provides principles that an entity will apply to determine the measurement and timing of revenue recognition from contracts with customers. The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

Although the group has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated annual financial statements, the detailed quantification has not been completed. It expects to disclose additional quantitative information before it adopts the relevant standard.

Based on the initial findings, and taking cognisance of the group's existing accounting policies regarding revenue recognition, which essentially state that revenues are recognised when the goods and service are rendered, it is anticipated that there could be a change in the timing of revenue recognition over the period of a customer contract dependent on the identification of different performance obligations and the allocation of the total purchase price consideration to these obligations. It is anticipated that this could impact all Telkom's revenue streams, however, overall revenue recognition over the duration of the contract period will not be impacted.

Although contract and fulfilment costs are currently capitalised and amortised over the expected average customer relationship period, further detailed assessment for compliance to IFRS 15 is still required.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The group plans to adopt the standard in its results for the financial year ending 31 March 2019, on a fully retrospective approach, using the practical expedients for completed contracts, which will entail that completed contracts that started and ended in the same comparative reporting period, as well as contracts that are completed at the beginning of the earliest period presented, will not be restated.

**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.

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 consolidated 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 a number of the group's key performance indicators being affected – EBITDA being a case in point. The statement of cash flows will also be affected, with payments needing to be split between repayments of principal and interest.

The group is 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.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**2 Significant accounting policies** – continued

**2.2 Correction of prior period errors and change in accounting policies**

**Correction of prior period errors**

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy and a retrospective restatement. An additional statement of financial position as at 31 March 2015 is presented in these consolidated financial statements due to the retrospective correction of a prior period error.

***2.2.1 Telkom Retirement Fund***

During the 31 March 2016 reporting period, the group reported the restatement of the balances as a "Reassessment of the Telkom Retirement Fund (TRF) Defined Benefit Plan". For classification purposes, it should be noted that the reassessment of the TRF constituted an error and not a change in accounting policy as previously stated. All relevant IAS 8 disclosures (nature, correction amounts and the amount of correction at the beginning of the year) regarding the error were appropriately disclosed in the March 2016 financial statements.

***2.2.2 Fair value hierarchy***

During the previous reporting periods, the group reported the fair value hierarchy of the TL20 bonds as level 1 instead of level 2 based on the fact that it could access the quoted price of the bonds. According to IFRS 13, bonds can only be level 1 if they are quoted on active market. The TL20 bonds are quoted on the market, however their transactions are not sufficiently frequent for the market to be regarded as liquid.

The group has corrected this disclosure by changing the TL20 fair value hierarchy from level 1 to level 2. The group has assessed that there has been no impact on the fair value of the TL20 bonds in the prior year as the quoted price is an adjusted market price, for perceived changes in risk as well as the time value of money. The group will continue to assess if the quoted price of the listed TL20 bonds is considered to be a level 1 or level 2 price and if further adjustment might be required.

***2.2.3 Fraud – Trudon***

During the current financial year, the group uncovered financial irregularities at one of its subsidiaries, Trudon, resulting in the termination of the services of the general manager IT.

An internal investigation into the financial irregularities was launched, which identified invoicing and accounting irregularities which led to the incorrect recognition and subsequent measurement of intangible assets over a period of several years. The investigation also identified the past practice of irregularly capitalising operating expenditure as intangible assets. The nature of the errors identified included:

> Intangible assets capitalised for which there was no evidence of a valid asset or expense as a result of the above financial irregularities
> Expenses capitalised to intangible assets which on re-evaluation of the nature of expense, based on the invoice detail, was deemed to not meet the recognition criteria of IAS 38 at date of capitalisation
> Identification of intangible assets which were no longer in use and which had been decommissioned in earlier periods but not de-recognised at time of decommissioning
> Income tax implications in relation to expenses and wear and tear allowances deducted in prior periods relating to invoices associated with financial irregularities which, based on senior counsel opinion, should not have been deducted for tax purposes

These issues identified constituted material prior period errors and have been corrected by restating each of the affected line items for the prior period as shown in the table 2.5 and 2.6 below.

***2.2.4 Change in accounting policies***

*Cost of sales*

The group has previously included all the expenses that can be directly linked to revenue received for services provided and goods sold to customers in the definition of cost of sales.

Following the sale of the Enterprise business to BCX in November 2016, the group elected to change its accounting policy for cost of sales to only include expenses directly linked to revenue from the sale of goods. This decision to change the accounting policy in the view of management will provide more reliable and relevant information to ensure consistent presentation across the group following the sale of Enterprise to BCX. Please refer to note 2.4.22 for the new accounting policy.

This change in policy has resulted in the reclassification of these line items in the comparative statement of profit or loss and other comprehensive income. Refer to note 2.5.

**2 Significant accounting policies** – continued

**2.3 Significant accounting judgements, estimates and assumptions**

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

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

***2.3.1 Property, plant and equipment (PPE) and intangible assets (IA)***

The useful lives of assets are based on management's judgement and estimation. Management considers the impact of changes in technology, customer service requirements, availability of capital funding and required return on assets and equity to determine the optimum useful life expectation for each of the individual categories of property, plant and equipment and intangible assets. Due to the rapid technological advancement in the telecommunications industry, the estimation of useful lives could differ significantly on an annual basis due to unexpected changes in the roll-out strategy. The impact of the change in the expected useful life of property, plant and equipment is described more fully in note 12. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives and what their condition will be at that time. Changes in the useful lives and/or residual values are accounted for as a change in accounting estimate.

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

***2.3.2 Asset retirement obligations***

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

***2.3.3 Impairments of property, plant and equipment and intangible assets***

Management is required to make judgements concerning the cause, timing and amount of impairment as indicated in notes 12 and 13. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services, market changes, legal changes, operating environments and other circumstances that could indicate that an impairment exists. The group applies the impairment assessment to its cash-generating unit. This requires management to make significant judgements concerning the existence of impairment indicators, identification of cash-generating units, remaining useful lives of assets and estimates of projected cash flows and fair value less costs of disposal. Management's analysis of cash-generating units involves an assessment of a group of assets' ability to independently generate cash inflows and involves analysing the extent to which different products make use of the same assets. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

Where impairment indicators exist, the determination of the recoverable amount of a cash-generating unit requires management to make assumptions to determine the fair value less cost of disposal and value in use. Value in use is calculated using the discounted cash flow valuation method. Key assumptions on which management has based its determination of fair value less costs of disposal include the existence of binding sale agreements. The determination of value in use is based on a number of factors which include the weighted average cost of capital, projected revenues, gross margins, average revenue per customer, capital expenditure, expected customer base (subcribers) and market share. The judgements, assumptions and methodologies used can have a material impact on the recoverable amount and ultimately the amount of impairment loss recognised.

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

***2.3.4 Impairment of receivables***

An impairment loss is recognised on trade receivables that are assessed to be impaired (refer to notes 14 and 19). The impairment is based on an assessment of the extent to which customers have defaulted on payments already due and an assessment of their ability to make payments based on their credit worthiness and historical write-offs experience. Should the assumptions regarding the financial condition of the customer change, actual write-offs could differ significantly from the impairment loss recognised.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**2 Significant accounting policies** – continued

**2.3 Significant accounting judgements, estimates and assumptions** - continued

***2.3.5 Customer relationship periods***

The average customer relationship periods for Wholesale, Voice and Non-Voice services are utilised to amortise the deferred installation revenue and cost. Management makes judgements about the customer relationship period estimate based on the historical churn information. The churn is determined by considering the service installation and disconnection dates, the weighted customer base ageing and the service connection status of the customers. Changes in average customer relationship periods are accounted for as a change in accounting estimates.

***2.3.6 Deferred taxation asset***

Management's judgement is exercised when determining the probability of future taxable profits which will determine whether deferred taxation assets should be recognised or derecognised. The realisation of deferred taxation assets will depend on whether it is possible to generate sufficient taxable income, taking into account any legal restrictions on the length and nature of the taxation asset. When deciding whether to recognise unutilised deferred taxation credits as deferred tax assets, management needs to determine the extent to which the future obligations are likely to be available for set-off against the deferred taxation asset. In the event that the assessment of the future obligation and future utilisation changes, the change in the recognised deferred taxation asset is recognised in profit or loss. The carrying amount of deferred tax assets is reviewed at each reporting date and adjusted to reflect changes in the probability that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The period of assessment of probable future taxable income for the purpose of assessing whether a deferred tax asset should be raised has been restricted to three years. The company has included the tax implications in the three-year forecast of taxable income which required the application of significant judgement and estimates.

Management has taken careful consideration to the expected effect in respect of transactions forming part of Telkom's strategic imperative to maximise value from its properties and other assets on future taxable income of the company.

***2.3.7 Taxation***

Management determines the income tax charge in accordance with the applicable tax laws and rules which are subject to interpretation. The calculation of the group's total tax charge necessarily involves judgements, including those involving estimations, in respect of certain items whose tax treatment cannot be finalised until resolution has been reached with the tax authority or, as appropriate, through a formal legal process. The resolution of some of these items may give rise to material profits, losses and/or cash flows. Where the effect of these laws and rules is not clear, the taxation liability estimates are made by management on all highly probable tax positions based on the single most likely outcome approach. Tax assets are only recognised when the amounts receivable are virtually certain.

The resolution of taxation issues is not always within the control of the group and is often dependent on the efficiency of the legal processes. Some complex tax issues may take a number of years before they are resolved. Payments in respect of taxation liabilities for an accounting period results from payments on account and on the final resolution of open items. As a result, there can be substantial differences between the taxation charge in the statement of profit or loss and comprehensive income and the current tax payments.

***2.3.8 Deferred taxation rate***

Management makes judgements on the tax rate applicable based on the group's expectations at reporting date on how the asset is expected to be recovered or the liability is expected to be settled.

***2.3.9 Employee benefits***

The group provides defined benefit plans for certain post-employment benefits. The obligation and assets related to each of the post-retirement benefits are determined through an actuarial valuation. The actuarial valuation relies heavily on assumptions as disclosed in note 29. The assumptions determined by management make use of information obtained from the group's employment agreements with staff and pensioners, market-related returns on similar investments, market-related discount rates and other available information. The assumptions concerning the interest on assets and expected change in liabilities are determined on a uniform basis, considering long-term historical returns and future estimates of returns and medical inflation expectations. In the event that further changes in assumptions are required, the future amounts of post-employment benefits may be affected materially.

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



**2 Significant accounting policies** – continued

**2.3 Significant accounting judgements, estimates and assumptions** - continued

***2.3.9 Employee benefits*** *- continued*

The overall interest on assets is determined based on the market prices prevailing at that date, applicable to the period over which the obligation is to be settled.

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

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

***2.3.10 Leases***

The group provides customer specific solutions to certain entities using access network equipment and involving leases with the group acting as the lessor. The group has determined, based on an evaluation of the terms and conditions of the arrangements that it retains, all the significant risks and rewards of ownership of the equipment and accounts for the contracts as finance leases. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. This can be the case for fibre optical cables. Judgement is applied in determining if a fibre arrangement specifies the fibre/spectrum/wavelength or merely capacity. If a portion is not physically distinct, it is not considered to be a specified asset.

Site co-location and tower sharing agreements are assessed to determine whether they should be classified as a finance lease or operating lease on the basis of transfer of significant risks and rewards. Telkom acts as a lessor and lessee in these agreements.

***2.3.11 Provisions***

For other provisions, estimates are made of legal or constructive obligations resulting in the raising of provisions, and the expected date of probable outflow of economic benefits to assess whether the provision should be discounted. (Refer to Note 27.) Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is, however, unpredictable and actual costs incurred could differ materially from those estimated at the reporting date.

***2.3.12 Contingent liabilities***

On an ongoing basis the group is party to various legal disputes, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognised where, based on the group's legal views and advice, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably. Disclosure of other contingent liabilities is made in note 37 unless the possibility of a loss arising is considered remote.

***2.3.13 Contingent assets***

Contingents assets are not recognised in the financial statements. When there is a probability that there will be an inflow of economic benefits to Telkom relating to a contingent asset; it is disclosed in the Contingencies note. The related income and asset are only recognised when it is virtually certain that there will be an inflow of economic benefits.

***2.3.14 Segment information***

For judgements, estimates and assumptions relating to operating segments refer to note 3.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**2 Significant accounting policies** – continued

**2.4 Summary of significant accounting policies**

***2.4.1 Basis of consolidations***

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

***2.4.2 Subsidiaries***

Subsidiaries are investees controlled by the group. The group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The group consolidates the financial statements of subsidiaries from the date the control of the subsidiary commences until the date that control ceases.

***2.4.3 Transactions with non-controlling interests***

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

***2.4.4 Joint arrangements***

A joint arrangement is an arrangement where two or more parties have joint control over another entity. In a joint arrangement parties are bound by a contractual arrangement that gives two or more of the parties joint control of the arrangement. A joint arrangement is classified and accounted for as either a joint operation or joint venture.

In a joint operation, parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. These parties are the joint operators. The group recognises its own assets, liabilities, revenues and expenses that are incurred or earned separately to other joint operators. Otherwise the group recognises its share of assets, liabilities, revenues and expenses when these items are incurred jointly.

In a joint venture, parties that jointly control the joint arrangement have rights to the net assets of the arrangement. These parties are called joint ventures. The group accounts for the joint venture using the equity method. Under the equity accounting method, the investment in the joint venture is carried in the statement of financial position at cost plus post-acquisition changes in the group's share of the net assets of the joint venture. The share of the profit of the joint venture is shown on the face of the statement of profit or loss and other comprehensive income.

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

***2.4.5 Associates***

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

***2.4.6 Investments in subsidiaries, associates and joint ventures***

Investments in subsidiaries, associates and joint ventures are carried at cost at company level and adjusted for any impairment losses.

***2.4.7 Business combinations***

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

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

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



**2 Significant accounting policies** – continued

**2.4 Summary of significant accounting policies** - continued

***2.4.7 Business combinations*** *- continued*

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

***2.4.8 Goodwill***

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

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

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

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

***2.4.9 Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value added tax, returns and rebates and after eliminating sales within the group.

Telkom assesses whether it is acting as an agent or principal in its revenue arrangement using the specific criteria in IAS 18. According to these criteria; the principal has exposure to the significant risks and rewards associated with the sale of goods or rendering of services. Examples of principalship include assumption of inventory risk, customer credit risk, responsibility to provide products or services and having latitude in setting prices.

***2.4.10 Dealer incentives***

The group provides incentives to its dealers by means of trade discounts. Incentives are based on sales volume and value of transactions. Revenue is recognised gross of discounts to the extent that the discounts are not granted to the customer. Revenue is recognised net of discounts when the discounts are granted to the customer.

***2.4.11 Retail voice***

*Pre-paid*

Pre-paid traffic service and payphone card revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first. The terms and conditions of certain pre-paid products allow unused minutes to be carried over. Revenue related to the unused minutes carried over is deferred until usage or expiration.

Telkom provides incentives to its retail payphone card distributors as trade discounts. Revenue for retail payphone cards is recorded as traffic revenue, net of these discounts as the cards are used.

*Post-paid*

Revenue related to local, long distance, network-to-network, roaming and international call connection services is recognised when the call is placed or the connection provided.

***2.4.12 Interconnection***

Interconnection revenue for call termination, call transit, and network usage is recognised as the traffic flow occurs.

***2.4.13 Customer premises equipment***

Revenue related to the sale of communication equipment, products and value-added services is recognised upon delivery and acceptance of the product or service by the customer.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**2 Significant accounting policies** – continued

**2.4 Summary of significant accounting policies** - continued

***2.4.14 Data***

The group provides data communication services under post-paid and pre-paid payment arrangements. Revenue includes fees for installation and activation, which are deferred over the expected average customer relationship period. Costs incurred on first-time installations that form an integral part of the network are capitalised and depreciated over the life of the expected average customer relationship period. All other installation and activation costs are expensed as incurred. Post-paid and pre-paid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period. Revenue related to the unused data carried over is deferred until usage or expiration.

***2.4.15 Rendering of services***

Revenue from a contract to provide a service is recognised by reference to the stage of completion of the contract.

Stage of completion of the contract is determined as follows:

> Installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install to the time that has elapsed at the reporting date

> Servicing fees included in the price of products sold are recognised by reference to the proportion of the cost to the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold

> Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred

***2.4.16 Deferred revenue and expenses***

Activation revenue and costs are deferred and recognised systematically over the expected duration of the customer relationship because it is considered to be part of the customers' ongoing rights to telecommunication services and the operator's continuing involvement. Any excess of the costs over revenues is expensed immediately.

The customer relationship period for wholesale changed from five to four years. Customer relationship period for voice is six and a half years and non-voice is five and a half years in the year under review.

***2.4.17 Post-paid contract and pre-paid products***

Contract products are defined as arrangements with multiple deliverables. The arrangement consideration is allocated to each deliverable, based on the fair value of each deliverable on a selling price standalone basis as a percentage of the aggregated fair value of individual deliverables.

> Revenue from the handset is recognised when the handset is delivered

> Monthly service revenue received from the customer is recognised in the period in which the service is delivered

> Airtime revenue is recognised on the usage basis commencing on activation date. Unused airtime is deferred in full and recognised in the month of usage, on termination of the contract by the subscriber or when it expires

> Revenue from the sale of pre-paid products is recognised when the product is delivered to the customer

> Revenue from the sale of pre-paid airtime is deferred until such time as the customer uses the airtime, or the credit expires

> Free minutes, data and SMSs are accounted for as a separate identifiable deliverable and revenue allocated to free minutes is deferred and recognised when the free minutes are used, or expire

***2.4.18 Customer loyalty programmes***

The free minutes and data (award credits) granted to Telkom customers are accounted for as a separately identifiable component of a sales transaction in which they are granted. Award credits are determined by reference to their fair value. The fair value of award credits takes into account the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from the initial sale transaction. Revenue from award credits is deferred and recognised as revenue when the customer redeems the award credit.

***2.4.19 Connection Incentives***

Intermediaries and customers are paid cash as a connection incentive. Cash incentives paid to intermediaries are expensed in the period in which they are incurred. Cash incentives paid to customers are recognised as intangible assets and expensed over the contract period.



**2 Significant accounting policies** – continued

**2.4 Summary of significant accounting policies** - continued

***2.4.20 Incentives***

Incentives paid to service providers and dealers for products delivered to the customer are expensed as incurred. Incentives paid to service providers and dealers for services delivered are expensed in the period that the related revenue is recognised.

***2.4.21 Roaming agreements***

Amounts paid to other mobile operators in terms of roaming agreements are expensed at the earlier of minutes being utilised or expiry thereof. A prepayment to this effect is recognised if it is probable that the group will obtain future economic benefits from such unused minutes.

***2.4.22 Cost of sales***

Cost of sales comprises the cost goods sold including any allocation of the direct overhead expenses, net of supplier rebates and discounts including:

> commission costs paid to external parties for the sale of goods sold

> logistics and delivery expenses relating to the goods sold

All other costs are disclosed by nature with the following being the key categories

> Employee expenses

> Selling, general and administrative expenses

> Service fees

> Operating leases

> Depreciation and amortisation

***2.4.23 Property, plant and equipment***

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

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is charged from the date the asset is available for use on a straight-line basis over the estimated useful life and ceases at the earlier of the date that the asset is classified as held for sale and the date the asset is derecognised. Idle assets continue to attract depreciation.

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

The estimated useful lives applied are provided in note 6.7.

***2.4.24 Intangible assets***

At initial recognition acquired intangible assets are recognised at their purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. The recognised cost includes any directly attributable costs for preparing the asset for its intended use. Internally generated intangible assets are recognised at cost comprising all directly attributable costs necessary to create and prepare the asset to be capable of operating in the manner intended by management. Licences, software, trademarks, copyrights and other intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation commences when the intangible assets are available for their intended use and is recognised on a straight-line basis over the assets' expected useful lives. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

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

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

The expected useful lives applied are provided in note 6.7.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**2 Significant accounting policies** – continued

**2.4 Summary of significant accounting policies** - continued

***2.4.25 Asset retirement obligations***

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

***2.4.26 Impairment of property, plant and equipment and intangible assets***

The group regularly reviews its non-financial assets and cash-generating units for any indication of impairment. When indicators, including changes in technology, market, economic, legal and operating environments, availability of funding or discontinuance of services occur and could result in changes of the asset's or cash-generating unit's estimated recoverable amount, an impairment test is performed.

Previously recognised impairment losses, other than goodwill, are reviewed annually for any indication that they may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. Such impairment losses are reversed in profit or loss if the recoverable amount has increased as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

***2.4.27 Inventories***

Merchandise, installation material and maintenance inventories are stated at the lower of cost, determined on a weighted average basis, and estimated net realisable value.

***2.4.28 Financial instruments***

*Recognition and measurement*

Financial instruments are initially recognised at fair value when the company becomes a party to the contractual provisions of the instrument, and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument.

***2.4.29 Subsequent measurement***

Subsequent to initial recognition, the group classifies financial assets as at fair value through profit or loss, held-to-maturity investments or loans and receivables. Financial liabilities are classified as at fair value through profit or loss or other financial liabilities.

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

***2.4.30 Other financial liabilities***

Other financial liabilities, including borrowings and derivative liabilities, are initially measured at fair value net of transaction costs, with gains and losses arising on the change in fair value recognised in net finance charges and fair value movements for the year.

Other financial liabilities are subsequently measured at amortised cost, with interest expense recognised in finance charges and fair value movements, on an effective interest rate basis.

***2.4.31 Cash and cash equivalents***

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

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents defined above, net of credit facilities utilised.



**2 Significant accounting policies** – continued

**2.4 Summary of significant accounting policies** - continued

***2.4.32 Derecognition***

A financial instrument or a portion of a financial instrument is derecognised and a gain or loss recognised when the group's contractual rights expire, financial assets are transferred or financial liabilities are extinguished. On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in finance charges and fair value movements for the year.

Bonds and commercial paper bills are derecognised when the obligation specified in the contract is discharged. The difference between the carrying value of the bond and the amount paid to extinguish the obligation is included in finance charges and fair value movements for the year.

***2.4.33 Hedge accounting***

The group uses derivative financial instruments, such as forward currency contracts, cross-currency swaps and options, to hedge its foreign currency risks, variability in cash flows and interest rate risks. Derivative financial instruments including forward currency contracts that are designated as hedging instruments in an effective hedge are initially recognised at fair value on the date on which a derivative contract is entered into. Telkom applies fair value hedge accounting for firm commitments and cash flow hedge for its highly probable forecast transactions.

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

***2.4.34 Treasury shares***

Where the group acquires, or in substance acquires, its own shares, such shares are measured at acquisition cost and disclosed as a reduction of equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's own equity instruments. Such shares are not remeasured for changes in fair value.

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

***2.4.35 Leases***

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification unless it is impracticable to do so.

***2.4.36 Employee benefits***

*Post-employment benefits*

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

*Defined benefit plans*

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

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

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

## 2 Significant accounting policies – continued

**2.4 Summary of significant accounting policies** - continued

***2.4.36 Employee benefits*** *- continued*

*Telkom Retirement Fund reserves*

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

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

***2.4.37 Share-based payments***

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

Grants of equity instruments, are made to employees in terms of the long-term incentive plan (LTIP) and the employee share ownership plan (ESOP) and are classified as equity-settled share-based payment transactions. The expense relating to the services rendered by the employees, and the corresponding increase in equity, is measured at the fair value of the equity instruments at their date of grant based on the market price at grant date. This compensation cost is recognised over the vesting period, based on the best available estimate at each reporting date of the number of equity instruments that are expected to vest.

During the vesting period; participants have all the shareholders' rights; including the right to vote and share in the dividend distribution. The dividend received by employees is recognised as a reduction in equity. The amount of dividend received by employees who have left service prior to vesting conditions being met is recognised in profit and loss at the end of each reporting date.

***2.4.38 Cell captive***

The cell captive is accounted for at fair value and all fair value movements are accounted for in the statement of profit or loss. As the fair value movements are unrealised gains/losses they are transferred from retained earnings to non-distributable reserves.



| 2 Significant accounting policies – continued | Group for the year ended 31 March 2016 | | | | |
|---|---|---|---|---|---|
| | As previously reported Rm | Telkom restatement* Rm | BCX restatement** Rm | Trudon IAS 8 disclosure*** Rm | Restated Rm |
| **2.5 Adjustments to the consolidated statement of profit or loss and other comprehensive income** | | | | | |
| **Continuing operations** | | | | | |
| Operating revenue | 37 325 | – | – | – | 37 325 |
| Payments to other operators | 2 793 | – | – | – | 2 793 |
| Cost of sales | 6 969 | 100 | (2 047) | (11) | 5 011 |
| **Net operating revenue** | 27 563 | (100) | 2 047 | 11 | 29 521 |
| Other income | 1 281 | – | – | – | 1 281 |
| **Operating expenses** | 20 083 | (100) | 1 968 | 75 | 22 026 |
| Employee expenses | 10 901 | – | 1 264 | | 12 165 |
| Selling, general and administrative expenses | 4 978 | – | 743 | 75 | 5 796 |
| Service fees | 3 106 | (100) | (41) | – | 2 965 |
| Operating leases | 1 098 | – | 2 | – | 1 100 |
| **EBITDA** | 8 761 | – | 79 | (64) | 8 776 |
| Depreciation of property, plant and equipment | 4 370 | – | 79 | (1) | 4 448 |
| Amortisation of intangible assets | 902 | – | – | (22) | 880 |
| Write-offs, impairment and losses of PPE and IA | 170 | – | – | – | 170 |
| **Operating profit** | 3 319 | | – | (41) | 3 278 |
| Investment income | 203 | – | – | – | 203 |
| **Finance charges and fair value movements** | 622 | – | – | – | 622 |
| Interest | 521 | – | – | – | 521 |
| Foreign exchange loss and fair value movements | 101 | – | – | – | 101 |
| **Profit before taxation** | 2 900 | – | – | (41) | 2 859 |
| Taxation expense | 524 | – | – | 14 | 538 |
| **Profit for the year** | 2 376 | – | – | (55) | 2 321 |
| **Other comprehensive income** | | | | | |
| **Items that will be reclassified subsequently to profit or loss** | | | | | |
| Exchange losses on translating foreign operations | (9) | – | – | – | (9) |
| **Items that will not be reclassified to profit or loss** | | | | | |
| Defined benefit plan actuarial losses | 191 | – | – | – | 191 |
| Defined benefit plan asset ceiling limitation | 86 | – | – | – | 86 |
| **Other comprehensive loss for the year, net of taxation** | 268 | – | – | – | 268 |
| **Total comprehensive income for the year** | 2 644 | – | – | (55) | 2 589 |
| **Total operations*** ** | | | | | |
| Basic earnings per share (cents) | 439.4 | | | | 432.4 |
| Diluted earnings per share (cents) | 432.8 | | | | 425.8 |

** Restated in order to achieve more relevant presentation*
*** Refer to note 2.2.4*
**** Refer to note 2.2.3*

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 2 Significant accounting policies – continued | Group - March 2016 | | | Group - March 2015 | | |
|---|---|---|---|---|---|---|
| | As previously reported Rm | Trudon IAS 8 disclosure* Rm | Restated March 2016 Rm | As previously reported Rm | Trudon IAS 8 disclosure* Rm | Restated March 2015 Rm |
| **2.6 Adjustments to the consolidated statement of financial position** | | | | | | |
| **Assets** | | | | | | |
| **Non-current assets** | 33 875 | (186) | 33 689 | 30 855 | (160) | 30 695 |
| Property, plant and equipment | 25 357 | (7) | 25 350 | 24 479 | (8) | 24 471 |
| Intangible assets | 4 584 | (179) | 4 405 | 2 982 | (152) | 2 830 |
| Other investments | 2 318 | – | 2 318 | 2 231 | – | 2 231 |
| Employee benefits | 846 | – | 846 | 452 | – | 452 |
| Other financial assets | 55 | – | 55 | 28 | – | 28 |
| Finance lease receivables | 281 | – | 281 | 413 | – | 413 |
| Deferred taxation | 434 | – | 434 | 270 | – | 270 |
| **Current assets** | 12 912 | (48) | 12 864 | 11 127 | (27) | 11 100 |
| Inventories | 971 | – | 971 | 638 | – | 638 |
| Income tax receivable | 57 | (14) | 43 | 11 | (8) | 3 |
| Current portion of finance lease receivables | 207 | – | 207 | 200 | – | 200 |
| Trade and other receivables | 7 375 | (34) | 7 341 | 5 388 | (19) | 5 369 |
| Current portion of other financial assets | 1 754 | – | 1 754 | 1 247 | – | 1 247 |
| Cash and cash equivalents | 2 548 | – | 2 548 | 3 643 | – | 3 643 |
| **Total assets** | 46 787 | (234) | 46 553 | 41 982 | (187) | 41 795 |
| **Equity and liabilities** | | | | | | |
| **Equity attributable to owners of the parent** | 26 134 | (159) | 25 975 | 24 864 | (123) | 24 741 |
| Share capital | 5 208 | – | 5 208 | 5 208 | – | 5 208 |
| Share-based compensation reserve | 241 | – | 241 | 126 | – | 126 |
| Non-distributable reserves | 1 507 | – | 1 507 | 1 507 | – | 1 507 |
| Retained earnings | 19 178 | (159) | 19 019 | 18 023 | (123) | 17 900 |
| Non-controlling interest | 473 | (83) | 390 | 363 | (64) | 299 |
| **Total equity** | 26 607 | (242) | 26 365 | 25 227 | (187) | 25 040 |
| **Non-current liabilities** | 7 104 | – | 7 104 | 5 272 | – | 5 272 |
| Interest bearing debt | 4 566 | – | 4 566 | 3 244 | – | 3 244 |
| Employee related provisions | 1 665 | – | 1 665 | 1 264 | – | 1 264 |
| Non-employee related provisions | 66 | – | 66 | 61 | – | 61 |
| Deferred revenue | 656 | – | 656 | 687 | – | 687 |
| Deferred taxation | 151 | – | 151 | 16 | – | 16 |
| **Current liabilities** | 13 076 | 8 | 13 084 | 11 483 | – | 11 483 |
| Trade and other payables | 7 134 | – | 7 134 | 5 635 | – | 5 635 |
| Shareholders for dividend | 22 | – | 22 | 19 | – | 19 |
| Current portion of interest bearing debt | 703 | – | 703 | 1 612 | – | 1 612 |
| Current portion of employee related provisions | 2 231 | – | 2 231 | 1 882 | – | 1 882 |
| Current portion of non-employee related provisions | 142 | – | 142 | 303 | – | 303 |
| Current portion of deferred revenue | 1 708 | – | 1 708 | 1 502 | – | 1 502 |
| Income tax payable | 675 | 8 | 683 | 344 | – | 344 |
| Current portion of other financial liabilities | 455 | – | 455 | 185 | – | 185 |
| Credit facilities utilised | 6 | – | 6 | 1 | – | 1 |
| **Total liabilities** | 20 180 | 8 | 20 188 | 16 755 | – | 16 755 |
| **Total equity and liabilities** | 46 787 | (234) | 46 553 | 41 982 | (187) | 41 795 |

** Refer to note 2.2.3*

**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 the strategic decisions, allocate resources, and assess performance.

For the period ended 31 March 2016, the Telkom group presented two reportable segments, namely Telkom and BCX.

In the period under review, the group started implementing a more flexible and agile operating and reporting model to manage performance and allocate resources. In its journey to fully operationalise this aspiration, the CODM has started to assess the performance of the business units on a net operating revenue level and make decisions about the allocation of resources for fixed stream, mobile stream and BCX at an EBITDA level.

In September 2016 (Interim report), the group reported four segments, namely Openserve, Consumer, Enterprise and BCX. On 1 November 2016, Telkom company sold one of its business divisions (Enterprise division) to BCX, a wholly owned subsidiary of Telkom. The Enterprise segment was integrated into the BCX segment, resulting in three reportable segments, Openserve, Consumer and BCX for the group at the reporting date. Subsequently, Enterprise is no longer a reportable segment as its operating results are not regularly reviewed by the group's CODM. The results of the Enterprise business have been included into the BCX segment as if the sale transactions occurred on 1 April 2016 and the comparative information has been restated on the same basis.

"Other" includes Swiftnet, Trudon and other non-trading entities.

The financial information reviewed by the CODM excludes inter-segment revenue and cost allocations as the transfer pricing principles continue to evolve.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

The segment information provided to Exco for the reportable segments is as follows:

| 3 Segment information – continued | Openserve | Consumer | BCX* | Other | Consolidated |
|---|---|---|---|---|---|
| | Rm | Rm | Rm | Rm | Rm |
| **March 2017** | | | | | |
| **Transactions with external customers** | | | | | |
| Operating revenue from external customers | 5 150 | 15 048 | 19 686 | 1 086 | 40 970 |
| Payment to other operators | | | | | (2 618) |
| Cost of sales | | | | | (6 498) |
| Segment net operating revenue | 3 819 | 10 978 | 16 559 | 498 | 31 854 |
| Fixed stream | 3 819 | 8 974 | – | – | 12 793 |
| Mobile stream | – | 2 004 | – | – | 2 004 |
| BCX group | – | – | 16 559 | – | 16 559 |
| Other | – | – | – | 498 | 498 |

| | Fixed stream | Mobile stream | BCX* | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | Rm | Rm | Rm | Rm | Rm | Rm |
| **Reconciliation of operating profit to profit before tax** | | | | | | |
| **Transactions with external customers and within the segments (before cost allocations and eliminations)** | | | | | | |
| Segment net operating revenue | 15 189 | 2 004 | 17 692 | 631 | (3 662) | 31 854 |
| Other Income | 692 | 62 | 58 | 503 | (581) | 734 |
| Operating expenses | (9 617) | (1 467) | (9 806) | (4 930) | 4 173 | (21 647) |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments excluding voluntary packages | 6 264 | 599 | 7 944 | (3 796) | (70) | 10 941 |
| Voluntary severance and early retirement packages | | | | | | (66) |
| Depreciation, amortisation, impairment, write-offs and losses | | | | | | (5 661) |
| **Operating profit** | | | | | | 5 214 |
| Investment income | | | | | | 219 |
| Finance charges and fair value movement | | | | | | (888) |
| **Profit before taxation** | | | | | | 4 545 |
| **Other segment information**** | | | | | | |
| Capital expenditure of property, plant and equipment and intangible assets | 6 262 | 1 936 | 366 | 42 | – | 8 606 |

* Includes Enterprise results as if the transaction was effective on 1 April 2016.
** The R8.6 billion of capital expenditure includes R48 million that was purchased as inventory for network expansion.
Refer to note 4 for revenue disclosed per product disclosure.



| 3 Segment information – continued | Openserve | Consumer | BCX* | Other | Consolidated |
|---|---|---|---|---|---|
| | Rm | Rm | Rm | Rm | Rm |
| *2016* | | | | | |
| **Transactions with external customers** | | | | | |
| Operating revenue from external customers | 5 310 | 11 983 | 18 887 | 1 145 | 37 325 |
| Payment to other operators | | | | | (2 793) |
| Cost of sales | | | | | (5 011) |
| Segment net operating revenue | 4 362 | 8 666 | 15 935 | 558 | 29 521 |
| Fixed stream | 4 362 | 7 424 | – | – | 11 786 |
| Mobile stream | – | 1 242 | – | – | 1 242 |
| BCX group | – | – | 15 935 | – | 15 935 |
| Other | – | – | – | 558 | 558 |

| | Fixed stream | Mobile stream | BCX* | Other | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | Rm | Rm | Rm | Rm | Rm | Rm |
| **Reconciliation of operating profit to profit before tax** | | | | | | |
| **Transactions with external customers and within the segments (before cost allocations and eliminations)** | | | | | | |
| Segment net operating revenue | 11 786 | 1 242 | 16 612 | 776 | (895) | 29 521 |
| Other Income | 484 | 4 | – | 882 | (89) | 1 281 |
| Operating expenses | (9 568) | (1 348) | (4 129) | (5 630) | 842 | (19 833) |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments excluding voluntary packages | 2 702 | (102) | 12 483 | (3 972) | (142) | 10 969 |
| Voluntary severance and early retirement packages | | | | | | (2 193) |
| Depreciation, amortisation, impairment, write-offs and losses | | | | | | (5 498) |
| **Operating profit** | | | | | | 3 278 |
| Investment income | | | | | | 203 |
| Finance charges and fair value movement | | | | | | (622) |
| **Profit before taxation** | | | | | | 2 859 |
| **Other segment information**** | | | | | | |
| Capital expenditure of property, plant and equipment and intangible assets | 5 101 | 660 | 139 | 39 | – | 5 939 |

* Includes Enterprise results as if the transaction was effective on 1 April 2015. BCX has been included from the date of acquisition 31 August 2015.
** The R5.9 billion of capital expenditure includes R101 million that was purchased as inventory for network expansion.

Refer to note 4 for revenue disclosed per product disclosure.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

## 4 Operating revenue

**Revenue recognition**

The group provides fixed-line, mobile, data communication services and communication-related products to business, residential, wholesale, payphone and mobile customers as well as IT services. Revenue represents the fair value of fixed or determinable consideration that has been received or is receivable.

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| | **40 970** | 37 325 | **35 422** | 32 106 |
| Voice | **14 586** | 15 299 | **15 849** | 15 309 |
| Interconnection | **1 102** | 1 267 | **1 114** | 1 270 |
| Data* | **12 147** | 11 477 | **12 933** | 11 501 |
| Customer premises equipment | **3 822** | 3 175 | **4 078** | 3 175 |
| Sundry revenue | **1 759** | 1 677 | **681** | 537 |
| Information technology* | **7 554** | 4 430 | **767** | 314 |

** In order to achieve more relevant presentation a decision was made to reclassify revenue from data to information technology amounting to R314 million.*

Operating revenue increased due to higher mobile data revenue, higher equipment sales and the BCX revenue. This is partially offset by the decline in fixed-line voice revenue and lower connectivity revenue.

In the current financial year wholesale reassessed its leased lines customer relationship period (CRP) that is used for the deferral of installation fee revenue. The CRP was changed from five years to four years. This is more reflective of the modern-day customer behaviour within the industry. The change in estimate resulted in revenue increasing by R20 million in the current year.

Included in Telkom company revenue from external customers is revenue which relates to Enterprise customer contracts which were sold to BCX on 1 November 2016 by Telkom.

## 5 Other income

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| | **734** | 1 281 | **3 017** | 1 308 |
| | **517** | 577 | **1 029** | 586 |
| Interest received from trade receivables | **236** | 261 | **213** | 255 |
| Sundry income | **281** | 316 | **816** | 331 |
| Profit on disposal of property, plant and equipment (PPE), intangible assets (IA) and investments | **217** | 704 | **1 988** | 722 |

The decrease in the group's other income is due to fewer properties disposed of in the current financial year compared to last year. The increase in the company profit on disposal of property, plant and equipment, intangible assets and investments relates to the profit on the sale of Telkom Enterprise to BCX of R1,827 million.



## 6 Operating expenses

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | Restated 2016 Rm | **2017 Rm** | Restated 2016 Rm |
| **6.1 Payments to other operators** | **2 618** | 2 793 | **2 627** | 2 813 |
| Payments to other operators decreased mainly due to the lower traffic volumes. | | | | |
| **6.2 Cost of sales** | **6 498** | 5 011 | **3 669** | 3 100 |
| The increase in cost of sales is largely attributable to the increase of IT services, and the increase in the sale of high-end devices as well as the effect of the full year consolidation of BCX. | | | | |
| ***Change in comparatives*** | | | | |
| *Refer to note 2.5 for other group restatements.* | | | | |
| **6.3 Employee expenses** | **10 562** | 12 165 | **6 530** | 10 105 |
| Salaries and wages | **8 225** | 7 942 | **5 032** | 6 129 |
| Medical aid contributions | **24** | 17 | **–** | – |
| Subsidiaries' retirement contributions: Defined contribution plan | **151** | 44 | **–** | – |
| Post-retirement pension and retirement fund (refer to note 29) | **572** | 856 | **572** | 856 |
| Current service cost | **84** | 112 | **84** | 112 |
| Employer contribution - Service cost | **431** | 551 | **431** | 551 |
| Interest cost | **3 565** | 3,113 | **3 565** | 3 113 |
| Interest on plan assets | **(3 483)** | (3 079) | **(3 483)** | (3 079) |
| Curtailment (gain)/loss - Telkom Retirement Fund*** | **(25)** | 159 | **(25)** | 159 |
| Post-retirement medical aid (refer to notes 27 and 29) | **(99)** | 26 | **(101)** | 23 |
| Current service cost | **2** | 6 | **2** | 5 |
| Interest cost | **207** | 185 | **205** | 183 |
| Settlement (gain)/loss** | **(32)** | 3 | **(32)** | 3 |
| Interest on plan asset | **(276)** | (216) | **(276)** | (216) |
| Curtailment loss | **–** | 48 | **–** | 48 |
| Post-retirement telephone rebates (refer to notes 27 and 29) | **40** | 40 | **40** | 40 |
| Current service cost | **3** | 4 | **3** | 4 |
| Interest cost | **37** | 34 | **37** | 34 |
| Curtailment loss | **–** | 2 | **–** | 2 |
| Share-based compensation expense (refer to note 23) | **222** | 115 | **201** | 115 |
| Other benefits* | **2 031** | 3 586 | **1 390** | 3 403 |
| Employee expenses capitalised | **(604)** | (461) | **(604)** | (461) |

The decrease in employee expenses is mainly due to the decline in headcount and the lower VSP/VERP expense compared to the prior financial year.

** Other benefits include, amongst others, skills development, annual leave, performance incentive, service bonuses, voluntary employee severance/voluntary early retirement packages costs and termination benefits.*
*** The current year relate to the refund.*
**** Due to the VSP/VERP process."*

***Change in comparatives***

*Refer to note 2.5.*

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 6 Operating expenses – continued | Group 2017 Rm | Group Restated 2016 Rm | Company 2017 Rm | Company Restated 2016 Rm |
|---|---|---|---|---|
| **6.4 Selling, general and administrative expenses** | **7 237** | 5 796 | **6 469** | 5 600 |
| Selling and administrative expenses | **2 337** | 1 611 | **922** | 827 |
| Maintenance | **3 620** | 3 050 | **4 449** | 3 689 |
| Marketing | **817** | 824 | **738** | 765 |
| Impairment of receivables | **463** | 311 | **360** | 319 |
| The increase in selling, general and administrative expenses is mainly due to the full year inclusion of BCX and increases in outsourcing costs. | | | | |
| ***Change in comparatives*** | | | | |
| *Refer to note 2.5.* | | | | |
| **6.5 Service fees** | **2 869** | 2 965 | **2 492** | 2 792 |
| Facilities and property management | **1 842** | 1 704 | **1 480** | 1 518 |
| Consultancy, security and other services | **966** | 1 197 | **955** | 1 226 |
| Auditors' remuneration | **61** | 64 | **57** | 48 |
| The decrease is mainly due to lower company transformation and property management expenses. | | | | |
| ***Change in comparatives*** | | | | |
| *Refer to note 2.5.* | | | | |
| **6.6 Operating leases*** | **1 045** | 1 100 | **861** | 980 |
| Land and buildings | **550** | 607 | **525** | 508 |
| Transmission and data lines | **159** | 17 | **–** | – |
| Equipment | **31** | 50 | **31** | 47 |
| Vehicles | **305** | 426 | **305** | 425 |
| The decrease in operating leases is mainly attributable to a decrease in the number of vehicles leased. | | | | |
| ** Operating lease commitments are disclosed in note 36.* | | | | |
| ***Change in comparatives*** | | | | |
| *Refer to note 2.5.* | | | | |
| **6.7 Depreciation, amortisation, impairment, write-offs and losses** | **5 661** | 5 498 | **5 229** | 5 274 |
| Depreciation of property, plant and equipment | **4 752** | 4 448 | **4 458** | 4 305 |
| Amortisation of intangible assets | **766** | 880 | **628** | 799 |
| Write-offs, impairments and losses of property, plant and equipment and intangible assets | **143** | 170 | **143** | 170 |
| The increase is due to accelerated depreciation of old technology as we intensify the roll-out of fibre and LTE as well as asset write-offs. | | | | |
| ***Change in comparatives*** | | | | |
| *Refer to note 2.5.* | | | | |
| ***The estimated useful lives assigned to groups of property, plant and equipment are:*** | Years | | Years | |
| Freehold buildings | **10 to 50** | 10 to 50 | **10 to 50** | 10 to 50 |
| Leasehold buildings | **–** | – | **–** | – |
| Network equipment | | | | |
| Cables | **4 to 30** | 4 to 30 | **4 to 30** | 4 to 30 |
| Switching equipment | **5 to 18** | 5 to 18 | **5 to 18** | 5 to 18 |
| Transmission equipment | **5 to 18** | 5 to 18 | **5 to 18** | 5 to 18 |
| Other | **2 to 20** | 2 to 20 | **2 to 20** | 2 to 18 |
| Support equipment | **3 to 13** | 3 to 13 | **5 to 13** | 5 to 13 |
| Furniture and office equipment | **1 to 15** | 1 to 15 | **11 to 15** | 11 to 15 |



| 6 Operating expenses – continued | Group 2017 | Group Restated 2016 | Company 2017 | Company Restated 2016 |
|---|---|---|---|---|
| ***The estimated useful lives assigned to groups of property, plant and equipment are:*** - *continued* | Years | | Years | |
| Data processing equipment and software | **1 to 10** | 1 to 10 | **5 to 10** | 5 to 10 |
| Telkom support services equipment | **1 to 20** | 1 to 20 | **1 to 20** | 2 to 20 |
| ***The expected useful lives assigned to intangible assets are:*** | | | | |
| Software and licences | **2 to 11** | 2 to 11 | **5 to 10** | 5 to 10 |
| Trademarks, copyrights and other | **3 to 13** | 3 to 13 | **4 to 13** | 4 to 13 |

As a result of the transformation programme, the group reassessed the useful lives of certain technologies to address the challenges within the competitive market and IP-based products and services. The reassessment of useful lives had the effect of increasing the depreciation and amortisation expense for the year ended 31 March 2017 by R325 million (2016: R192 million). Depreciation and amortisation for each year of the remaining useful lives of the individually reassessed equipment will be significantly lower.

| 7 Investment income | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| | **219** | 203 | **522** | 812 |
| Interest income | **219** | 203 | **370** | 180 |
| Dividend income from subsidiaries | **–** | – | **152** | 632 |

The company's interest income increased as a result of an increase in interest received from subsidiaries.

Interest income relates to interest earned from financial assets not measured at fair value through profit or loss. Interest is recognised on a time proportionate basis taking into account the principal amount outstanding and the effective interest rate.

Dividends from investments are recognised on the date that the group is entitled to the dividend.

The decrease in dividend income is due to the non-declaration of dividend by Acajou Investments (Pty) Ltd to Telkom company in the current financial year.

| 8 Finance charges and fair value movements | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| | **888** | 622 | **801** | 618 |
| Finance charges on interest bearing debt* | **618** | 521 | **558** | 489 |
| Local debt | **771** | 624 | **711** | 592 |
| Less: Finance charges capitalised** | **(153)** | (103) | **(153)** | (103) |
| Foreign exchange and fair value movements | **270** | 101 | **243** | 129 |
| Foreign exchange (gains)/losses | **(145)** | 428 | **(169)** | 457 |
| Fair value adjustments | **415** | (327) | **412** | (328) |
| Capitalisation rate for borrowing costs (%) | **11.5** | 11.5 | **11.5** | 11.5 |

Finance charges relate to interest expense on financial liabilities not measured at fair value through profit or loss.

The increase in foreign exchange and fair value movements was mainly as a result of hedges taken in a volatile economic environment partly offset by a higher fair value gain on revaluation of the underlying assets held by the cell captive.

** For interest bearing debt movement, refer to note 26.*
*** Finance charges on qualifying assets are capitalised to property, plant and equipment and intangible assets.*

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 9 Taxation | Group | | Company | |
|---|---|---|---|---|
| | 2017 Rm | 2016 Rm | 2017 Rm | 2016 Rm |
| | 691 | 538 | 65 | 359 |
| South African normal company taxation | 713 | 574 | 65 | 359 |
| Current taxation | 903 | 586 | 256 | 371 |
| Overprovision for prior year | (190) | (12) | (191) | (12) |
| Deferred taxation (refer to note 17) | (50) | (15) | – | – |
| Capital allowances | 241 | 77 | 261 | 88 |
| Provision other allowances | (307) | (92) | (261) | (88) |
| Tax losses | 35 | – | – | – |
| Acquisition of BCX | (19) | – | – | – |
| Withholding tax | 4 | 1 | – | – |
| Common control transaction | 24 | (22) | – | – |

The higher group taxation is mainly due to the prior financial year being lower as a result of reduced assessments issued to Telkom company, the reversal of provisions and the higher taxable profits.

| *Reconciliation of taxation rate* | % | | % | |
|---|---|---|---|---|
| Effective rate | 15.20 | 18.8 | 1.4 | 12.2 |
| South African normal rate of taxation | 28.0 | 28.0 | 28.0 | 28.0 |
| Adjusted for: | (12.8) | (9.2) | (26.6) | (15.8) |
| Exempt income | (3.1) | (4.4) | (14.0) | (9.9) |
| Dividends received | – | – | (0.9) | (6.0) |
| Profit on sale of disposal | (0.8) | – | (10.7) | – |
| Other exempt income* | (2.3) | (4.4) | (2.4) | (3.9) |
| Disallowable expenditure | 6.3 | 6.5 | 3.8 | 4.5 |
| Capital expenditure | 2.6 | – | 0.8 | 2.0 |
| Other disallowed expenditure** | 3.7 | 6.5 | 3.0 | 2.5 |
| Foreign tax | 0.1 | – | – | – |
| Deferred tax asset limitation*** | (14.0) | (10.2) | (14.0) | (10.1) |
| Recoupment | 0.3 | – | – | – |
| Common control transaction (refer to note 11) | 0.1 | (0.8) | – | – |
| Net overprovision for prior year | (2.5) | (0.3) | (2.4) | (0.3) |

* *Other exempt income mainly consists of capital profit on sale of assets.*
** *Other disallowable expenditure mainly includes professional fees and legal fees which are not tax deductible.*
*** *Deferred tax recognised as a result of the reassessment of the deferred tax asset.*

The current year lower effective tax rate is mainly due to the effect of the deferred tax asset limitation and the overprovision for tax relating to prior years.



| 10 Earnings per share | Group | |
|---|---|---|
| | 2017 | 2016 |
| **Total operations** | | |
| **Basic earnings per share (cents)** | 738.8 | 432.4 |
| The calculation of earnings per share is based on a profit attributable to equity holders of Telkom for the year of R3 797 million (2016: R2 210 million) and 513 954 385 (2016: 511 157 460) weighted average number of ordinary shares in issue. | | |
| **Diluted earnings per share (cents)** | 724.1 | 425.8 |
| The calculation of diluted earnings per share is based on a profit attributable to equity holders of Telkom for the year of R3 797 million (2016: R2 210 million) and 524 370 916 (2016: 518 965 683) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom group Share Plan. | | |
| **Headline earnings per share (cents)*** | 721.1 | 323.0 |
| The calculation of headline earnings per share is based on headline earnings of R3 706 million (2016: R1 651 million) and 513 954 385 (2016: 511 157 460) weighted average number of ordinary shares in issue. | | |
| **Diluted headline earnings per share (cents)*** | 706.7 | 318.1 |
| The calculation of diluted headline earnings per share is based on headline earnings of R3 706 million (2016: R1 651 million) and 524 370 916 (2016: 518 965 683) diluted weighted average number of ordinary shares in issue. The adjustment in the weighted average number of shares is as a result of the expected future vesting of shares already allocated to employees under the Telkom group Share Plan. | | |

| *Reconciliation of weighted average number of ordinary shares:* | Number of shares | Number of shares |
|---|---|---|
| Ordinary shares in issue | 526 948 700 | 526 948 700 |
| Weighted average number of treasury shares | (12 994 315) | (15 791 240) |
| Weighted average number of shares outstanding | 513 954 385 | 511 157 460 |
| *Reconciliation of diluted weighted average number of ordinary shares* | | |
| Weighted average number of shares outstanding | 513 954 385 | 511 157 460 |
| Expected future vesting of shares | 10 416 531 | 7 808 223 |
| Diluted weighted average number of shares outstanding | 524 370 916 | 518 965 683 |

* *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 2/2015 issued in this regard.*

**Total operations**

| *Reconciliation between earnings and headline earnings:* | Rm | Rm |
|---|---|---|
| Profit for the year | 3 854 | 2 321 |
| Non-controlling interest | (57) | (111) |
| Profit attributable to owners of Telkom | 3 797 | 2 210 |
| Profit on disposal of property, plant and equipment and intangible assets | (217) | (704) |
| Write-offs of property, plant and equipment and intangible assets | 143 | 170 |
| Taxation effects | (17) | (25) |
| Headline earnings | 3 706 | 1 651 |

**Dividend per share (cents)**

The calculation of dividend per share is based on dividends of R1 422 million declared on 4 July 2016 and R692 million declared on 11 November 2016 (31 March 2016: R1 291 million). 526 948 700 number of ordinary shares were outstanding on the date of the dividend declarations (31 March 2016: 526 948 700).

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

## 11 Acquisitions and disposals

**11.1 Acquisitions**

***11.1.1 Taropa Technologies Proprietary Limited (Taropa)***

On 1 March 2017 BCX acquired the entire issued ordinary share capital of Taropa.

The total purchase consideration was R13 million. The consideration is made up of R8 million cash and R5 million deferred consideration.

To the extent that Taropa's profit after tax exceeds the warranted profit, the seller will earn additional consideration amounting to R5 million, payable in the 2019 and 2020 financial years.

Taropa provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

The merger will enable BCX to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce Telkom's core connectivity business and enhance BCX's strategy.

The acquisition has been accounted for using the acquisition method. The date of acquisition is 1 March 2017 and the financial statements include the Taropa results for the one month ended 31 March 2017.

| | 2017 Rm |
|---|---|
| **The fair value of the identifiable assets and liabilities at acquisition date was determined as follows:** | |
| **Assets** | |
| Property, plant and equipment | 1 |
| Trade and other receivables | 15 |
| Inventories | 18 |
| Cash and cash equivalents | 2 |
| **Total assets** | 36 |
| **Liabilities** | |
| Trade and other payables | 29 |
| Income tax payable | 1 |
| **Total liabilities** | 30 |
| Total identifiable net assets at fair value | 6 |
| Non-controlling interest at proportional share of net assets | – |
| Goodwill arising on acquisition (provisional) | 7 |
| Purchase consideration transferred | 13 |
| **Analysis of cash flows at acquisition:** | |
| Net cash outflow on acquisition of the subsidiary (included in cash flows from investing activities) | |
| Cash paid | 8 |
| Cash acquired at acquisition | (2) |
| Net cash flow on acquisition | 6 |

At the date of the acquisition, the fair value of the trade receivables approximated its carrying value. The gross amount of trade receivables is R13.9 million.

From the date of acquisition, Taropa has contributed R9.3 million of revenue and R0.33 million to the net profit before tax from the continuing operations of the BCX group. If the acquisition had taken place at the beginning of the year, BCX revenue from continuing operations would have been R14.079 million and the BCX group profit from continuing operations for the period would have been R1.068 million.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of Taropa with those of the BCX group. The goodwill is not deductible for income tax purposes.

Transaction costs of less than R1 million, which includes issue costs, have been expensed since the inception of the acquisition. These expenses were recognised in service fees.



## 11 Acquisitions and disposals – continued

**11.1 Acquisitions** - continued

The fair value of intangible assets and goodwill has been measured on a provisional basis pending the completion of an independent valuation.

If new information is obtained within one year of the acquisition date on facts and circumstances that existed at the acquisition date, the above amounts will be revised.

***11.1.2 African Arete Proprietary Limited***

On 1 November 2016 BCX acquired the entire issued ordinary share capital of African Arete (Proprietary) Limited.
The total purchase consideration of R19 million was settled in cash.

African Arete (Proprietary) Limited provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

The merger will enable BCX to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce Telkom's core connectivity business and enhance BCX's strategy.

The acquisition has been accounted for using the acquisition method. The date of acquisition is 1 November 2016 and the financial statements include the African Arete (Proprietary) Limited results for the five months ended 31 March 2017.

| | 2017 Rm |
|---|---|
| **The fair value of the identifiable assets and liabilities at acquisition date was determined as follows:** | |
| **Assets** | |
| Trade and other receivables | 7 |
| **Total assets** | 7 |
| **Liabilities** | |
| Trade and other payables | 3 |
| Income tax payable | 1 |
| **Total liabilities** | 4 |
| Total identifiable net assets at fair value | 3 |
| Non-controlling interest at proportional share of net assets | – |
| Goodwill arising on acquisition (provisional) | 16 |
| Purchase consideration transferred | 19 |
| **Analysis of cash flows at acquisition:** | |
| Net cash outflow on acquisition of the subsidiary (included in cash flows from investing activities) | |
| Cash paid | 19 |
| Net cash flow on acquisition | 19 |

At the date of the acquisition, the fair value of the trade receivables approximated its carrying value. The gross amount of trade receivables is R6.5 million.

From the date of acquisition, African Arete (Proprietary) Limited has contributed R21.2 million of revenue and R1.2 million to the net profit before tax from the continuing operations of the BCX group. If the acquisition had taken place at the beginning of the year, BCX revenue from continuing operations would have been R13.905 million and the BCX group profit from continuing operations for the period would have been R1.066 million.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of African Arete with those of the BCX group. The goodwill is not deductible for income tax purposes.

Transaction costs of less than R1 million, which includes issue costs, have been expensed since the inception of the acquisition. These expenses were recognised in service fees.

The fair value of intangible assets and goodwill has been measured on a provisional basis pending the completion of an independent valuation.

If new information is obtained within one year of the acquisition date on facts and circumstances that existed at the acquisition date, the above amounts will be revised.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**11 Acquisitions and disposals** – continued

**11.1 Acquisitions** - continued

***11.1.3 Relational Database Consulting Proprietary Ltd (RDC)***

On 1 April 2016, Business Connexion group Limited acquired the entire share capital of RDC.

The total purchase consideration amounting to R30 million was funded by a cash payment of R16 million and a deferred purchase consideration of R14 million payable on achieving financial targets.

RDC is a market leader in database and operating system administration with a strong focus on Oracle.

The merger will enable the group to expand its existing offerings while, at the same time, providing scale in IT services, which will help reinforce the group's core connectivity business and enhance convergence strategy. Their expanded range of services includes Oracle E-Business Suite, Oracle Fusion Middleware, Oracle Solaris Support and Oracle Sales.

The acquisition has been accounted for using the acquisition method. The date of acquisition is 1 April 2016 and the financial statements include the RDC results for the twelve months ended 31 March 2017.

| | 2017<br>Rm |
|---|---|
| **Assets** | |
| Trade and other receivables | 5 |
| Cash and cash equivalents | 17 |
| **Total assets** | 22 |
| **Liabilities** | |
| Non-current debt | (3) |
| Trade and other payables | (13) |
| **Total liabilities** | (16) |
| **Total identifiable net assets at fair value** | 6 |
| Goodwill arising at acquisition | 24 |
| Purchase consideration transferred | 30 |
| **Analysis of cash flows at acquisition:** | |
| Net cash acquired with the subsidiary (included in cash flows from investing activities) | |
| Cash paid | 16 |
| Cash acquired at acquisition | 17 |
| Net cash inflow acquired on acquisition | 1 |

To the extent that RDC's profit after tax exceeds the warranted profit, the seller will earn additional consideration amounting to R14 million, payable in the 2019 and 2020 financial years.

At the date of the acquisition, the fair value of the trade receivables approximated its carrying value. The gross amount of trade receivables is R5.2 million.

From the date of acquisition, RDC has contributed R89.4 million of revenue and R13.5 million to the net profit before tax from the continuing operations of the BCX group.

The goodwill recognised is primarily attributed to the expected synergies and other benefits from combining the assets and activities of RDC with those of the BCX group. The goodwill is not deductible for income tax purposes.

Transaction costs of R1 million, which includes issue costs, have been expensed since the inception of the acquisition.



**11 Acquisitions and disposals** – continued

**11.1 Acquisitions** - continued

**March 2016**

***11.1.4 Business connexion group (BCX)***

On 25 August 2015, Telkom acquired the entire issued ordinary share capital and the entire issued "A "ordinary shares of BCX. The total purchase consideration of R2.7 billion was funded through Telkom's own cash resources.

BCX provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

***11.1.5 Anco IT Proprietary Ltd (Anco)***

On 1 November 2015 BCX acquired the entire issued ordinary share capital of Anco. The total purchase consideration of R41 million was in the form of cash, earn-out payments, a loan to BCX and deferred consideration.

Anco provides innovative business solutions based on information and communication technology and runs ICT systems and manages products, services and solutions for a wide range of customers.

***11.1.6 UCS Solutions (Pty) Ltd (UCS) minority interest***

On 31 December 2015 the Telkom group, through BCX acquired the remaining 15% of the UCS Solution Proprietary Limited (and its holding in Integr8 IT Proprietary Limited), based on the vested put option agreement with shareholders. UCS and Integr8 are now a wholly owned subsidiary of BCX group. This transaction was accounted for as an equity transaction.

**11.2 Common control transactions**

**2017**

***11.2.1 Enterprise business***

On 1 November 2016 Enterprise, previously a division of Telkom group was sold to BCX to realise synergies. The integration will enable the Telkom group to offer Enterprise solutions beyond connectivity and to strengthen Telkom's leadership in the Enterprise market. The transaction was financed through redeemable preference shares from BCX to Telkom and accounted for as a common control transaction. BCX recognised the acquired Enterprise assets at their carrying amount on the date of sale and the difference between the proceeds and the carrying amount of the Enterprise business was recognised as common control equity reserves. In Telkom company the difference between the carrying amount of the Enterprise business and proceeds was recognised in profit or loss. Refer to note 15 for information on the preference shares.

***11.2.2 Mast and Towers business***

On 16 March 2017, Telkom board approved a disposal of Telkom's Mast and Towers business to Swiftnet, a wholly owned subsidiary of Telkom group.

This is part of Telkom's strategic imperative to maximise value from its Mast and Tower portfolio. The Mast and Towers are currently used to provide telecommunication services to Telkom customers. They are also leased to third parties.

The approval was for the sale to take place on 1 April 2017, in the form of assets for preference shares. At 31 March 2017, Telkom company recognised the Mast and Tower portfolio as held for sale in its statement of financial position.

On 31 March 2017, the fair value of the Mast and Towers exceeds their carrying value. For group purposes the Mast and Towers will be transferred at their carrying amount.

The above transaction affects Telkom company only and not the Telkom group.

| | 2017<br>Rm |
|---|---|
| **Carrying values** | 265 |

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| **11 Acquisitions and disposals** – continued | 2016 Rm |
|---|---|

**11.2 Common control transactions** - continued

**2016**

***11.2.3 Telkom DCO***

On 1 November 2015 Cybernest (DCO), previously the IT business division of Telkom, was sold to BCX to realise synergies. The transaction was financed through a loan from Telkom to BCX and accounted for as a common control transaction. BCX recognised the acquired DCO assets at their carrying amount on the date of sale and the difference between the proceeds and the carrying amount of the DCO business was recognised as common control equity reserves. In Telkom company the difference between the carrying amount of the DCO business and proceeds was recognised in profit or loss.

**11.3 Disposal**

***11.3.1 Land and buildings (properties)***

On 16 March 2017, Telkom board approved a disposal of 40 properties of Telkom to Gyro group (Gyro). Gyro is a newly established property management entity, wholly owned by Telkom group. The 40 properties consist of technical, commercial and industrial properties owned by Telkom.

This is part of Telkom's strategic imperative to maximise value from its properties. These properties are currently either owner occupied or leased to third parties or not in use.

The approval was for the sale to take place on 1 April 2017, in the form of assets for preference shares.

The properties will be sold at fair value to Gyro and the fair value of these properties on 31 March 2017 exceeds their carrying values.

At 31 March 2017, Telkom company recognised these properties as held for sale in its statement of financial position.

The above transaction affects Telkom company only and not the Telkom group.

| | |
|---|---|
| **Carrying values** | 1 132 |

***11.3.2 Other properties***

In addition to the 40 properties, the Telkom board approved a disposal of an additional 26 properties to the market. These properties were identified as no longer needed for the Telkom operations.

The sale is planned to take place during the 2018 financial period.

At 31 March 2017, the group recognised these properties as held for sale in its statement of financial position.

The fair values of these properties at 31 March 2017 exceeds their carrying values.

| | |
|---|---|
| **Carrying values** | 12 |

***11.3.3 Nanoteq Proprietary Limited***

The group concluded a transaction to sell its Nanoteq business shareholding, effective 30 September 2016, for a total consideration of R57 million.

**The net cash flows attributable to the operating, investing and financing activities of discontinued operations:**

| | |
|---|---|
| Net assets disposed | 1 |
| Non-controlling interest | (1) |
| Consideration | 57 |
| Profit on disposal | 57 |



| **12 Property, plant and equipment** | **2017** | | | **2016** | | |
|---|---|---|---|---|---|---|
| | **Cost Rm** | **Accumulated depreciation and write-offs Rm** | **Carrying value Rm** | Cost Rm | Accumulated depreciation and write-offs Rm | Carrying value Rm |
| **Group** | | | | | | |
| Freehold land and buildings | **6 707** | **(3 899)** | **2 808** | 6 318 | (3 801) | 2 517 |
| Leasehold buildings | **74** | **(40)** | **34** | 47 | (37) | 10 |
| Network equipment | **72 923** | **(54 718)** | **18 205** | 68 937 | (51 407) | 17 530 |
| Support equipment | **5 155** | **(4 155)** | **1 000** | 5 001 | (3 936) | 1 065 |
| Furniture and office equipment | **516** | **(180)** | **336** | 838 | (559) | 279 |
| Data processing equipment and software | **4 123** | **(2 993)** | **1 130** | 4 384 | (3 336) | 1 048 |
| Under construction | **4 241** | **–** | **4 241** | 2 739 | – | 2 739 |
| Other | **592** | **(428)** | **164** | 563 | (401) | 162 |
| | **94 331** | **(66 413)** | **27 918** | 88 827 | (63 477) | 25 350 |
| **Company** | | | | | | |
| Freehold land and buildings | **3 408** | **(1 905)** | **1 503** | 6 006 | (3 690) | 2 316 |
| Leasehold buildings | **26** | **(24)** | **2** | 24 | (21) | 3 |
| Network equipment | **71 016** | **(53 353)** | **17 663** | 68 636 | (51 243) | 17 393 |
| Support equipment | **4 671** | **(3 659)** | **1 012** | 4 540 | (3 505) | 1 035 |
| Furniture and office equipment | **135** | **(107)** | **28** | 216 | (123) | 93 |
| Data processing equipment and software | **3 936** | **(3 116)** | **820** | 4 251 | (3 481) | 770 |
| Under construction | **3 807** | **–** | **3 807** | 2 716 | – | 2 716 |
| Other | **430** | **(327)** | **103** | 497 | (364) | 133 |
| | **87 429** | **(62 491)** | **24 938** | 86 886 | (62 427) | 24 459 |

Fully depreciated assets at a cost of R2 325 for group and R2 200 million for company (2016: R2 597 million for group and company) were derecognised in the current financial year. This has reduced both the cost price and accumulated depreciation of property, plant and equipment.

The capital expenditure under property, plant and equipment relates to expansions of R2 608 million for group and R2 420 million for company (2016 expansions: R1 669 million for group and R1 604 million for company). Expansion due to maintenance of R4 836 million for group and R4 730 million for company (2016 maintenance: R3 561 million for group and R3 501 million for company).

Property, plant and equipment with a carrying value of R11.4 million for group and Rnil for company (2016: R11.4 million for group and company) has been pledged as security. Details of the loans are disclosed in note 26.

An amount of Rnil million (2016: R9.5 million) under property, plant and equipment disposals relates to the sale of customer premises equipment in terms of a finance lease.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**The carrying amounts of property, plant and equipment can be reconciled as follows:**

| **12 Property, plant and equipment** – continued | Group | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Carrying value at beginning of year Rm | Additions Rm | Acquisition business combination Rm | Transfers Rm | Foreign currency translation Rm | Disposals Rm | Depreciation* Rm | Write-offs Rm | Carrying value at end of year Rm |
| **2017** | | | | | | | | | |
| Freehold land and buildings | 2 517 | 178 | – | 333 | (3) | (27) | (186) | (4) | 2 808 |
| Leasehold buildings | 10 | 30 | – | – | (1) | (2) | (3) | – | 34 |
| Network equipment | 17 530 | 3 297 | – | 1 249 | – | – | (3 834) | (37) | 18 205 |
| Support equipment | 1 065 | 184 | – | 85 | – | (1) | (324) | (9) | 1 000 |
| Furniture and office equipment | 279 | 270 | – | (30) | (19) | (17) | (146) | (1) | 336 |
| Data processing equipment and software | 1 048 | 147 | – | 175 | – | (11) | (217) | (12) | 1 130 |
| Under construction | 2 739 | 3 413 | – | (1 835) | – | – | – | (76) | 4 241 |
| Other | 162 | 17 | – | 38 | (2) | (9) | (41) | (1) | 164 |
| | 25 350 | 7 536 | – | 15 | (25) | (67) | (4 751) | (140) | 27 918 |
| *2016* | | | | | | | | | |
| Freehold land and buildings | 2 086 | 495 | 151 | 80 | – | (121) | (174) | – | 2 517 |
| Leasehold buildings | 74 | 2 | 4 | – | – | (58) | (12) | – | 10 |
| Network equipment | 18 093 | 2 349 | 52 | 736 | – | (4) | (3 660) | (36) | 17 530 |
| Support equipment | 1 092 | 175 | 35 | 32 | – | (11) | (264) | 6 | 1 065 |
| Furniture and office equipment | 42 | 137 | 176 | (5) | 1 | (21) | (54) | 3 | 279 |
| Data processing equipment and software* | 1 001 | 180 | – | 107 | – | (3) | (239) | 2 | 1 048 |
| Under construction | 1 929 | 1 898 | 17 | (976) | – | (1) | – | (128) | 2 739 |
| Other | 154 | 27 | 27 | 5 | – | (12) | (40) | 1 | 162 |
| | 24 471 | 5 263 | 462 | (21) | 1 | (231) | (4 443) | (152) | 25 350 |

* *Restated, refer to Note 2.6*



**The carrying amounts of property, plant and equipment can be reconciled as follows:**

| **12 Property, plant and equipment** – continued | Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Carrying value at beginning of year Rm | Additions Rm | Transfers Rm | Disposals Rm | Depreciation* Rm | Write-offs Rm | Carrying value before impairment Rm | Impairment Rm | Carrying value at end of year Rm |
| **2017** | | | | | | | | | |
| Freehold land and buildings | 2 316 | 154 | (782) | (21) | (160) | (4) | 1 503 | – | 1 503 |
| Leasehold buildings | 3 | 1 | 1 | – | (3) | – | 2 | – | 2 |
| Network equipment | 17 393 | 3 278 | 1 088 | (284) | (3 781) | (32) | 17 663 | – | 17 663 |
| Support equipment | 1 035 | 156 | 84 | – | (254) | (9) | 1 012 | – | 1 012 |
| Furniture and office equipment | 93 | 8 | (56) | (1) | (15) | (1) | 28 | – | 28 |
| Data processing equipment and software | 770 | 132 | 174 | (34) | (210) | (12) | 820 | – | 820 |
| Under construction | 2 716 | 3 413 | (1 896) | (350) | – | (76) | 3 807 | – | 3 807 |
| Other | 133 | 6 | – | – | (35) | (1) | 103 | – | 103 |
| | 24 459 | 7 148 | (1 387) | (690) | (4 458) | (135) | 24 938 | – | 24 938 |
| *2016* | | | | | | | | | |
| Freehold land and buildings | 2 086 | 493 | 78 | (180) | (161) | – | 2 316 | – | 2 316 |
| Leasehold buildings | 72 | (1) | – | (58) | (10) | – | 3 | – | 3 |
| Network equipment | 18 033 | 2 322 | 736 | (42) | (3 620) | (36) | 17 393 | – | 17 393 |
| Support equipment | 1 091 | 145 | 28 | – | (235) | 6 | 1 035 | – | 1 035 |
| Furniture and office equipment | 38 | 70 | 1 | (4) | (12) | – | 93 | – | 93 |
| Data processing equipment and software | 920 | 169 | 107 | (196) | (232) | 2 | 770 | – | 770 |
| Under construction | 1 929 | 1 891 | (976) | – | – | (128) | 2 716 | – | 2 716 |
| Other | 154 | 15 | 8 | (10) | (35) | 1 | 133 | – | 133 |
| | 24 323 | 5 104 | (18) | (490) | (4 305) | (155) | 24 459 | – | 24 459 |

25 percent of capital expenditure relates to the expansion of existing networks and services. 35 percent of capital expenditure contributed to the new Next Generation Network programme. 25 percent of expansion of the mobile network also contributed to the growth of property, plant and equipment. The balance of 14 percent capital expenditure is mainly attributable to investment in submarine cable systems, network evolution initiatives, sustainment programmes, IT and OSS systems and property upgrade and growth projects. An extensive build programme that provides capacity for growth in services, focusing on Next Generation Network and Mobile technologies, is expected to continue over the next few years.

Changes to the estimated useful lives of property, plant and equipment were necessary due to the transformation programme and the group policies and procedures, resulting in an increase in the depreciation by a further R325 million (2016: R192 million).

The Group and Company has a process of determining whether an asset which incorporates both a tangible and an intangible element, should be recognised as tangible or intangible assets, based on management's judgement and on facts available and the significance of each element to the total value of the asset. Assets with a carrying value to the net amount of Rnil million for Group and Rnil million for Company (2016: R21 million for Group and R18 million for Company) were reclassified from property, plant and equipment to intangible assets in the current year.

Assets with a carrying value to the net amount of R22 million for Group and R22 million for Company relates to inventory that was transferred to property, plant and equipment in the current year. In addition, assets with a carrying value of R12 million for Group and R1 409 million for Company were reclassified from property, plant and equipment to assets held for sale in the current year.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

## 13 Intangible assets

| | 2017 Cost Rm | 2017 Accum-ulated amort-isation Rm | 2017 Carrying value Rm | 2016 Cost Rm | 2016 Accum-ulated amort-isation Rm | 2016 Carrying value Rm |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Goodwill | **1 253** | **–** | **1 253** | 1 213 | – | 1 213 |
| Trademarks, copyrights and other | **932** | **(625)** | **307** | 1 009 | (575) | 434 |
| Software | **11 125** | **(8 255)** | **2 870** | 10 777 | (8 422) | 2 354 |
| Under construction | **290** | **–** | **290** | 404 | – | 404 |
| | **13 600** | **(8 880)** | **4 720** | 13 402 | (8 997) | 4 405 |
| **Company** | | | | | | |
| Trademarks, copyrights and other | **175** | **(175)** | **0** | 253 | (217) | 36 |
| Software | **10 567** | **(7 852)** | **2 715** | 10 235 | (8 058) | 2 177 |
| Under construction | **276** | **–** | **276** | 391 | – | 391 |
| | **11 018** | **(8 027)** | **2 991** | 10 879 | (8 275) | 2 604 |

**The carrying amounts of intangible assets can be reconciled as follows:**

| Group | Carrying value at beginning of year Rm | Additions Rm | Business combi-nation Rm | Transfers Rm | Foreign currency transla-tion Rm | Disposals Rm | Amort-isation Rm | Write-offs Rm | Carrying value at end of year Rm |
|---|---|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | | | |
| Goodwill | **1 213** | **–** | **40** | **–** | **–** | **–** | **–** | **–** | **1 253** |
| Trademarks, copyrights and other | **434** | **1** | **–** | **(35)** | **(1)** | **–** | **(92)** | **–** | **307** |
| Software | **2 354** | **774** | **(22)** | **445** | **–** | **–** | **(674)** | **(7)** | **2 870** |
| Under construction | **404** | **294** | **–** | **(407)** | **–** | **–** | **–** | **(1)** | **290** |
| | **4 405** | **1 069** | **18** | **3** | **(1)** | **–** | **(766)** | **(8)** | **4 720** |
| *2016* | | | | | | | | | |
| Goodwill | 63 | – | 1 150 | – | – | – | – | – | 1 213 |
| Trademarks, copyrights and other | 20 | 11 | 486 | 2 | (1) | – | (84) | – | 434 |
| Software | 2 201 | 385 | 149 | 453 | (5) | – | (806) | (23) | 2 354 |
| Under construction | 546 | 280 | 16 | (434) | – | – | – | (4) | 404 |
| | 2 830 | 676 | 1 801 | 21 | (6) | – | (890) | (27) | 4 405 |



**The carrying amounts of intangible assets can be reconciled as follows:**

| 13 Intangible assets – continued (Company) | Carrying value at begin-ning of year Rm | Additions Rm | Transfers Rm | Disposals Rm | Write-offs Rm | Amort-isation Rm | Carrying value at end of year Rm |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| Trademarks, copyrights and other | **36** | **–** | **(35)** | **–** | **–** | **(1)** | **–** |
| Software | **2 177** | **758** | **423** | **(10)** | **(6)** | **(627)** | **2 715** |
| Under construction | **391** | **293** | **(380)** | **(27)** | **(1)** | **–** | **276** |
| | **2 604** | **1 051** | **8** | **(37)** | **(7)** | **(628)** | **2 991** |
| *2016* | | | | | | | |
| Trademarks, copyrights and other | 46 | 6 | 2 | – | – | (18) | 36 |
| Software | 2 201 | 369 | 450 | (39) | (23) | (781) | 2 177 |
| Under construction | 546 | 283 | (434) | – | (4) | – | 391 |
| | 2 793 | 658 | 18 | (39) | (27) | (799) | 2 604 |

The goodwill in group relates to Trudon and goodwill that arose on acquisition of BCX in August 2015 and subsequent acquisitions made by the BCX group.

Intangible assets that are material to the group consist of software, trademarks, and others whose average remaining amortisation period is 3.4 years (2016: 4.1 years).

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

Approximately R244 million (2016: R93 million) and R244 million (2016: R80 million) of additions relate to externally acquired intangible assets for group and company respectively while R807 million (2016: R576 million) relates to internal developments for group and company.

| | Group 2017 | Group 2016 |
|---|---|---|
| **The group's goodwill balance is reconciled as follows:** | | |
| **Opening balance** | **1 214** | 63 |
| Acquisition of BCX | **–** | 1 119 |
| Acquisition of Anco IT Proprietory Limited | **(8)** | 32 |
| Acquisition of RDC | **24** | – |
| Acquisition of Taropa | **7** | – |
| Acquisition of African Arete | **16** | – |
| **Closing balance** | **1 253** | 1 214 |

* *At 31 March 2016, goodwill of R32 million was raised in respect of the acquisition of Anco. This amount has been reduced by R8 million in the current year as a result of the finalisation of the goodwill calculation.*

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

## 13 Intangible assets

**Impairment testing of Cash Generating Units (CGU):**

In determining the recoverable amount of the Telkom group CGU's, the group considered several sources of estimation uncertainty and made certain assumptions/judgements about the future.

The group assessed internal and external indicators of impairment of the CGU and concluded that the carrying value approximates the recoverable amount. No impairment losses or reversals were recognised in profit and loss during the year.

**Impairment testing**

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. In the current financial year, a significant business unit (Enterprise) was sold to BCX resulting in related synergies for the goodwill recognised in the previous financial year, being transferred from the Telkom CGU to the BCX CGU.

| Description | Telkom CGU | BCX CGU | Total goodwill recognised |
|---|---|---|---|
| | Rm | Rm | Rm |
| **Carrying amount** | 63 | 1 190 | 1 253 |

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

**BCX CGU**

The basis of the valuation that we have adopted in arriving at the valuation is the value in use, using the discounted cash flow method. Based on this, the Income approach is used as the primary valuation approach, with the market approach as a cross-check. The latter involves calculating multiples of comparable listed companies and comparing the results to the implied BCX multiple from the income approach valuation.

Valuation of BCX's divisions and its subsidiaries where there are non-controlling interests, as well as a valuation of the synergies arising from Telkom's acquisition in 2016 that will be realised in the BCX CGU, has been performed.

The BCX CGU was then valued using a sum-of-the-parts approach.

The valuation was performed on an Enterprise value basis, and as such, third party interest bearing liabilities as at the valuation date were not deducted from the Enterprise value. The intercompany is netted off according to the BCX consolidation schedule.

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

***Gross margin***

The budgeted gross margin is based on past experience and management's future expectations of business performance.

***Growth rates***

The growth rates are determined based on forward looking growth rates of the entities, and they reflect management's assessment of the long-term growth prospects of the sector in which the CGU operates.

A growth rate of 5.4% was applied in South African entities. A range of 2.3% to 9.8% growth rate was applied in foreign entities.

***Discount rates***

In the valuation a local South African WACC range of 12.8% to 13.6% has been applied as a discount rate. No specific premiums were applied, as potential forecast risks were modelled as scenarios.

A 2.5% specific risk premium was applied to the forecast of the less material entities where a degree of risk was identified in the projection.

Based on the value in use calculation, the estimated midpoint value in use of BCX is R20 115 million while its carrying amount is R4 244 million. As the indicated value in use range exceeds the carrying amount of BCX CGU, there is no impairment.



## 13 Intangible assets – continued

**Telkom CGU**

On the Telkom CGU impairment indicators test in March 2017 has been performed. The test considered the relationship between the CGU's market capitalisation and book value, gross operating revenue growth and EBITDA. The market capitalisation of the CGU is higher than its book value and both operating revenue and EBITDA showed an increase in the last 12 months. This indicates that the Telkom CGU is not impaired.

## 14 Financial instruments and risk management

**Financial risk management objectives and policies**

The group's principal financial liabilities, other than derivatives, comprise interest bearing debt and trade and other payables. The main purpose of these financial liabilities is to raise finance for the group's operations.

The group has finance lease receivables, trade and other receivables, cash and cash equivalents and short-term deposits that arise directly from its operations. The group uses derivatives as hedging instruments.

The group is exposed to market risk, credit risk and liquidity risk. The group's senior management oversees the management of these risks supported by a financial risk committee that advises on financial risks and the appropriate financial risk governance framework. The financial risk committee provides assurance to the group's senior management that the group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite. All derivative activities for risk management purposes are carried in accordance with the group's policy. The group does not speculate in derivative instruments.

**Risk management**

The group has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. Treasury policies, risk limits and control procedures are continuously monitored by the board of directors through its audit committee and risk committee to manage the financial risks.

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

The group finances its operations primarily by a mixture of issued share capital, retained earnings, long-term and short-term loans. The group uses derivative financial instruments to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps, cross-currency swaps and forward exchange contracts. The group applied fair value hedge accounting in the current and prior financial year.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

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

| **14 Financial instruments and risk management** – continued | Notes | At fair value through profit or loss–held for trading Rm | Financial liabilities at amortised cost Rm | Held-to-maturity Rm | Loans and receivables Rm | Total carrying value Rm | Fair value Rm |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| Classes of financial instruments per statement of financial position | | | | | | | |
| **Assets** | | 162 | – | – | 9 750 | 9 912 | 9 912 |
| Other investments* | 15.2 | 11 | – | – | – | 11 | 11 |
| Trade and other receivables** | 19 | – | – | – | 7 556 | 7 556 | 7 556 |
| Other financial assets | 20 | 151 | – | – | 35 | 186 | 186 |
| Forward exchange contracts | | 54 | – | – | – | 54 | 54 |
| Firm commitments | | 24 | – | – | – | 24 | 24 |
| Asset finance receivables | | 73 | – | – | – | 73 | 73 |
| Loans | | – | – | – | 35 | 35 | 35 |
| Finance lease receivables | 16 | – | – | – | 547 | 547 | 547 |
| Cash and cash equivalents | 21 | – | – | – | 1 612 | 1 612 | 1 612 |
| **Liabilities** | | (440) | (13 919) | – | – | (14 359) | (14 652) |
| Interest bearing debt | 26 | – | (6 285) | – | – | (6 285) | (6 578) |
| Trade and other payables | 30 | – | (7 516) | – | – | (7 516) | (7 516) |
| Shareholders for dividend | 35 | – | (25) | – | – | (25) | (25) |
| Other financial liabilities | 20 | (440) | – | – | – | (440) | (440) |
| Forward exchange contracts | | (189) | – | – | – | (189) | (189) |
| Interest rate swaps | | (22) | – | – | – | (22) | (22) |
| Firm commitments | | (229) | – | – | – | (229) | (229) |
| Credit facilities utilised | 21 | – | (93) | – | – | (93) | (93) |
| *2016* | | | | | | | |
| Classes of financial instruments per statement of financial position | | | | | | | |
| **Assets** | | 2 388 | – | 1 634 | 10 084 | 14 106 | 14 106 |
| Other investments* | 15.2 | 2 248 | – | – | – | 2 248 | 2 248 |
| Trade and other receivables** | 19 | – | – | – | 7 013 | 7 013 | 7 013 |
| Other financial assets | 20 | 140 | – | 1 634 | 35 | 1 809 | 1 809 |
| Forward exchange contracts | | 20 | – | – | – | 20 | 20 |
| Firm commitments | | 43 | – | – | – | 43 | 43 |
| Cross-currency swaps | | 38 | – | – | – | 38 | 38 |
| Asset finance receivables | | 39 | – | – | – | 39 | 39 |
| Loans | | – | – | – | 35 | 35 | 35 |
| Repurchase agreements | | – | – | 1 634 | – | 1 634 | 1 634 |
| Finance lease receivables | 16 | | – | – | 488 | 488 | 488 |
| Cash and cash equivalents | 21 | | – | – | 2 548 | 2 548 | 2 548 |
| **Liabilities** | | (455) | (12 431) | – | – | (12 886) | (13 186) |
| Interest bearing debt | 26 | – | (5 269) | – | – | (5 269) | (5 569) |
| Trade and other payables | 30 | – | (7 134) | – | – | (7 134) | (7 134) |
| Shareholders for dividend | 35 | – | (22) | – | – | (22) | (22) |
| Other financial liabilities | 20 | (455) | – | – | – | (455) | (455) |
| Forward exchange contracts | | (155) | | – | – | (155) | (155) |
| Firm commitments | | (293) | | | | (293) | (293) |
| Interest rate swaps | | (7) | – | – | – | (7) | (7) |
| Credit facilities utilised | 21 | – | (6) | – | – | (6) | (6) |



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

| **14 Financial instruments and risk management** – continued | Notes | At fair value through profit or loss–held for trading Rm | Financial liabilities at amortised cost Rm | Held-to-maturity Rm | Loans and receivables Rm | Total carrying value Rm | Fair value Rm |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| Classes of financial instruments per statement of financial position | | | | | | | |
| **Assets** | | 78 | – | – | 7 872 | 7 950 | 7 950 |
| Other investments | 15.2 | – | – | – | – | – | – |
| Trade and other receivables** | 19 | – | – | – | 6 360 | 6 360 | 6 360 |
| Other financial assets | 20 | 78 | – | – | – | 78 | 78 |
| Forward exchange contracts | | 54 | – | – | – | 54 | 54 |
| Firm commitments | | 24 | – | – | – | 24 | 24 |
| Finance lease receivables | 16 | – | – | – | 547 | 547 | 547 |
| Cash and cash equivalents | 21 | – | – | – | 965 | 965 | 965 |
| **Liabilities** | | (440) | (14 850) | – | – | (15 290) | (15 582) |
| Interest bearing debt | 26 | – | (6 168) | – | – | (6 168) | (6 460) |
| Trade and other payables | 30 | – | (8 656) | – | – | (8 656) | (8 656) |
| Shareholders for dividend | 35 | – | (23) | – | – | (23) | (23) |
| Other financial liabilities | 20 | (440) | – | – | – | (440) | (440) |
| Firm commitments | | (229) | – | – | – | (229) | (229) |
| Interest rate swaps | | (22) | – | – | – | (22) | (22) |
| Forward exchange contracts | | (189) | – | – | – | (189) | (189) |
| Credit facilities utilised | 21 | – | (3) | – | – | (3) | (3) |
| *2016* | | | | | | | |
| Classes of financial instruments per statement of financial position | | | | | | | |
| **Assets** | | 2 336 | – | 1 634 | 7 818 | 11 788 | 11 788 |
| Other investments | 15.2 | 2 235 | – | – | – | 2 235 | 2 235 |
| Trade and other receivables** | 19 | – | – | – | 5 108 | 5 108 | 5 108 |
| Other financial assets | 20 | 101 | – | 1 634 | – | 1 735 | 1 735 |
| Forward exchange contracts | | 20 | – | – | – | 20 | 20 |
| Firm commitment | | 43 | – | – | – | 43 | 43 |
| Cross-currency swaps | | 38 | – | – | – | 38 | 38 |
| Repurchase agreements | | – | | 1 634 | | 1 634 | 1 634 |
| Finance lease receivables | 16 | – | – | – | 488 | 488 | 488 |
| Cash and cash equivalents | 21 | – | – | – | 2 222 | 2 222 | 2 222 |
| **Liabilities** | | (442) | (11 666) | – | – | (12 108) | (12 408) |
| Interest bearing debt | 26 | – | (4 826) | – | – | (4 826) | (5 126) |
| Trade and other payables | 30 | – | (6 820) | – | – | (6 820) | (6 820) |
| Shareholders for dividend | 35 | – | (20) | – | – | (20) | (20) |
| Other financial liabilities | 20 | (442) | – | – | – | (442) | (442) |
| Firm commitment | | (293) | – | – | – | (293) | (293) |
| Interest rate swaps | | (7) | – | – | – | (7) | (7) |
| Forward exchange contracts | | (142) | | | | (142) | (142) |
| Credit facilities utilised | 21 | – | – | – | – | – | – |

* Other investments are disclosed net of Investments accounted for using the equity method R29 million (2016: R70 million).
** Trade and other receivables are disclosed net of prepayments of R411 million (2016: R149 million) for the company and R600 million (2016: R362 million) for the group.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**14 Financial instruments and risk management** – continued

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, other financial assets, finance leases, trade and other payables, and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments. 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 to 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.

**14.1 Fair value of financial instruments**

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

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

The carrying amount of financial instruments approximates fair value, with the exception of interest bearing debt (at amortised cost) which has a fair value of R6 578 million (2016: R5 569 million) and a carrying amount of R6 285 million (2016: R5 269 million).

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

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

**Fair value hierarchy**

| Type of financial instrument – group | Fair value at 31 March 2017 Rm | Valuation technique | Significant inputs |
|---|---|---|---|
| Receivables, bank balances, repurchase agreements, and other liquid funds, payables and accruals, credit facilities utilised and shareholders for dividends | 4 473 | Undiscounted future estimated cash flows due to short-term maturities of these instruments | Probability of default |
| Derivatives | (363) | Discounted cash flows | Yield curves<br>Market interest rate<br>Market foreign exchange rate |
| Borrowings | (6 578) | Discounted cash flows and quoted bond prices | Market interest rate<br>Market foreign exchange rate |

**Fair value hierarchy**

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

Level 1: Quoted prices in active markets.
Level 2: All significant inputs required to value an instrument are observable market data.
Level 3: Significant inputs required to value an instrument are not based on observable market data.

There were no transfers between levels.



| 14 Financial instruments and risk management – continued | Group | | | |
|---|---|---|---|---|
| | **Total Rm** | **Level 1 Rm** | **Level 2 Rm** | **Level 3 Rm** |
| **14.1 Fair value of financial instruments** - continued | | | | |
| **2017** | | | | |
| **Assets measured at fair value** | | | | |
| Forward exchange contracts | **54** | **–** | **54** | **–** |
| Asset finance receivable | **73** | **–** | **73** | **–** |
| Firm commitments | **24** | **–** | **24** | **–** |
| Loans | **35** | **–** | **35** | **–** |
| FutureMakers (refer to note 15.2) | **11** | **–** | **–** | **11** |
| Investment in cell captive preference shares | **2 388** | **–** | **2 388** | **–** |
| **Liabilities measured at fair value** | | | | |
| Forward exchange contracts | **(189)** | **–** | **(189)** | **–** |
| Firm commitments | **(229)** | **–** | **(229)** | **–** |
| Interest rate swaps | **(22)** | **–** | **(22)** | **–** |
| **Liabilities measured at amortised cost** | | | | |
| Interest bearing debt | **(6 578)** | **–** | **(6 578)** | **–** |

| | Group | | | |
|---|---|---|---|---|
| | Total Rm | Level 1* Rm | Level 2 Rm | Level 3 Rm |
| *2016* | | | | |
| **Assets measured at fair value** | | | | |
| Cross-currency swaps | 38 | – | 38 | – |
| Forward exchange contracts | 20 | – | 20 | – |
| Asset finance receivable | 39 | | 39 | |
| Firm commitments | 43 | – | 43 | – |
| Loans | 35 | – | 35 | – |
| FutureMakers (refer to note 15.2) | 13 | – | – | 13 |
| Investment in cell captive preference shares | 2 235 | – | 2 235 | – |
| **Liabilities measured at fair value** | | | | |
| Firm commitments | (155) | – | (155) | – |
| Forward exchange contracts | (293) | – | (293) | – |
| Interest rate swaps | (7) | – | (7) | – |
| **Liabilities measured at amortised cost** | | | | |
| Interest bearing debt* | (5 569) | | (5 569) | – |

** Refer to note 2.2*

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| **14 Financial instruments and risk management** – continued | Company | | | |
|---|---|---|---|---|
| | **Total Rm** | **Level 1 Rm** | **Level 2 Rm** | **Level 3 Rm** |
| **14.1 Fair value of financial instruments** - continued | | | | |
| **2017** | | | | |
| **Assets measured at fair value** | | | | |
| Cross-currency swaps | **–** | **–** | **–** | **–** |
| Forward exchange contracts | **54** | **–** | **54** | **–** |
| Firm commitments | **24** | **–** | **24** | **–** |
| Investment in cell captive preference shares | **2 388** | **–** | **2 338** | **–** |
| **Liabilities measured at fair value** | | | | |
| Forward exchange contracts | **(189)** | **–** | **(189)** | **–** |
| Firm commitments | **(229)** | **–** | **(229)** | **–** |
| Interest rate swaps | **(22)** | **–** | **(22)** | **–** |
| **Liabilities measured at amortised cost** | | | | |
| Interest bearing debt | **(6 460)** | **–** | **(6 460)** | **–** |

| | Company | | | |
|---|---|---|---|---|
| | Total Rm | Level 1* Rm | Level 2 Rm | Level 3 Rm |
| *2016* | | | | |
| **Assets measured at fair value** | | | | |
| Cross-currency swaps | 38 | – | 38 | – |
| Forward exchange contracts | 20 | – | 20 | – |
| Firm commitments | 43 | – | 43 | – |
| Investment in cell captive preference shares | 2 235 | – | 2 235 | – |
| **Liabilities measured at fair value** | | | | |
| Firm commitments | (293) | – | (293) | – |
| Forward exchange contracts | (142) | – | (142) | – |
| Interest rate swaps | (7) | – | (7) | – |
| **Liabilities measured at amortised cost** | | | | |
| Interest bearing debt* | (5 126) | – | (5 126) | – |

** Refer to note 2.2*



**14 Financial instruments and risk management** – continued

**14.2 Credit risk management**

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

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

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

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

The group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets as well as expected future cash flows, refer to note 20.

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

The maximum exposure to credit risk for financial assets at the reporting date by type of instrument and counterparty was:

| | **Group Carrying amount** | | **Company Carrying amount** | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Trade receivables (refer to note 19) | | | | |
| Telkom SA | **6 070** | 5 588 | **6 070** | 4 678 |
| Business and residential | **1 363** | 1 601 | **1 363** | 1 355 |
| Global, corporate and wholesale | **2 485** | 1 751 | **2 485** | 1 751 |
| Government | **894** | 1 324 | **894** | 660 |
| Other customers | **1 328** | 912 | **1 328** | 912 |
| South African subsidiaries | **901** | 811 | **-** | - |
| Impairment of trade receivables (refer to note 19) | **(596)** | (664) | **(449)** | (518) |
| Subtotal for trade receivables | **6 375** | 5 735 | **5 621** | 4 160 |
| Other receivables* | **1 183** | 1 279 | **739** | 949 |
| Derivatives | **78** | 101 | **78** | 101 |
| Asset finance | **73** | 39 | **-** | - |
| Loans | **35** | 35 | **-** | - |
| Repurchase agreements | **-** | 1 634 | **-** | 1 634 |
| Investments** | **11** | 2 248 | **-** | 2 235 |
| Finance lease receivables | **547** | 488 | **547** | 488 |
| Net cash and cash equivalents | **1 519** | 2 548 | **962** | 2 222 |
| | **9 821** | 14 107 | **7 947** | 11 789 |

** Trade and other receivables are disclosed net of prepayments of R411 million (2016: R149 million) for the company and R600 million (2016: R362 million) for the group.*
*** Other investments are disclosed net of Investments accounted for using the equity method R29 million (2016: R70 million).*

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 14 Financial instruments and risk management – continued | Group Carrying amount | | Company Carrying amount | |
|---|---|---|---|---|
| | 2017 Rm | 2016 Rm | 2017 Rm | 2016 Rm |
| **14.2 Credit risk management** - continued | | | | |
| The ageing of trade receivables at the reporting date was: | | | | |
| Not past due/current | **4 695** | 4 831 | **4 559** | 3 484 |
| Past due but not impaired | | | | |
| 21 to 60 days | **1 471** | 553 | **881** | 487 |
| 61 to 90 days | **313** | 256 | **185** | 223 |
| 91 to 120 days | **124** | 124 | **79** | 76 |
| 120+ days | **368** | 635 | **366** | 408 |
| | **6 971** | 6 399 | **6 070** | 4 678 |
| The ageing in the allowance for the impairment of trade receivables at reporting date was: | | | | |
| Current defaulted trade | **54** | 47 | **28** | 45 |
| 21 to 60 days | **45** | 37 | **44** | 36 |
| 61 to 90 days | **58** | 64 | **57** | 62 |
| 91 to 120 days | **46** | 38 | **44** | 24 |
| 120+ days | **393** | 478 | **276** | 351 |
| | **596** | 664 | **449** | 518 |

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 19.

Included in the allowance for doubtful debts for Telkom company are individually impaired receivables with a balance of R174 million (2016: R319 million) which have been identified as being unable to service their debt obligation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the future cash flows. The group does not hold any collateral over these balances.

**14 Financial instruments and risk management** – continued

**14.3 Liquidity risk management**

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

Liquidity risk is managed by the group's treasury department in accordance with policies and guidelines formulated by the group's executive committees. In terms of its borrowing requirements the group ensures that sufficient facilities exist to meet its immediate obligations. Short-term liquidity gaps may be funded through undrawn facilities and commercial paper bills.

There were no material changes in the exposure to liquidity risk and its objectives, policies and processes for managing and measuring the risk during the 2017 financial year.



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

| 14 Financial instruments and risk management – continued | Notes | Group Carrying amount Rm | Contractual cash flows Rm | 0 - 12 months Rm | 1 - 2 years Rm | 2 - 5 years Rm | > 5 years Rm |
|---|---|---|---|---|---|---|---|
| **14.3 Liquidity risk management** - continued | | | | | | | |
| **2017** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Interest bearing debt (excluding finance leases) | 26 | **6 175** | **6 676** | **1 517** | **700** | **4 350** | **109** |
| Credit facilities utilised | 21 | **93** | **93** | **93** | **–** | **–** | **–** |
| Trade and other payables | 30 | **7 516** | **7 516** | **7 516** | **–** | **–** | **–** |
| Finance lease liabilities | 26 | **110** | **116** | **42** | **63** | **11** | **–** |
| Shareholders for dividend | 35 | **25** | **25** | **23** | **–** | **–** | **–** |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swaps | 20 | **22** | **22** | **22** | **–** | **–** | **–** |
| Firm commitment | 20 | **229** | **229** | **229** | **–** | **–** | **–** |
| **Forward exchange contracts** | 20 | **189** | **189** | **189** | **–** | **–** | **–** |
| | | **14 359** | **14 866** | **9 631** | **763** | **4 361** | **109** |
| *2016* | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Interest bearing debt (excluding finance leases) | 26 | 5 165 | 5 868 | 700 | 1 062 | 3 970 | 135 |
| Credit facilities utilised | 21 | 6 | 6 | 6 | – | – | – |
| Trade and other payables | 30 | 7 134 | 7 134 | 7 134 | – | – | – |
| Finance lease liabilities | 26 | 103 | 122 | 43 | 47 | 30 | 2 |
| Shareholders for dividend | 35 | 22 | 22 | – | – | – | – |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swaps | | 7 | 7 | 4 | 3 | | – |
| Firm commitment | 20 | 293 | 293 | 293 | – | – | – |
| Forward exchange contracts | 20 | 155 | 142 | 142 | – | – | – |
| | | 12 885 | 13 594 | 8 322 | 1 112 | 4 000 | 137 |

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

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

| 14 Financial instruments and risk management – continued | Notes | Company | | | | | |
|---|---|---|---|---|---|---|---|
| | | Carrying amount Rm | Contractual cash flows Rm | 0 - 12 months Rm | 1 - 2 years Rm | 2 - 5 years Rm | > 5 years Rm |
| **14.3 Liquidity risk management** - continued | | | | | | | |
| **2017** | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | |
| Interest bearing debt (excluding finance leases) | 26 | **6 158** | **6 659** | **1 500** | **700** | **4 350** | **109** |
| Trade and other payables | 30 | **8 656** | **8 656** | **8 656** | **–** | **–** | **–** |
| Finance lease liabilities | 26 | **10** | **10** | **7** | **3** | **–** | **–** |
| Shareholders for dividend | 35 | **23** | **23** | **23** | **–** | **–** | **–** |
| **Derivative financial liabilities** | | | | | | | |
| Interest rate swaps | 20 | **22** | **22** | **22** | **–** | **–** | **–** |
| Firm commitment | 20 | **229** | **229** | **229** | **–** | **–** | **–** |
| Forward exchange contracts | 20 | **189** | **189** | **189** | **–** | **–** | **–** |
| | | **15 287** | **15 788** | **10 626** | **703** | **4 350** | **109** |
| *2016* | | | | | | | |
| **Non-derivative financial liabilities** | | 4 811 | 5 448 | 521 | 1 000 | 3 800 | 127 |
| Interest bearing debt (excluding finance leases) | 26 | 6 820 | 6 820 | 6 820 | – | – | – |
| Trade and other payables | 30 | 15 | 18 | 7 | 11 | | – |
| Finance lease liabilities | 26 | 20 | 20 | – | – | – | – |
| Shareholders for dividend | 35 | | | | | | |
| **Derivative financial liabilities** | | 7 | 7 | 4 | 3 | – | – |
| Interest rate swaps | 20 | 293 | 293 | 293 | – | – | – |
| Firm commitment | 20 | 142 | 142 | 142 | – | – | – |
| Forward exchange contracts | 20 | 12 108 | 12 748 | 7 787 | 1 014 | 3 800 | 127 |

**14 Financial instruments and risk management** – continued

**14.4 Market risk**

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

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

***Interest rate risk management***

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

The group's policy is to manage interest cost through the utilisation of a mix of fixed and floating rate debt. In order to manage this mix in a cost efficient manner and to hedge specific exposure in the interest rate repricing profile of the existing borrowings, the group makes use of interest rate swaps. Fixed rate debt represents approximately 60% (2016: 66%) of the total debt. The debt profile of mainly fixed rate debt has been maintained to limit the group's exposure to interest rate increases.

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



The table below summarises the interest rate swaps outstanding as at the reporting date:

| 14 Financial instruments and risk management – continued | Group | | Company | |
|---|---|---|---|---|
| | Average maturity | Notional amount Rm | Average maturity | Notional amount Rm |
| **14.4 Market risk** - continued | | | | |
| **Interest rate risk management** - continued | | | | |
| **2017** | | | | |
| Interest rate swaps outstanding | | | | |
| Pay fixed and receive floating | **4.13 years** | **1 420** | **4.13 years** | **1 420** |
| *2016* | | | | |
| Interest rate swaps outstanding | | | | |
| Pay fixed and receive floating | 2.73 years | 1 070 | 2.73 years | 1 070 |

**Pay fixed and receive floating**

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

**Foreign currency exchange rate risk management**

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The group manages its foreign currency exchange rate risk by economically hedging all identifiable exposures via various financial instruments suitable to the group's risk exposure. The group implements fair value hedge accounting.

The group enters into forward exchange contracts and cross-currency swaps to hedge foreign currency exposure on the group's operations and liabilities. These forward exchange contracts are treated as fair value hedges.

The following table details the forward exchange contracts and cross-currency swaps outstanding at the reporting date.

| Purchased | Group | | Company | |
|---|---|---|---|---|
| | Foreign contract value m | Contract value Rm | Foreign contract value m | Contract value Rm |
| **2017** | | | | |
| **Currency** | | | | |
| USD | **271** | **3 822** | **270** | **3 815** |
| Euro | **16** | **252** | **16** | **252** |
| *Other* | **–** | **5** | **–** | **5** |
| | | **4 079** | | **4 072** |
| **Cross-currency swaps** | | | | |
| USD | **–** | **–** | **–** | **–** |
| *2016* | | | | |
| **Currency** | | | | |
| USD | 179 | 2 825 | 162 | 2 555 |
| Euro | 13 | 224 | 13 | 224 |
| Other | – | 3 | – | 2 |
| | | 3 052 | | 2 781 |
| **Cross-currency swaps** | | | | |
| USD | 5 | 34 | 5 | 34 |

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**14 Financial instruments and risk management** – continued

**14.4 Market risk** - continued

**Foreign exchange risk** - continued

| Sell | Group | | Company | |
|---|---|---|---|---|
| | Foreign contract value m | Contract value Rm | Foreign contract value m | Contract value Rm |
| **2017** | | | | |
| **Currency** | | | | |
| USD | **30** | **409** | **30** | **409** |
| Other | **–** | **7** | **–** | **7** |
| | | **416** | | **416** |
| *2016* | | | | |
| **Currency** | | | | |
| USD | 10 | 158 | 8 | 127 |
| *Other* | – | – | | – |
| | | 158 | | 127 |

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

| | Group | | | Company | | |
|---|---|---|---|---|---|---|
| | Euro Rm | United States Dollar Rm | Other Rm | Euro Rm | United States Dollar Rm | Other Rm |
| **2017** | | | | | | |
| **Net foreign currency monetary assets/ (liabilities)** | | | | | | |
| **Functional currency of company operation** | | | | | | |
| South African rand | **(31)** | **(428)** | **(1)** | **(31)** | **(428)** | **(1)** |
| *2016* | | | | | | |
| **Net foreign currency monetary assets/ (liabilities)** | | | | | | |
| **Functional currency of company operation** | | | | | | |
| South African rand | (35) | (598) | 158 | (40) | (293) | (1) |



**14 Financial instruments and risk management** – continued

**14.4 Market risk** - continued

**Sensitivity analysis**

***Interest rate and foreign currency risk***

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

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the group's and company's profit for the year ended 31 March 2017 would decrease/increase by R33 million (2016: decrease/increase by R18 million).

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

| Classes of financial instruments per statement of financial position | Group movement | | Company movement | |
|---|---|---|---|---|
| | + 1% Profit Rm | - 1% Profit Rm | + 1% Profit Rm | - 1% Profit Rm |
| **2017** | | | | |
| **Assets** | | | | |
| Other financial assets | **10** | **(10)** | **10** | **(10)** |
| Cross-currency swaps | **–** | **–** | **–** | **–** |
| Forward exchange contract | **10** | **(10)** | **10** | **(10)** |
| **Liabilities** | | | | |
| Other financial liabilities | **23** | **(23)** | **23** | **(23)** |
| Interest rate swaps | **23** | **(23)** | **23** | **(23)** |
| | **33** | **(33)** | **33** | **(33)** |
| *2016* | | | | |
| **Assets** | | | | |
| Other financial assets | 6 | (6) | 6 | (6) |
| Cross-currency swaps | – | – | – | – |
| Forward exchange contract | 6 | (6) | 6 | (6) |
| **Liabilities** | | | | |
| Other financial liabilities | 12 | (12) | 12 | (12) |
| Interest rate swaps | 12 | (12) | 12 | (12) |
| | 18 | (18) | 18 | (18) |

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**14 Financial instruments and risk management** – continued

**14.4 Market risk** - continued

**Sensitivity analysis**

***Foreign exchange currency risk***

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

If foreign exchange rates had been 10% higher/lower and all other variables were held constant, the group's and company's profit for the year ended 31 March 2017 would increase/decrease by R12 million for group (31 March 2016: increase/decrease by group R42 million). and R12 million for company (31 March 2016: increase/decrease by company R17million ).

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

| Classes of financial instruments per statement of financial position | Group movement | | Company movement | |
|---|---|---|---|---|
| | + 10% movement (Depreciation) Rm | - 10% movement (Appreciation) Rm | + 10% movement (Depreciation) Rm | - 10% movement (Appreciation) Rm |
| **2017** | | | | |
| **Assets** | | | | |
| Other financial assets | 344 | (344) | 344 | (344) |
| Forward exchange contract | 344 | (344) | 344 | (344) |
| Cross-currency swaps | – | – | | |
| **Liabilities** | | | | |
| Other financial liabilities | (321) | 321 | (321) | 321 |
| Firm commitment | (321) | 321 | (321) | 321 |
| Forward exchange contract | | | | |
| Interest bearing debt | (11) | 11 | (11) | 11 |
| | 12 | (12) | 12 | (12) |
| *2016* | | | | |
| **Assets** | | | | |
| Other financial assets | 255 | (255) | 255 | (255) |
| Forward exchange contract | 248 | (248) | 248 | (248) |
| Cross-currency swaps | 7 | (7) | 7 | (7) |
| Cash and cash equivalents | | | | |
| **Liabilities** | | | | |
| Other financial liabilities | (282) | 282 | (257) | 257 |
| Firm commitment | (257) | 257 | (257) | 257 |
| Forward exchange contract | (25) | 25 | – | – |
| Interest bearing debt | (15) | 15 | (15) | 15 |
| | (42) | 42 | (17) | 17 |



**14 Financial instruments and risk management** – continued

**14.5 Equity price risk**

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

At the reporting date, the total amount for local equity investments was R2 269 million (2016: R2 711 million). A 5% increase in the local and foreign equity portfolios at the reporting date would have increased profit or loss by R69 million (2016: R108 million) before tax. An equal and opposite change would have decreased profit or loss. A 5% fluctuation represents management's assessment of the reasonably possible changes in equity prices.

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

**14.6 Capital management**

The group's policy is to manage the capital structure to ensure maximisation of shareholders' return, growth and ability to meet its obligations. Capital comprises equity and net debt which is monitored using, *inter alia*, a net debt to EBITDA ratio. The group's guidance is to keep the ratio below 1 times.

Net debt is defined as interest bearing debts, credit facilities utilised and other financial liabilities, less cash and cash equivalents and other financial assets. EBITDA is defined as earnings before depreciation, amortisation, impairment and losses, investment income, finance charges and fair value movements and taxation.

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

The net debt to EBITDA ratio at reporting date was as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 Rm | 2016 Rm | 2017 Rm | 2016 Rm |
| Non-current portion of interest bearing debt | 4 744 | 4 566 | 4 661 | 4 306 |
| Current portion of interest bearing debt | 1 541 | 703 | 1 507 | 520 |
| Credit facilities utilised | 93 | 6 | 3 | – |
| Current portion of other financial liabilities | 440 | 455 | 441 | 442 |
| *Less*: Cash and cash equivalents | (1 612) | (2 548) | (965) | (2 222) |
| *Less:* Other financial assets | (126) | (1 754) | (78) | (1 735) |
| Net debt | 5 080 | 1 428 | 5 569 | 1 311 |
| EBITDA | 10 875 | 8 776 | 10 278 | 8 024 |
| Net debt to EBITDA ratio | 0.47 | 0.16 | 0.54 | 0.16 |

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 15 Investments | Company 2017 Rm | Company 2016 Rm |
|---|---|---|
| **15.1 Investments in subsidiaries** | 6 201 | 3 274 |
| ***Trudon (formerly known as TDS Directory Operations) Proprietary Limited*** | | |
| 64.90% shareholding at cost | 167 | 167 |
| ***Swiftnet Proprietary Limited*** | | |
| 100% shareholding at cost | 25 | 25 |
| ***Rossal No 65 Proprietary Limited*** | | |
| 100% shareholding at cost (R100) | – | – |
| ***Acajou Investments Proprietary Limited*** | | |
| 100% shareholding at cost (R100) | – | – |
| ***Intekom Proprietary Limited**** | | |
| 100% shareholding at cost | 10 | 10 |
| ***Business Connexion Group Limited (BCX)*** | 5 999 | 3 072 |
| 100% shareholding at cost | 2 654 | 2 654 |
| Loan, preference shares and other facilities | 3 345 | 418 |

**Investments and loans key assumptions**
Loans and investments are tested for impairment whenever there are impairment indicators, by comparing the recoverable amounts of the cash-generating units (CGU) to the carrying amounts of the investments and loans. At 31 March 2017 there were no impairment indicators.

For continuing operations the recoverable amount of a CGU is determined based on value in use calculations. Value in use is based on the discounted cash flow method.

**Loans to BCX**

1 An interest bearing loan of R433 million was to assist BCX in acquiring the Cybernest business unit.

   The loan accrues interest at a prevailing six-months JIBAR rate plus 200 basis points.

   The loan term is five years,  payable in equal bi-annual repayments commencing after first anniversary following the effecive date.

2 Telkom also holds preference shares to the value of R2 686 million in BCX at a fixed interest rate of 13.5% over a 15-year period.

3 The other loan of R226 million to BCX relates to the repayment of the RMB loan as well as a revolving facility to assist BCX with working capital requirements. These loans accrue interest at rates linked to the three-month and one-month JIBAR with variables of 1.9% and 2.1% respectively.

* *Deregistration in progress*



| 15 Investments – continued | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| ***15.2.1 Non-current other investments*** | 40 | 2 318 | 140 | 2 335 |
| **At fair value through profit and loss** | – | 2 235 | – | 2 235 |
| Cell captive preference shares | – | 2 235 | – | 2 235 |
| ***Unlisted investment*** | | | | |
| ***FutureMakers Fund*** | 11 | 13 | 140 | 100 |
| *FutureMakers Fund* | 21 | 13 | 150 | 100 |
| *Impairment* | (10) | – | (10) | – |
| **Investment in associate** | 5 | 4 | – | – |
| Equity investment in Number Portability company | 5 | 4 | – | – |
| **BCX group interests** | 24 | 66 | | |
| Associates | 2 | 26 | – | – |
| Joint ventures | 22 | 40 | – | – |
| ***15.2.2 Current other investments*** | | | | |
| **At fair value through profit and loss** | 2 388 | – | 2 388 | – |
| Cell captive preference shares | 2 388 | – | 2 388 | – |

**Cell captive investment in preference shares**
The fair value through profit or loss investment is used to fund the post-retirement medical aid liability. These investments are made through a cell captive in which Telkom holds 100% of the preference shares, and represents the fair value of the underlying investments of the cell captive. These are equity investments.

The cell captive preference shares were classified as current asset in the current financial year as it is highly probable that it will be liquidated in the short term.

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

Telkom company holds the investment at cost. Telkom group consolidates the fund and holds the investments within the fund at fair value.

In the current financial year Telkom company contributed an additional R50 million to the FutureMakers Fund. The increase in the fair value relates to the capitalisation of interest.

**Investment in associate**
The Number Portability company (NPC) was incorporated in response to Regulations of 2005 that required a national centralised database of ported numbers for mobile numbers. The investment has been classified as an associate in line with the requirements of the revised IAS 28 Investments in Associates and Joint Ventures and IFRS 11 Joint Arrangements. The year end of the associate, 31 December, is different to that of the company and the impact is not material.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 16 Finance lease receivables | Group | | | |
|---|---|---|---|---|
| | Total Rm | < 1 year Rm | 1 - 5 years Rm | > 5 years Rm |
| The group provides voice and non-voice services through the use of router and PABX equipment that is dedicated to specific customers. The disclosed information relates to those arrangements which were assessed to be finance leases in terms of IAS 17. | | | | |
| **2017** | | | | |
| **Minimum lease payments receivable** | | | | |
| Lease payments receivable | **650** | **286** | **364** | **–** |
| Unearned finance income | **(103)** | **(49)** | **(54)** | **–** |
| Present value of minimum lease income | **547** | **237** | **310** | **–** |
| Lease receivables | **547** | **237** | **310** | **–** |
| *2016* | | | | |
| **Minimum lease payments receivable** | | | | |
| Lease payments receivable | 571 | 259 | 312 | – |
| Unearned finance income | (83) | (52) | (31) | – |
| Present value of minimum lease income | 488 | 207 | 281 | – |
| Lease receivables | 488 | 207 | 281 | – |

| | Company | | | |
|---|---|---|---|---|
| | Total Rm | < 1 year Rm | 1 - 5 years Rm | > 5 years Rm |
| **2017** | | | | |
| **Minimum lease payments receivable** | | | | |
| Lease payments receivable | **650** | **286** | **364** | **–** |
| Unearned finance income | **(103)** | **(49)** | **(54)** | **–** |
| Present value of minimum lease income | **547** | **237** | **310** | **–** |
| Lease receivables | **547** | **237** | **310** | **–** |
| *2016* | | | | |
| **Minimum lease payments receivable** | | | | |
| Lease payments receivable | 571 | 259 | 312 | – |
| Unearned finance income | (83) | (52) | (31) | – |
| Present value of minimum lease income | 488 | 207 | 281 | – |
| Lease receivables | 488 | 207 | 281 | – |



| 17 Deferred taxation | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| | **303** | 283 | **250** | 250 |
| Opening balance | **283** | 254 | **250** | 250 |
| Profit and loss movements | **50** | 15 | **–** | – |
| Capital allowances | **(241)** | (77) | **(261)** | (88) |
| Provisions and other allowances | **307** | 92 | **261** | 88 |
| Tax losses | **(35)** | – | **–** | – |
| Acquisition of BCX | **19** | | | |
| Reclassification of Trudon as held for sale | **–** | – | **–** | – |
| Business combination | **–** | 14 | **–** | – |
| Movement in other comprehensive income | **(30)** | – | **–** | – |
| The balance comprises: | **303** | 283 | **250** | 250 |
| Capital allowances | **(342)** | (78) | **(317)** | (56) |
| Provisions and other allowances | **724** | 424 | **567** | 306 |
| Business combination | **(83)** | (102) | **–** | – |
| Tax losses | **4** | 39 | **–** | – |
| Other comprehensive income tax impact | **–** | | | |
| Deferred taxation balance is made up as follows: | **303** | 283 | **250** | 250 |
| Deferred taxation assets | **442** | 434 | **250** | 250 |
| Deferred taxation liabilities | **(139)** | (151) | **–** | – |

The group did not recognise deferred tax of R400 million (2016: R1.1 billion) in respect of temporary differences amounting to R1.4 billion (2016: R4 billion) that can be carried forward against future taxable income.

| 18 Inventories | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| | **1 384** | 971 | **859** | 506 |
| Gross inventories | **1 522** | 1 062 | **979** | 582 |
| Write-down of inventories to net realisable value | **(138)** | (91) | **(120)** | (76) |
| Inventories consist of the following categories: | **1 384** | 971 | **859** | 506 |
| Installation material, maintenance material and network equipment | **620** | 436 | **405** | 250 |
| Merchandise | **764** | 535 | **454** | 256 |
| Write-down of inventories to net realisable value | **138** | 91 | **120** | 76 |
| Opening balance | **91** | 92 | **76** | 92 |
| Acquisition of BCX | **–** | 21 | **–** | – |
| Charged to selling, general and administrative expenses | **67** | 54 | **47** | (16) |
| Inventories written off | **(20)** | (76) | **(3)** | – |

An estimated amount of R48 million (2016: R101 million) included in inventories will be used for Telkom's network expansion in the 2018 financial year, of which R48 million (2016: R83 million) was purchased in the current financial year.

The increase in inventories was mainly attributable to the increase in installation and maintenance and network equipment.

The increase in write-down of inventories is mainly due to higher obsolescence and slow moving stock.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 19 Trade and other receivables | Group 2017 Rm | Group Restated 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| | 8 156 | 7 341 | 6 770 | 5 257 |
| Trade receivables | 6 375 | 5 735 | 5 622 | 4 160 |
| Gross trade receivables | 6 971 | 6 399 | 6 070 | 4 678 |
| Impairment of receivables | (596) | (664) | (448) | (518) |
| Prepayments and other receivables | 1 781 | 1 606 | 1 148 | 1 097 |
| Allowance account for credit losses | 596 | 664 | 449 | 518 |
| Opening balance | 664 | 501 | 518 | 414 |
| Acquisition of BCX | – | 82 | – | – |
| Charged to selling, general and administrative expenses | 551 | 564 | 453 | 423 |
| Receivables written off | (619) | (483) | (522) | (319) |

The repayment terms of trade receivables vary between 21 days and 30 days from date of invoice. Interest charged varies between prime + 2% and 18%, depending on the contract terms.

Refer to note 14.2 for detailed credit risk analysis.

| 20 Other financial assets and liabilities | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **Non-current other financial assets consist of:** | 60 | 55 | – | – |
| **Total other financial assets** | 186 | 1 809 | 78 | 1 735 |
| - Repurchase agreements | – | 1 634 | – | 1 634 |
| - Derivative instruments | 78 | 101 | 78 | 101 |
| Forward exchange contracts | 54 | 20 | 54 | 20 |
| Firm commitments | 24 | 43 | 24 | 43 |
| Cross-currency swaps | – | 38 | – | 38 |
| - Asset finance receivables | 73 | 39 | – | – |
| - Shanike Investments - Nanoteq Proprietary Limited | – | 3 | – | – |
| - NGA loans | 27 | 32 | – | – |
| - APPZONE loans | 8 | – | – | – |
| ***Less:* Current portion of other financial assets** | 126 | 1 754 | 78 | 1 735 |
| - Repurchase agreements | – | 1 634 | – | 1 634 |
| - Derivative instruments | 78 | 101 | 78 | 101 |
| Forward exchange contracts | 54 | 20 | 54 | 20 |
| Firm commitments | 24 | 43 | 24 | 43 |
| Cross-currency swaps | – | 38 | – | 38 |
| Asset finance receivables | 48 | 19 | – | – |

**Repurchase agreements**
The group manages a portfolio of repurchase agreements, with a view to generate additional investment income on the favourable interest rates and security provided on these instruments. They are short term, usually seven days and are held to maturity.



| 20 Other financial assets and liabilities – continued | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **Non-current other financial liabilities consist of:** | – | – | – | – |
| ***At fair value through profit or loss*** | | | | |
| **Total other financial liabilities** | (440) | (455) | (440) | (442) |
| - Derivative instruments | (440) | (455) | (440) | (442) |
| Forward exchange contracts | (189) | (155) | (189) | (142) |
| Firm commitments | (229) | (293) | (229) | (293) |
| Interest rate swaps | (22) | (7) | (22) | (7) |
| ***Less:* Current portion of other financial liabilities** | (440) | (455) | (440) | (442) |
| - Derivative instruments | (440) | (455) | (440) | (442) |
| Forward exchange contracts | (189) | (155) | (189) | (142) |
| Firm commitments | (229) | (293) | (229) | (293) |
| Interest rate swaps | (22) | (7) | (22) | (7) |

***Derivatives not designated as hedging instruments***
The group uses forward exchange contracts to economically hedge its foreign exchange rate transaction exposures.

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

***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.

A decrease in fair value of the forward exchange contracts designated as fair value hedges of R88 million (2016: R288 million) has been recognised in finance charges and fair value movement and offset with a similar loss on the hedged items (property, plant and equipment and inventory). The ineffectiveness movement recognised in the current financial year was immaterial.

| 21 Net cash and cash equivalents | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| Cash disclosed as current assets | 1 612 | 2 548 | 965 | 2 222 |
| Cash and bank balances | 953 | 418 | 388 | 167 |
| Short-term deposits | 659 | 2 130 | 577 | 2 055 |
| Credit facilities utilised | (93) | (6) | (3) | – |
| Net cash and cash equivalents | 1 519 | 2 542 | 962 | 2 222 |
| | 4 750 | 6 450 | 4 750 | 5 250 |

**Undrawn borrowing facilities**
The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 31 March 2017, R4 billion (2016: R4 billion) of these undrawn facilities was committed. There is no restriction on cash.

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

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

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 22 Share capital | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| Authorised and issued share capital is made up as follows: | | | | |
| **Authorised** | | | | |
| 1 000 000 000 ordinary shares of R10 each | 10 000 | 10 000 | 10 000 | 10 000 |
| **Issued** | | | | |
| 520 783 900 (2016: 520 783 900) ordinary shares of R10 each | 5 208 | 5 208 | 5 208 | 5 208 |
| 6 164 800 ( 2016: 6 164 800) at no consideration | – | – | – | – |

The following table illustrates the movement within the number of shares issued:

| | Number of shares | | Number of shares | |
|---|---|---|---|---|
| Shares in issue at beginning of year | 526 948 700 | 520 783 900 | 526 948 700 | 520 783 900 |
| Issued on 2 June 2015 at no consideration | – | 2 185 452 | – | 2 185 452 |
| Issued on 30 June 2015 at no consideration | – | 3 979 348 | – | 3 979 348 |
| Shares in issue at end of year | 526 948 700 | 526 948 700 | 526 948 700 | 526 948 700 |

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

**Capital management**

Refer to note 14.6 for detailed capital management disclosure.

| 23 Share-based compensation reserve | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| Telkom's shareholders approved the Telkom group share plan at the September 2013 annual general meeting. The scheme covers certain operational and management employees and is aimed at giving shares to group employees, at a RNil exercise price, at the end of the vesting period. Although the number of shares awarded to employees was communicated at the grant date, the ultimate number of shares that vest may differ based on certain performance conditions being met. Refer to note 29. Certain BCX and Trudon management employees were granted Telkom shares in the current financial year. | | | | |
| The fund has been created but the related compensation expense will be recognised over the vesting period of shares granted. | | | | |
| The movement within the share-based compensation reserve is: | | | | |
| Balance at beginning of year | 241 | 126 | 241 | 126 |
| Net increase in equity | 211 | 115 | 190 | 115 |
| Employee cost | 222 | 115 | 201 | 115 |
| Vesting of shares | (11) | – | (11) | – |
| Balance at end of year | 452 | 241 | 431 | 241 |



| 24 Non-distributable reserves | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| | 1 376 | 1 507 | 753 | 795 |
| Opening balance | 1 507 | 1 507 | 795 | 786 |
| Movement during the year | (131) | – | (42) | 9 |
| Foreign currency translation reserve | (61) | (9) | – | – |
| Increase in treasury shares for Telkom company share plan. | (205) | – | (205) | – |
| Vesting of grant 1 of Telkom Share Plan | 11 | – | 11 | – |
| Purchase of Telkom shares by subsidiaries for subsidiaries employee share scheme | (28) | – | – | – |
| Revaluation of the cell captive reserve | 152 | 9 | 152 | 9 |
| The balance comprises: | 1 376 | 1 507 | 753 | 795 |
| Cell captive reserve | 2 443 | 2 291 | 1 722 | 1 570 |
| Foreign currency translation reserve | (70) | (9) | – | – |
| Shares held by subsidiaries and in escrow | (997) | (775) | (969) | (775) |

The group has a cell captive preference share investment to fund Telkom's post-retirement medical aid liability.

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

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

Fair value of ordinary shares in Telkom are held as follows:

| | 2017 Number of shares | 2017 Rm | 2016 Number of shares | 2016 Rm |
|---|---|---|---|---|
| Treasury shares in escrow | 12 612 717 | 946 | 13 464 298 | 775 |
| Rossal No 65 Proprietary Limited | 4 630 125 | 347 | 1 875 239 | 108 |
| Total | 17 242 842 | 1 293 | 15 339 537 | 883 |

All shares will be allocated to employees as part of the share plan. During the year subsidiaries purchased 398 975 shares for R28 million.

| 25 Non-controlling interest | Group 2017 Rm | Group Restated 2016 Rm |
|---|---|---|
| | 337 | 390 |
| Balance at beginning of year | 390 | 299 |
| Share of earnings | 57 | 111 |
| Acquisition of non-controlling interest* | – | (32) |
| Disposal of non-controlling interest* | (3) | – |
| Acquisition of subsidiary with non-controlling interests* | – | 126 |
| Dividend declared | (107) | (114) |

The non-controlling interest relates to the minority shareholders of Trudon and BCX.

** Refer to note 11.*

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 26 Interest bearing debt | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **Non-current interest bearing debt** | **4 744** | 4 566 | **4 661** | 4 306 |
| Total interest bearing debt | **6 285** | 5 269 | **6 168** | 4 826 |
| Gross interest bearing debt | **6 677** | 5 803 | **6 660** | 5 448 |
| Discount on debt instruments issued | **(502)** | (637) | **(502)** | (637) |
| Finance leases | **110** | 103 | **10** | 15 |
| ***Less:* Current portion of interest bearing debt** | **(1 541)** | (703) | **(1 507)** | (520) |
| Local debt | **(1 500)** | (654) | **(1 500)** | (500) |
| Bond | **–** | (154) | **–** | – |
| Commercial paper bills | **(800)** | – | **(800)** | – |
| Other loans | **(700)** | (500) | **(700)** | (500) |
| Foreign debt | **(2)** | (18) | **–** | (15) |
| Finance leases | **(39)** | (31) | **(7)** | (5) |
| Total interest bearing debt is made up as follows: | **6 285** | 5 269 | **6 168** | 4 826 |
| **(a) Local debt** | **6 050** | 4 994 | **6 048** | 4 668 |
| **Telkom debt instruments** | **6 048** | 4 668 | **6 048** | 4 668 |
| *Name, maturity, rate p.a., nominal value* | | | | |
| TL20, 2020, 15% (2016:15%), R2 500 million (2016: R2 500 million) | **1 998** | 1 868 | **1 998** | 1 868 |
| Commercial paper bills,2018, 8.348% | **800** | – | **800** | – |
| Other loans, 2019 - 2021, 8.983% - 9.625% (2016: 8.45% - 8.742%), R3,250 million (2016: R2 800 million) | **3 250** | 2 800 | **3 250** | 2 800 |
| Total interest bearing debt is made up of R6 285 million debt at amortised cost (2016: R5 269 million debt at amortised cost). Finance costs accrued on debt are included in trade and other payables (refer to note 30). Other loans are repayable quarterly and biannually, and have maturities ranging from 2019 to 2021. Commercial paper bills are repayable at maturity with six and 12 months settlement periods. | | | | |
| **BCX debt instruments** | **2** | 326 | **–** | – |
| Rand Merchant Bank | **–** | 216 | **–** | – |
| The loan was repaid in the current financial year. | | | | |
| Cisco Capital | **–** | 103 | **–** | – |
| The loan was repaid in the current financial year. | | | | |
| IBM Global Finance | **2** | 2 | **–** | – |
| Repayable over 43 months at a fixed rate of 10.7%, unsecured | | | | |
| Astfin Western Cape Proprietary Limited | **–** | 5 | **–** | – |
| The loan was repaid in the current financial year. | | | | |
| **(b) Foreign debt** | **125** | 172 | **110** | 143 |
| **Telkom** | | | | |
| *Maturity, rate p.a., nominal value* | **110** | 143 | **110** | 143 |
| Euro: 2022 - 2025, 0.14% (2016: 0.14%), €7.6 million (2016: €7.6 million) | **110** | 128 | **110** | 128 |
| USD: 2011 - 2016, Nil (2016: 2.7055%), USD Nil (2016: USD 1.4 million) | **–** | 15 | **–** | 15 |



| 26 Interest bearing debt – continued | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **(b) Foreign debt** - continued | | | | |
| **BCX** | **15** | 29 | | |
| Stanbic Tanzania | **3** | 7 | **–** | – |
| US Dollar denominated loan, repayable over 60 months at interest at a US base rate of 9%, guaranteed by Business Connexion Proprietary Limited. | | | | |
| Barclays Commercial Mortgage | **4** | 6 | **–** | – |
| A pound sterling denominated loan repayable over 20 years at an interest rate of UK prime + 2%, secured by freehold building with a carrying value of R11.4 million. | | | | |
| Akiba Bank | **8** | 16 | **–** | – |
| A Kenyan shilling denominated loan repayable over 48 months at an interest rate of 15%, guaranteed by Business Connexion Proprietary Limited. | | | | |
| **(c) Finance leases** | **110** | 103 | **10** | 15 |
| **Telkom Content Delivery Platform Software** | **10** | 15 | **10** | 15 |
| This amount is repayable within a period of five years at an approximate interest rate of 12.10%. | | | | |
| **BCX various leases** | **94** | 82 | **–** | – |
| Finance leases are in respect of capitalised leased assets with a carrying value of R72 million (2016: R63 million). BCX has the option to purchase these assets at the end of the lease term. These amounts are repayable between periods of three and five years. Interest rates vary between 6.62% and 9.25%. A variable rate based on the base rate of the Bank of England plus 2% applies to a lease denominated in Great British pounds. | | | | |
| **Trudon various leases** | **6** | 6 | **–** | – |
| The amounts are repayable between periods of one and five years. Interest rates vary between 5% and 10%. | | | | |
| **Included in non-current and current debt is:** | | | | |
| *Debt guaranteed by the South African government* | **109** | 128 | **109** | 128 |

The company may issue or re-issue locally registered debt instruments in terms of the Post Office Amendment Act 85 of 1991. The borrowing powers of the company are set out as per note 21.

**Repayments/refinancing of current portion of interest bearing debt**

The current portion of interest bearing debt of R1 507 million (2016: R520 million) (nominal) as at 31 March 2017 is expected to be repaid from available cash or operational cash flow and other borrowings.

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

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 27 Provisions | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **Non-current employee-related** | **1 536** | 1 665 | **1 516** | 1 645 |
| *Post-retirement medical aid (refer to note 29)* | **28** | 28 | **–** | – |
| Balance at beginning of year | **(704)** | (402) | **(732)** | (424) |
| Acquisition of BCX | **–** | 4 | **–** | – |
| Interest cost | **205** | 185 | **205** | 183 |
| Current service cost | **2** | 6 | **2** | 5 |
| Interest on plan asset | **(276)** | (216) | **(276)** | (216) |
| Actuarial loss/(gain) | **228** | (271) | **228** | (271) |
| Settlement loss | **–** | 3 | **–** | 3 |
| Curtailment loss | **–** | 48 | **–** | 48 |
| Contributions paid* | **(39)** | (61) | **(39)** | (60) |
| Transfer to employee benefit assets (refer to note 29) | **612** | 732 | **612** | 732 |
| *Telephone rebates (refer to note 29)* | **404** | 410 | **404** | 410 |
| Balance at beginning of year | **410** | 471 | **410** | 471 |
| Interest cost | **37** | 34 | **37** | 34 |
| Current service cost | **3** | 4 | **2** | 4 |
| Curtailment loss | **–** | 2 | **–** | 2 |
| Actuarial (gain) | **(18)** | (73) | **(18)** | (73) |
| Benefits paid | **(28)** | (28) | **(27)** | (28) |
| *Telkom Retirement Fund (refer to note 29)* | **1 151** | 1 274 | **1 151** | 1 274 |
| Balance at beginning of year | **1 274** | 812 | **1 274** | 812 |
| Service cost | **512** | 660 | **512** | 660 |
| Interest cost | **3 554** | 3 103 | **3 554** | 3 103 |
| Interest on plan asset | **(3 461)** | (3 067) | **(3 461)** | (3 067) |
| Actuarial (gain)/loss | **(176)** | 158 | **(176)** | 158 |
| Curtailment loss | **(25)** | 159 | **(25)** | 159 |
| Asset transfer from TPF | **(96)** | – | **(96)** | – |
| Employer contribution | **(431)** | (551) | **(431)** | (551) |
| *Annual leave* | **514** | 554 | **348** | 435 |
| Balance at beginning of year | **554** | 531 | **435** | 524 |
| Acquisition of BCX | **–** | 117 | **–** | – |
| Charged to employee expenses | **21** | (60) | **(26)** | (73) |
| BCX leave provision recovery | **34** | (4) | **34** | (4) |
| Leave paid/utilised | **(95)** | (30) | **(95)** | (12) |
| *Bonus* | **771** | 964 | **614** | 869 |
| Balance at beginning of year | **964** | 990 | **869** | 977 |
| Acquisition of BCX | **–** | 67 | **–** | – |
| Charged to employee expenses | **938** | 918 | **684** | 799 |
| Payments made | **(1 131)** | (1 011) | **(939)** | (907) |
| *Termination packages and other benefits* | **66** | 666 | **66** | 666 |
| ***Less:* Current portion of employee related provisions** | **(1 397)** | (2 231) | **(1 067)** | (2 009) |
| *Annual leave* | **(514)** | (554) | **(348)** | (435) |
| *Post-retirement medical aid* | **(7)** | (8) | **–** | – |
| *Telephone rebates* | **(39)** | (39) | **(39)** | (39) |
| *Bonus* | **(771)** | (964) | **(614)** | (869) |
| *Termination packages and other benefits* | **(66)** | (666) | **(66)** | (666) |

** includes an amount of Rnil million (2016: R22 million) paid in terms of the settlement of the post-retirement medical aid.*



| 27 Provisions – continued | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **Non-current non-employee related** | **55** | 66 | **10** | 9 |
| *Other* | **179** | 208 | **49** | 81 |
| ***Less:* Current portion of other provisions** | **(124)** | (142) | **(39)** | (72) |
| *Other* | **(124)** | (142) | **(39)** | (72) |

**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 22-25 days (2016: 22- 25 days) which must be taken within a 12-18 month (2016: 12-18 month) leave cycle. The leave cycle is reviewed annually and is in accordance with legislation.

**Bonus**

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

**Non-employee related provisions**

Non-current other provisions and R16 million of current other provisions are site restoration costs. The remaining balance of current other provisions contains certain provisions for legal matters that have been disclosed in the contingencies note (refer to note 37).

| 28 Deferred revenue | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **Deferred revenue** | **2 099** | 2 364 | **2 027** | 2 113 |
| Non-current deferred revenue | **529** | 656 | **529** | 656 |
| Current portion of deferred revenue | **1 570** | 1 708 | **1 498** | 1 457 |

The deferred revenue mainly consists of deferred cards including World Call, installation fees, unused voice and data bundles as well as unredeemed vouchers. The decrease in the group's short-term portion of deferred revenue is due to the inclusion of BCX.

| 29 Employee benefits | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **Non-current assets** | **635** | 846 | **635** | 846 |
| Telkom Pension Fund asset | **23** | 114 | **23** | 114 |
| Post-retirement medical aid recognition of net plan asset | **612** | 732 | **612** | 732 |

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

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

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**29 Employee benefits** – continued

**The Telkom Pension Fund**

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

The latest actuarial valuation performed at 31 March 2017 indicates that the pension fund is in a surplus position of R104 million (2016: R191 million). The recognition of the surplus is limited due to the application of the asset limitation criteria in IAS 19 Employee Benefits. The Telkom Pension Fund is closed to new members. The pension plan exposes the group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market risk.

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 Rm | 2016 Rm | 2017 Rm | 2016 Rm |
| **The Telkom Pension Fund** | | | | |
| **The net periodic pension costs include the following components:** | | | | |
| Interest cost on projected benefit obligations | 10 | 10 | 10 | 10 |
| Service cost on projected benefit obligations | 3 | 3 | 3 | 3 |
| Interest on plan assets after asset restriction | (21) | (12) | (21) | (12) |
| Net periodic pension gain recognised in profit and loss | (8) | 1 | (8) | 1 |
| **The net periodic other comprehensive income includes the following components:** | | | | |
| Actuarial gain from financial assumption changes | – | – | – | – |
| Asset ceiling in terms of IAS 19.64 | 6 | 86 | 6 | 86 |
| Net periodic pension expense recognised in other comprehensive income | 6 | 86 | 6 | 86 |
| Cumulative actuarial gain | (79) | (84) | (79) | (84) |
| Pension fund contributions | (1) | (1) | (1) | (1) |
| **The status of the pension plan obligation is as follows:** | | | | |
| At beginning of year | 130 | 140 | 130 | 140 |
| Interest cost | 10 | 10 | 10 | 10 |
| Current service cost | 3 | 3 | 3 | 3 |
| Employee contributions | 1 | 1 | 1 | 1 |
| Benefits paid | (50) | (18) | (50) | (18) |
| Actuarial (gain) | (2) | (6) | (2) | (6) |
| Benefit obligation at end of year | 92 | 130 | 92 | 130 |
| **Plan assets at fair value:** | | | | |
| At beginning of year | 320 | 320 | 320 | 320 |
| Interest on plan assets | 28 | 23 | 28 | 23 |
| Benefits paid | (50) | (18) | (50) | (18) |
| Contributions | 1 | 1 | 1 | 1 |
| Transferred to Telkom Retirement Fund | (96) | – | (96) | – |
| Actuarial (loss) | (7) | (6) | (7) | (6) |
| Plan assets at end of year | 196 | 320 | 196 | 320 |
| Present value of funded obligation | 92 | 130 | 92 | 130 |
| Fair value of plan assets | (196) | (320) | (196) | (320) |
| Fund surplus | (104) | (190) | (104) | (190) |
| Asset ceiling in terms of IAS 19.64 | 82 | 76 | 82 | 76 |
| Recognised net asset | (22) | (114) | (22) | (114) |
| Interest on plan assets after asset restriction | 21 | 12 | 21 | 12 |
| Actuarial (loss) on plan assets | (7) | (6) | (7) | (6) |
| Actual return on plan assets | 14 | 6 | 14 | 6 |



| 29 Employee benefits – continued | Group | | Company | |
|---|---|---|---|---|
| | 2017 Rm | 2016 Rm | 2017 Rm | 2016 Rm |
| **The Telkom Pension Fund** - continued | | | | |
| **Plan assets balance comprises of:** | | | | |
| Cash | 12 | 48 | 12 | 48 |
| Equity | 84 | 125 | 84 | 125 |
| Property | 8 | 7 | 8 | 7 |
| Bonds | 35 | 51 | 35 | 51 |
| Commodities | 6 | 6 | 6 | 6 |
| Foreign investments | 51 | 83 | 51 | 83 |
| Total | 196 | 320 | 196 | 320 |
| **Sensitivity analysis** | | | | |
| Increasing discount rate by 0.5% | (3) | (4) | (3) | (4) |
| Decreasing discount rate by 0.5% | 3 | 5 | 3 | 5 |

***Funding arrangements***

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

**Principal actuarial assumptions were as follows:**

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Males over 65 | 16.5 | 16.4 | 16.5 | 16.4 |
| Females over 65 | 20.6 | 20.5 | 20.6 | 20.5 |
| Discount rate (%) | 9.7 | 9.5 | 9.7 | 9.5 |
| Interest on plan assets (%) | 9.7 | 9.5 | 9.7 | 9.5 |
| Salary inflation rate (%) | 8.0 | 7.9 | 8.0 | 7.9 |
| Pension increase allowance (%) | 4.5 | 4.5 | 4.5 | 4.5 |
| The overall long-term expected interest on assets is 9.7%. This is based on the new IAS19R net interest requirement. | | | | |
| The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes. | | | | |
| Funding level per statutory actuarial valuation (%) | 100 | 100 | 100 | 100 |
| The number of employees registered under the Telkom Pension Fund | 35 | 46 | 35 | 46 |
| **The fund portfolio consists of the following percentages:** | | | | |
| Cash (%) | 6 | 15 | 6 | 15 |
| Equities (%) | 43 | 39 | 43 | 39 |
| Property (%) | 4 | 2 | 4 | 2 |
| Bonds (%) | 18 | 16 | 18 | 16 |
| Commodities (%) | 3 | 2 | 3 | 2 |
| Foreign Investments (%) | 26 | 26 | 26 | 26 |
| Total | 100 | 100 | 100 | 100 |

The total estimated contributions to be paid to the pension fund by the employer for the year ending 31 March 2018 is R1 million.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**29 Employee benefits** – continued

**The Telkom Retirement Fund**

The Telkom Retirement Fund was established on 1 July 1995 as a hybrid defined benefit and defined contribution plan. Existing employees were given the option to either remain in the Telkom Pension Fund or to be transferred to the Telkom Retirement Fund. All pensioners of the Telkom Pension Fund and employees who retired after 1 July 1995 were transferred to the Telkom Retirement Fund. Upon transfer the government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to 1 July 1995 further transfers of existing employees occurred. As from 1 September 2009 all new appointments will belong to the Telkom Retirement Fund but will not be able to retire from the Telkom Retirement Fund at retirement age. These members would be required to purchase their pensions from an insurance company.

The pensioner pool of the Telkom Retirement Fund only consists of pensioners and is funded through a liability driven investment strategy (LDI). Pensioner increases are subject to affordability, targeting between 70% and 100% of CPI.

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

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

The funded status of the Telkom Retirement Fund is disclosed below:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **The net periodic retirement costs include the following components:** | | | | |
| Interest cost on projected benefit obligations | **3 554** | 3 103 | **3 554** | 3 103 |
| Interest on plan assets | **(3 461)** | (3 067) | **(3 461)** | (3 067) |
| Net periodic pension expense recognised in profit and loss | **93** | 36 | **93** | 36 |
| **The net periodic other comprehensive income includes the following components:** | | | | |
| Actuarial gain/(loss) due to financial assumptions | **312** | (339) | **312** | (339) |
| Acturial (loss)/gain due to demographic assumptions | **(136)** | 182 | **(136)** | 182 |
| Net periodic pension expense recognised in other comprehensive income | **176** | (157) | **176** | (157) |
| Cumulative actuarial loss | **(1 365)** | (1 541) | **(1 365)** | (1 541) |
| Retirement fund contributions | **–** | – | **–** | – |
| **Benefit obligation:** | | | | |
| At beginning of year | **39 527** | 43 463 | **39 527** | 43 463 |
| Interest cost | **3 554** | 3 103 | **3 554** | 3 103 |
| Current service cost | **512** | 660 | **512** | 660 |
| Employee contributions | **331** | 322 | **331** | 322 |
| Benefits paid | **(2 021)** | (7 305) | **(2 021)** | (7 305) |
| Transfers in | **51** | 4 | **51** | 4 |
| Curtailment (gain)/loss | **(1 462)** | 159 | **(1 462)** | 159 |
| Actuarial (gain) | **(2 088)** | (879) | **(2 088)** | (879) |
| Benefit obligation at end of year for defined benefit plan | **38 404** | 39 527 | **38 404** | 39 527 |

| **29 Employee benefits** – continued | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **The Telkom Retirement Fund** - continued | | | | |
| **Plan assets at fair value:** | | | | |
| At beginning of year | **38 253** | 42 651 | **38 253** | 42 651 |
| Interest on plan assets | **3 461** | 3 067 | **3 461** | 3 067 |
| Asset transfer to TRF | **96** | – | **96** | – |
| Employer contributions | **481** | 551 | **481** | 551 |
| Employee contributions | **280** | 322 | **280** | 322 |
| Benefits paid | **(2 021)** | (7 305) | **(2 021)** | (7 305) |
| Curtailment loss | **(1 436)** | – | **(1 436)** | – |
| Transfers in | **51** | 4 | **51** | 4 |
| Actuarial (loss) | **(1 912)** | (1 037) | **(1 912)** | (1 037) |
| Plan assets at end of year | **37 253** | 38 253 | **37 253** | 38 253 |
| Present value of funded obligation | **38 404** | 39 527 | **38 404** | 39 527 |
| Fair value of plan assets | **37 253** | 38 253 | **37 253** | 38 253 |
| Net liability | **(1 151)** | (1 274) | **(1 151)** | (1 274) |
| Interest on plan assets | **3 461** | 3 067 | **3 461** | 3 067 |
| Actuarial (loss) on plan assets | **(1 912)** | (1 037) | **(1 912)** | (1 037) |
| Actual return on plan assets | **1 549** | 2 030 | **1 549** | 2 030 |
| Plan asset balance comprises of: | | | | |
| Equities | **11 921** | 12 623 | **11 921** | 12 623 |
| Property | **1 490** | 1 530 | **1 490** | 1 530 |
| Bonds | **10 431** | 11 094 | **10 431** | 11 094 |
| Africa | | | | |
| Cash | **1 490** | 1 530 | **1 490** | 1 530 |
| Foreign investments | **9 313** | 8 416 | **9 313** | 8 416 |
| Total | **37 253** | 38 253 | **37 253** | 38 253 |
| **Included in the fair value of plan assets is:** | | | | |
| Telkom shares | **16** | 12 | **16** | 12 |

**Funding arrangements**

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

The Telkom Retirement Fund invests its funds in South Africa and internationally. Twelve fund managers invests in South Africa and five of these managers specialise in trades with bonds on behalf of the Retirement Fund.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 29 Employee benefits – continued | Group 2017 | Group 2016 | Company 2017 | Company 2016 |
|---|---|---|---|---|
| **The Telkom Retirement Fund** - continued | | | | |
| **Principal actuarial assumptions were as follows:** | | | | |
| Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows: | | | | |
| Males over 65 | **16.5** | 16.4 | **16.5** | 16.4 |
| Females over 65 | **20.6** | 20.5 | **20.6** | 20.5 |
| Discount rate (%) | **9.7** | 9.5 | **9.7** | 9.5 |
| Interest on plan assets (%) | **9.7** | 9.5 | **9.7** | 9.5 |
| Pension increase allowance (%) | **7.0** | 6.9 | **7.0** | 6.9 |
| The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) Ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes. | | | | |
| **Funding level per statutory actuarial valuation (%)** | **100** | 100 | **100** | 100 |
| The number of pensioners registered under the Telkom Retirement Fund | **12 887** | 12 053 | **12 887** | 12 053 |
| The number of in-service employees entitled to retire in the Telkom Retirement Fund | **12 809** | 12 508 | **12 809** | 12 508 |
| **The fund portfolio consists of the following percentages:** | | | | |
| Equities (%) | **32** | 33 | **32** | 33 |
| Property (%) | **4** | 4 | **4** | 4 |
| Bonds (%) | **28** | 29 | **28** | 29 |
| Africa (%) | **7** | 8 | **7** | 8 |
| Cash (%) | **4** | 4 | **4** | 4 |
| Foreign investments (%) | **25** | 22 | **25** | 22 |
| Total | **100** | 100 | **100** | 100 |

The total estimated contributions to be paid to the Telkom Retirement Fund by the employer for the year ending 31 March 2018 is R510 million.

**29 Employee benefits** – continued

**Medical benefits**
Telkom makes certain contributions to medical funds in respect of current and retired employees. The scheme is a defined benefit plan. The expense in respect of current employees' medical aid is disclosed in note 6.3. The amounts due in respect of post-retirement medical benefits to current and retired employees have been actuarially determined and provided for as set out in note 27. Telkom has terminated future post-retirement medical benefits in respect of employees joining after 1 July 2000.

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

Eligible employees must be employed by Telkom until retirement age to qualify for the post-retirement medical aid benefit. The most recent actuarial valuation of the benefit was performed as at 31 March 2017.

Telkom has allocated certain investments to fund this liability as set out in note 15.2. The annuity policy of the cell captive investment is the medical plan asset. The group is entitled to a refund of the full surplus in the annuity policy once all the beneficiaries have been paid. As such the group has recognised the full asset.



| 29 Employee benefits – continued | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **Medical benefits** - continued | | | | |
| **Medical aid** | | | | |
| **Benefit obligation:** | | | | |
| At beginning of year | **2 298** | 2 412 | **2 270** | 2 391 |
| Acquisition of BCX | **–** | 4 | **–** | – |
| Interest cost | **205** | 185 | **205** | 183 |
| Service cost | **2** | 6 | **2** | 5 |
| Actuarial (gain) | **(2)** | (129) | **(2)** | (129) |
| Curtailment loss* | **–** | 48 | **–** | 48 |
| Settlement gain* | **–** | (19) | **–** | (19) |
| Benefits paid from plan assets | **(176)** | (171) | **(176)** | (171) |
| Contributions paid by Telkom* | **(39)** | (38) | **(39)** | (38) |
| Benefit obligation at end of year | **2 288** | 2 298 | **2 260** | 2 270 |
| **Plan assets at fair value:** | | | | |
| At beginning of year | **3 002** | 2 815 | **3 002** | 2 815 |
| Interest on plan assets | **276** | 216 | **276** | 216 |
| Benefits paid from plan assets | **(176)** | (171) | **(176)** | (171) |
| Actuarial (loss)/gain | **(230)** | 142 | **(230)** | 142 |
| Plan assets at end of year | **2 872** | 3 002 | **2 872** | 3 002 |
| Present value of funded obligation | **2 288** | 2 298 | **2 260** | 2 270 |
| Fair value of plan assets | **(2 872)** | (3 002) | **(2 872)** | (3 002) |
| | **(584)** | (704) | **(612)** | (732) |
| Liability as disclosed in the statement of financial position (refer to note 27) | **28** | 28 | **–** | – |
| Asset as disclosed in the statement of financial position | **(612)** | (732) | **(612)** | (732) |
| **The net periodic other comprehensive income includes the following components:** | | | | |
| Acturial gain due to financial assumptions | **2** | 128 | **2** | 128 |
| Actuarial (loss)/gain due to demographic assumptions | **(230)** | 143 | **(230)** | 143 |
| Net periodic pension expense and income recognised in other comprehensive income | **(228)** | 271 | **(228)** | 271 |
| Cumulative actuarial loss | **(1 880)** | (1 652) | **(1 880)** | (1 652) |
| **Plan assets at fair value:** | | | | |
| Interest on plan assets | **276** | 216 | **276** | 216 |
| Actuarial (loss)/gain on plan assets | **(230)** | 142 | **(230)** | 142 |
| Actual return on plan assets | **46** | 358 | **46** | 358 |
| Plan asset balance comprises of: | | | | |
| Cash and cash equivalents | **201** | 180 | **201** | 180 |
| Equity securities | **1 235** | 1 231 | **1 235** | 1 231 |
| Bonds | **574** | 540 | **574** | 540 |
| Foreign investments | **862** | 1 051 | **862** | 1 051 |
| Total | **2 872** | 3 002 | **2 872** | 3 002 |

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

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

** Refer to note 27.*

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 29 Employee benefits – continued | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **Medical benefits** - continued | | | | |
| **Principal actuarial assumptions were as follows:** | | | | |
| Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows: | | | | |
| Males over 65 | 16.5 | 16.4 | 16.5 | 16.4 |
| Females over 65 | 20.6 | 20.5 | 20.6 | 20.5 |
| Discount rate (%) | 9.7 | 9.5 | 9.7 | 9.5 |
| Interest on plan assets (%) | 9.7 | 9.5 | 9.7 | 9.5 |
| Salary inflation rate (%) | 7.0 | 6.9 | 7.0 | 6.9 |
| Medical inflation rate (%) | 9.0 | 8.9 | 9.0 | 8.9 |
| The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes. | | | | |
| Contractual retirement age | 65 | 65 | 65 | 65 |
| Average retirement age | 60 | 60 | 60 | 60 |
| Number of in-service members | 879 | 944 | 879 | 944 |
| Number of pensioners | 4 218 | 4 460 | 4 218 | 4 460 |

**Group and company**

The valuation results are sensitive to changes in the underlying assumptions. The following table provides an indication of the impact of changing the significant assumptions above:

| | Current assumption | Decrease | Increase |
|---|---|---|---|
| | Rm | Rm | Rm |
| 2017 | | | |
| ***Medical cost inflation rate*** | 9.0% | (1%) | 1% |
| Benefit obligation | 2 260 | (130) | 147 |
| Percentage change | | (5.8%) | 6.5% |
| Service cost and interest cost FY2018 | 207 | (13) | 14 |
| Percentage change | | (6.3%) | 6.8% |
| ***Discount rate*** | 9.7% | (0.5%) | 0.5% |
| Benefit obligation | 2 260 | 90 | (84) |
| Percentage change | | 4.0% | (3.7%) |
| Service cost and interest cost FY2018 | 207 | 11 | (12) |
| Percentage change | | 5.3% | (5.8%) |
| ***Post-retirement mortality rate*** | | | |
| Benefit obligation | 2 260 | 104 | (101) |
| Percentage change | | 4.6% | (4.5%) |
| Service cost and interest cost FY2018 | 207 | 10 | (10) |
| Percentage change | | 4.8% | (4.8%) |



| 29 Employee benefits – continued | Current assumption | Decrease | Increase |
|---|---|---|---|
| | Rm | Rm | Rm |
| **Medical benefits** - continued | | | |
| *2016* | | | |
| ***Medical cost inflation rate*** | 8.9% | (1%) | 1% |
| Benefit obligation | 2 270 | (133) | 151 |
| Percentage change | | (5.9%) | 6.6% |
| Service cost and interest cost FY2017 | 188 | (13) | 14 |
| Percentage change | | (6.9%) | 7.4% |
| ***Discount rate*** | 9.5% | (0.5%) | 0.5% |
| Benefit obligation | 2 270 | 93 | (86) |
| Percentage change | | 4.1% | 3.8% |
| Service cost and interest cost FY2017 | 188 | 12 | (13) |
| Percentage change | | 6.4% | (6.9%) |
| **Post-retirement mortality rate** | PA(90) Ultimate-1 | (10%) | 10% |
| Benefit obligation | 2 270 | (101) | 103 |
| Percentage change | | (4.4%) | 4.5% |
| Service cost and interest cost FY2017 | 188 | (10) | 10 |
| Percentage change | | (5.3%) | 5.3% |

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| **The fund portfolio consists of the following percentages:** | | | | |
| Equities | 43 | 41 | 43 | 41 |
| Bonds | 20 | 18 | 20 | 18 |
| Cash and money market investments | 7 | 6 | 7 | 6 |
| Foreign investments | 30 | 35 | 30 | 35 |
| Total | 100 | 100 | 100 | 100 |

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

**29 Employee benefits** – continued

**Telephone rebates**
Telkom provides telephone rebates to its pensioners who joined prior to 1 August 2009. The most recent actuarial valuation was performed as at 31 March 2017. Eligible employees must be employed by Telkom until retirement age to qualify for the telephone rebates. The scheme is a defined benefit plan.

The status of the telephone rebate liability is disclosed below:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| **Benefit obligation:** | | | | |
| At beginning of year | **410** | 471 | **410** | 471 |
| Current service cost | **3** | 4 | **3** | 4 |
| Interest cost | **37** | 34 | **37** | 34 |
| Actuarial (gain) | **(18)** | (74) | **(18)** | (74) |
| Curtailment loss | **–** | 2 | **–** | 2 |
| Benefits paid | **(28)** | (27) | **(28)** | (27) |
| Liability as disclosed in the statement of financial position (refer to note 27) | **404** | 410 | **404** | 410 |
| **The net periodic other comprehensive income includes the following components:** | | | | |
| Acturial gain/(loss) due to demographic assumptions | **1** | (9) | **1** | (9) |
| Actuarial gain due to financial assumptions | **17** | 84 | **17** | 84 |
| Net periodic pension income recognised in other comprehensive income | **18** | 75 | **18** | 75 |
| Cumulative actuarial gain | **18** | 118 | **18** | 118 |
| **Sensitivity analysis** | | | | |
| Increase in discount rate by 0.5% | **(17)** | (17) | **(17)** | (17) |
| Decrease in discount rate by 0.5% | **16** | 18 | **16** | 18 |
| **Principal actuarial assumptions were as follows:** | | | | |
| Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows: | | | | |
| Males over 65 | **16.5** | 16.4 | **16.5** | 16.4 |
| Females over 65 | **20.6** | 20.5 | **20.6** | 20.5 |
| Discount rate (%) | **9.7** | 9.5 | **9.7** | 9.5 |
| Contractual retirement age | **65** | 65 | **65** | 65 |
| Average retirement age | **60** | 60 | **60** | 60 |
| The assumed rates of mortality are determined by reference to the standard published mortality table PA (90) Ultimate standard tables, as published by the Institute and Faculty of Actuaries in London and Scotland, rated down one year to value the pensioners. | | | | |
| Number of members | **9 235** | 9 902 | **9 235** | 9 902 |
| Number of pensioners | **12 722** | 12 605 | **12 722** | 12 605 |



**29 Employee benefits** – continued

**Telkom Share Plan**
Telkom's shareholders approved the Telkom Forfeitable Share Plan (FSP) and the Additional Share Award (ASA) at the September 2013 Annual General Meeting. The fourth grants have occurred under this plan at 31 March 2017.

The FSP is made up of Long-term incentive plan (LTIP) and the Employee Share Ownership Plan (ESOP).

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

The grant and vesting timelines for the Telkom LTIP are as follows:

| Vesting financial year | Grant financial year | | | |
|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** |
| 2017 Financial year | 50% | – | – | **–** |
| 2018 Financial year | 30% | 50% | – | **–** |
| 2019 Financial year | 20% | 30% | 50% | **–** |
| 2020 Financial year | – | 20% | 30% | **50%** |
| 2021 Financial year | – | – | 20% | **30%** |
| 2022 Financial year | – | – | – | **20%** |

The grant and vesting timelines for the Telkom ESOP are as follows:

| Vesting financial year | Grant financial year | | | |
|---|---|---|---|---|
| | **2014** | **2015** | **2016** | **2017** |
| 2017 Financial year | 100% | – | – | **–** |
| 2018 Financial year | – | 100% | – | **–** |
| 2019 Financial year | – | – | 100% | **–** |
| 2020 Financial year | – | – | – | **100%** |

Certain BCX employees were granted shares in terms of a BCX share plan. Based on the BCX group achieving the performance condition, the shares will vest between 2018 and 2021 financial year.

Certain Trudon employees were granted shares in terms of a Trudon share plan. Based on Trudon achieving the performance condition, the shares will vest between 2020 and 2022 financial year.

In order for the vesting to occur the targets (including performance conditions) must be met. The targets are measured in each financial year after the grant date. In calculating the expense it is assumed that the probability of meeting the conditions is 100%.

The weighted average remaining vesting period for the shares outstanding as at 31 March 2017 is 1.64 years (2016: 1.8 years).

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **The following table illustrates the movement of the maximum number of shares that were granted to employees for the 2016 and 2017 grant:** | | | | |
| Beginning of the year | **8 876 772** | 10 936 829 | **8 876 772** | 10 936 829 |
| Vested shares during the year | **(1 502 627)** | (1 015 347) | **(1 502 627)** | (1 015 347) |
| Forfeited shares during the year | **(3 515 502)** | (5 634 646) | **(3 429 367)** | (5 634 646) |
| Granted during the year | **6 166 137** | 4 589 936 | **4 886 087** | 4 589 936 |
| Outstanding at end of the year | **10 024 780** | 8 876 772 | **8 830 865** | 8 876 772 |

The fair value of the shares granted have been calculated by an actuary using the Black-Scholes-Merton model and the following values at grant date.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 29 Employee benefits – continued | Group and company | | | | | |
|---|---|---|---|---|---|---|
| | BCX | Trudon | Grant 4 | Grant 3 | Grant 2 | Grant 1 |
| **Telkom Share Plan** - continued | | | | | | |
| Market share price ( R) | 70.82 | 55.50 | 65.00 | 64.31 | 76.11 | 27.30 |
| Dividend yield (%) | – | – | – | – | – | – |
| Share price volatility | 35% p.a | 35% p.a | 35% p.a | 35% p.a | 35% p.a | 35% p.a |
| Future risk free interest rate | 8.5% p.a | 8.5% p.a | 8.5% p.a | 8% p.a | 6.7% p.a | 8.5% p.a |

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| The principal assumptions used in calculating the expected number of shares that will vest are as follows: | | | | |
| Employee turnover (%) | **2.19** | 2.66 | **2.19** | 2.66 |
| Meeting specified performance criteria (%) | **100** | 100 | **100** | 100 |

The key performance indicators for the first grant are free cash flow targets and net promoter score targets. The second grant key indicators are headline earnings per share, free cash flow, return on equity and total shareholder return.

| 30 Trade and other payables | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| | **7 516** | 7 134 | **8 657** | 6 820 |
| Trade payables | **3 870** | 3 873 | **3 383** | 3 359 |
| Finance cost accrued | **60** | 54 | **60** | 54 |
| Accruals and other payables | **3 586** | 3 207 | **5 214** | 3 407 |

Accruals and other payables mainly represent amounts payable for goods received, net of value added tax obligations and licence fees.

Telkom's standard payment terms of trade payables is at the end of the following month following the date of the receipt of the invoice. This averages to 45 days.

Included in the current and prior year balance is the refund from SARS of R854 million including interest. Refer to note 37.

| 31 Reconciliation of profit for the year to cash generated from operations | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Cash generated from operations | **8 910** | 8 694 | **7 362** | 7 955 |
| Profit for the year | **3 854** | 2 376 | **4 705** | 2 585 |
| Finance charges and fair value movements | **888** | 622 | **801** | 618 |
| Taxation | **691** | 524 | **65** | 359 |
| Investment income | **(219)** | (203) | **(522)** | (812) |
| Interest received from trade receivables and subsidiaries | **(236)** | (261) | **(213)** | (255) |
| Non-cash items | **4 739** | 7 091 | **3 118** | 5 616 |
| Depreciation, amortisation, impairment and write-offs | **5 661** | 5 527 | **5 229** | 5 274 |
| Debtors impairment | **556** | 416 | **380** | 424 |
| Cost of equipment disposed when recognising finance leases | | 42 | **–** | 42 |
| Sale of Telkom enterprise | **–** | – | **(1 828)** | – |
| Post-retirement medical aid settlement gain | **–** | (19) | **–** | (19) |
| (Decrease)/increase in provisions | **(991)** | 1 424 | **(790)** | 399 |
| Profit on disposal of property, plant and equipment and intangible assets | **(222)** | (475) | **(161)** | (474) |
| Deferred revenue | **(265)** | 176 | **288** | (30) |
| (Decrease) / increase in working capital | **(807)** | (1 455) | **(592)** | (156) |
| Inventories | **(363)** | (23) | **(305)** | 107 |
| Accounts receivable | **(1 112)** | (295) | **(2 225)** | (493) |
| Accounts payable | **668** | (1 137) | **1 938** | 230 |

| 32 Dividend received | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| | **–** | – | **152** | 195 |
| Dividend received from subsidiaries | **–** | – | **152** | 195 |

** R50 million restated from additions to assets for capital expansion to cash paid to suppliers due to financial irregularities of the subsidiaries (Trudon). Refer to note 2.2.3*

| 33 Finance charges paid | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| | **(469)** | (768) | **(380)** | (678) |
| Finance charges and fair value movements per statement of profit or loss and other comprehensive income | **(889)** | (622) | **(802)** | (618) |
| Non-cash items | **420** | (146) | **422** | (60) |
| Movements in interest accruals | **134** | 107 | **134** | 72 |
| Net discount amortised | **130** | 114 | **130** | 114 |
| Borrowing costs capitalised (refer to note 8) | **(130)** | (103) | **(130)** | (103) |
| Capitalised finance leases | **-** | (136) | **-** | 26 |
| Hedging costs | **518** | (224) | **456** | (265) |
| Fair value adjustment | **(216)** | 12 | **(152)** | 12 |
| Cash effects of foreign exchange rates | **(3)** | (2) | **(3)** | (2) |
| Unrealised foreign exchange loss | **(13)** | 86 | **(13)** | 86 |

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 34 Taxation paid* | Group | | Company | |
|---|---|---|---|---|
| | 2017 Rm | 2016 Rm | 2017 Rm | 2016 Rm |
| | (1 181) | (288) | (666) | (52) |
| Net tax payable at beginning of year | (640) | (341) | (653) | (344) |
| Restatement | – | (14) | | – |
| Current taxation | (713) | (572) | (65) | (371) |
| Witholding tax | – | (1) | – | – |
| Additional payment to SARS | (250) | – | (251) | – |
| Acquisition of BCX | – | (10) | – | – |
| Interest accrued | (2) | 10 | (2) | 10 |
| Net tax payable at end of year | 424 | 640 | 305 | 653 |

* *Included in the 2016 taxation paid is a refund from SARS of R199 million.*

| 35 Dividend paid | Group | | Company | |
|---|---|---|---|---|
| | 2017 Rm | 2016 Rm | 2017 Rm | 2016 Rm |
| | (2 171) | (1 402) | (2 111) | (1 290) |
| Dividend payable at beginning of year | (22) | (19) | (20) | (19) |
| Declared during the year - Dividend on ordinary shares: | (2 095) | (1 291) | (2 114) | (1 291) |
| Dividends declared to non-controlling interests | (79) | (114) | – | – |
| Dividend payable at end of year | 25 | 22 | 23 | 20 |

| 36 Commitments | Group | | Company | |
|---|---|---|---|---|
| | 2017 Rm | 2016 Rm | 2017 Rm | 2016 Rm |
| Capital commitments authorised | 8 158 | 6 574 | 8 017 | 6 500 |
| Commitments against authorised capital expenditure | 6 594 | 3 388 | 6 524 | 3 379 |
| Authorised capital expenditure not yet contracted | 1 564 | 3 186 | 1 493 | 3 121 |

Capital commitments are largely attributable to purchases of property, plant and equipment and software.

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

| | Group | | | |
|---|---|---|---|---|
| | Total Rm | <1 year Rm | 1 - 5 years Rm | >5 years Rm |
| **Operating lease commitments and receivables** | | | | |
| **2017** | | | | |
| Land and buildings | 2 913 | 644 | 1 522 | 747 |
| Rental receivable on buildings | (1 236) | (413) | (721) | (102) |
| Customer premises equipment receivables | (37) | (21) | (16) | – |
| Vehicles | 726 | 167 | 557 | 2 |
| Other | 52 | 12 | 40 | – |
| Total | 2 418 | 389 | 1 382 | 647 |

| 36 Commitments – continued | Group | | | |
|---|---|---|---|---|
| | Total Rm | <1 year Rm | 1 - 5 years Rm | >5 years Rm |
| **Operating lease commitments and receivables** | | | | |
| *2016* | | | | |
| Land and buildings | 2 629 | 441 | 2 119 | 69 |
| Rental receivable on buildings | (1 481) | (281) | (1 172) | (28) |
| Customer premises equipment receivables | (35) | (21) | (14) | – |
| Vehicles | 921 | 165 | 756 | – |
| Other | 97 | 78 | 18 | 1 |
| Total | 2 131 | 382 | 1 707 | 42 |

| | Company | | | |
|---|---|---|---|---|
| | Total Rm | <1 year Rm | 1 - 5 years Rm | >5 years Rm |
| **Operating lease commitments and receivables** | | | | |
| **2017** | | | | |
| Land and buildings | 1 420 | 514 | 903 | 3 |
| Rental receivable on buildings | (1 236) | (413) | (721) | (102) |
| Customer premises equipment receivables | (37) | (21) | (16) | – |
| Vehicles | 718 | 167 | 551 | – |
| Total | 865 | 247 | 717 | (99) |
| *2016* | | | | |
| Land and buildings | 2 078 | 353 | 1 680 | 45 |
| Rental receivable on buildings | (1 481) | (281) | (1 172) | (28) |
| Customer premises equipment receivables | (35) | (21) | (14) | – |
| Vehicles | 914 | 162 | 752 | – |
| Total | 1 476 | 213 | 1 246 | 17 |

**Operating leases**

The group leases certain buildings, vehicles and equipment. The majority of the lease terms negotiated for equipment-related premises are ten years with other leases signed for five and three years. The majority of the leases contain an option clause entitling Telkom to renew the lease agreements for a period usually equal to the main lease term.

The minimum lease payments under these agreements are subject to annual escalations, which range from 6% to 15%.

Penalties in terms of the lease agreements are only payable should Telkom vacate a premises and negotiate to terminate the lease agreement prior to the expiry date, in which case the settlement payment will be negotiated in accordance with the market conditions of the premises. Future minimum lease payments under operating leases are included in the above note. Onerous leases for buildings, of which the company has no further use, no possibility of sub-lease and no option to cancel, are provided for in full and included in other provisions.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 36 Commitments – continued | Group finance lease commitments | | | |
|---|---|---|---|---|
| | Total Rm | <1 year Rm | 1 - 5 years Rm | >5 years Rm |
| **2017** | | | | |
| **Software** | | | | |
| Minimum lease payments | 11 | 6 | 5 | – |
| Finance charges | (1) | (1) | – | – |
| Finance lease obligation | 10 | 5 | 5 | – |
| **Equipment** | | | | |
| Minimum lease payments | 86 | 30 | 46 | 10 |
| Finance charges | (12) | (6) | (5) | (1) |
| Finance lease obligation | 74 | 24 | 41 | 9 |
| **Vehicles** | | | | |
| Minimum lease payments | 18 | 6 | 12 | – |
| Finance charges | – | – | – | – |
| Finance lease obligation | 18 | 6 | 12 | – |
| *2016* | | | | |
| **Building** | | | | |
| Minimum lease payments | 17 | 6 | 11 | – |
| Finance charges | (2) | (1) | (1) | – |
| Finance lease obligation | 15 | 5 | 10 | – |
| **Software** | | | | |
| Minimum lease payments | 84 | 25 | 59 | – |
| Finance charges | (13) | (6) | (7) | – |
| Finance lease obligation | 71 | 19 | 52 | – |
| **Vehicles** | | | | |
| Minimum lease payments | 19 | 7 | 12 | – |
| Finance charges | (2) | (1) | (1) | – |
| Finance lease obligation | 17 | 6 | 11 | – |

| | Company finance lease commitments | | | |
|---|---|---|---|---|
| | Total Rm | <1 year Rm | 1 - 5 years Rm | >5 years Rm |
| **2017** | | | | |
| **Software** | | | | |
| Minimum lease payments | 11 | 6 | 5 | – |
| Finance charges | (1) | (1) | – | – |
| Finance lease obligation | 10 | 5 | 5 | – |
| *2016* | | | | |
| **Software** | | | | |
| Minimum lease payments | 17 | 6 | 11 | – |
| Finance charges | (2) | (1) | (1) | – |
| Finance lease obligation | 15 | 5 | 10 | – |



## 36 Commitments – continued

**Finance leases**

Finance leases on software relates to the lease of Content Delivery Platform software. The lease term for the software is for a period of two years and nine months ending on December 2019.

Telkom has a commitment to migrate customers to new cable systems when the existing cables are decommissioned before the lease period expires. Refer to note 16 for lease payments.

BCX leases certain buildings, vehicles and equipment. The majority of the lease terms negotiated for equipment-related premises range from three to ten years. The majority of the leases contain an option clause entitling BCX to renew the lease agreements for a period usually equal to the main lease term.

The minimum lease payments under these agreements are subject to annual escalations, which range from 7% to 10%.

There are no major restrictions imposed by lease arrangements.

## 37 Contingencies

**Contingent liabilities**

**Matters before ICASA**

***End-User and Service Charter Regulations***

Based on ICASA's Complaints and Compliance Committee (CCC) ruling in the prior period, Telkom has initiated administrative review proceedings seeking to set aside the applicability of the Regulations in issue. The review application is in process and no hearing date has been allocated as yet. In the interim, however, ICASA promulgated the Amended End-User and Subscriber Charter Regulations on 1 April 2016, in terms of which the fault clearance measurement for fixed services was amended to 90% fault clearance within five days, instead of three days. Telkom is in the process of assessing the impact of the amended Regulations on Telkom going forward.

**High Court**

***Radio Surveillance Security Services (Pty) Ltd (RSSS)***

In December 2011, RSSS issued summons against Telkom for the sum of R216 million. Telkom is defending the matter and has filed a plea and a counterclaim for R22 million. No contract was concluded with RSSS, no purchase orders were issued and no quotations were accepted by Telkom. The trial, which was initially heard in May 2016, has been re-enrolled for hearing in late August 2017.

***Phutuma Networks (Pty) Ltd (Phutuma)***

In August 2009, Phutuma served summons on Telkom, claiming damages to the amount of R5.5 billion arising from the cancellation of 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. In early 2015, the SCA referred the appeal back to the North Gauteng High Court. The appeal which was heard in September 2016, was upheld. A request has been made for the re-enrolment of the matter for trial. We are awaiting a court date.

**Other**

***Section 197: Labour Relations Act***

Telkom invoked a process, in terms of section 197 of the Labour Relations Act, to outsource certain service functions in Telkom as going concerns. Section 197 (8) states that Telkom and the new employers are jointly and severally liable to any employee who was transfered and becomes entitled to receive payment as a result of the employee's dismissal for reasons relating to the new employer's operational requirements or liquidation. Telkom will be held liable for a period of 12 months after the date of transfer, which may result in an onerous obligation.

**Contingent assets**

**Tax matters**

As noted in the 2015 consolidated annual financial statements, the tax treatment of the loss that arose in the 2012 and 2014 financial years on the sale of foreign subsidiaries is based on a specific set of circumstances and a complex legislative environment. A tax refund received during prior periods, relating to the 2012 sale, is contingent and will only be recognised once the matter has been resolved with SARS.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 38 Directors' interest and prescribed officers | Beneficial | | Non-beneficial | |
|---|---|---|---|---|
| | Direct | Indirect | Direct | Indirect |
| **Group and company** | | | | |
| **Number of shares** | | | | |
| **Directors' shareholding** | | | | |
| **2017** | | | | |
| *Executive* | | | | |
| SN Maseko | **52 520** | **–** | **–** | **–** |
| DJ Fredericks | **48 711** | **267** | **–** | **–** |
| | **101 231** | **267** | **–** | **–** |
| *Non-executive* | | | | |
| JA Mabuza | **26 000** | **–** | **–** | **–** |
| F Petersen-Lurie | **–** | **–** | **–** | **–** |
| I Kgaboesele | **12 000** | **–** | **–** | **–** |
| KW Mzondeki | **267** | **–** | **–** | **–** |
| | **38 267** | **–** | **–** | **–** |

There has been no change in the above since 31 March 2017 to the date of approval of consolidated annual financial statements.

| | | | | |
|---|---|---|---|---|
| *2016* | | | | |
| *Executive* | | | | |
| SN Maseko | 52 520 | – | – | – |
| Deon Fredericks | 9 607 | 267 | – | – |
| | 62 127 | 267 | – | – |
| *Non-executive* | | | | |
| JA Mabuza | 26 000 | – | – | – |
| F Petersen-Lurie | – | – | – | 400 |
| I Kgaboesele | 12 000 | – | – | – |
| KW Mzondeki | 267 | – | – | – |
| | 38 267 | – | – | 400 |

| 38 Directors' interest and prescribed officers – continued | Fees R | Remuneration R | Performance bonus R | Fringe and other benefits* R | Total R |
|---|---|---|---|---|---|
| **Group and company** | | | | | |
| **2017** | | | | | |
| **Emoluments per director:** | | | | | |
| *Non-executive* | **4 311 834** | **5 495 701** | **-** | **-** | **9 807 535** |
| N Kapila | **362 500** | **505 404** | **-** | **-** | **867 904** |
| JA Mabuza | **273 000** | **1 249 992** | **-** | **-** | **1 522 992** |
| KW Mzondeki | **396 225** | **366 000** | **-** | **-** | **762 225** |
| SL Botha | **300 900** | **366 000** | **-** | **-** | **666 900** |
| KT Kweyama | **260 000** | **366 000** | **-** | **-** | **626 000** |
| F Petersen-Lurie | **450 284** | **366 000** | **-** | **-** | **816 284** |
| LL Von Zeuner | **548 725** | **366 000** | **-** | **-** | **914 725** |
| GW Dempster | **362 500** | **366 000** | **-** | **-** | **728 500** |
| T Dingaan | **326 725** | **366 000** | **-** | **-** | **692 725** |
| RG Tomlinson | **336 225** | **366 000** | **-** | **-** | **702 225** |
| RN Njeke (RN Ntshingila)[1] | **107 500** | **217 704** | **-** | **-** | **325 204** |
| H Toure[2] | **207 500** | **228 601** | **-** | **-** | **436 101** |
| I Kgaboesele* | **379 750** | **366 000** | **-** | **-** | **745 750** |
| *Executive that held office during 31 March 2017* | **-** | **12 691 200** | **13 179 664** | **23 994** | **25 894 858** |
| SN Maseko (CEO) | | **7 441 200** | **8 813 911** | **11 997** | **16 267 108** |
| DJ Fredericks (CFO) | | **5 250 000** | **4 365 753** | **11 997** | **9 627 750** |
| Total emoluments - paid by Telkom | **4 311 834** | **18 186 901** | **13 179 664** | **23 994** | **35 702 393** |
| *2016* | | | | | |
| **Emoluments per director:** | | | | | |
| *Non-executive* | 3 846 888 | 5 283 318 | – | – | 9 130 206 |
| N Kapila | 295 500 | 493 486 | – | – | 788 986 |
| I Kgaboesele* | 491 970 | 357 042 | – | – | 849 012 |
| GW Dempster | 295 500 | 357 042 | – | – | 652 542 |
| T Dingaan | 315 250 | 357 042 | – | – | 672 292 |
| RG Tomlinson | 290 250 | 357 042 | – | – | 647 292 |
| RN Ntshingila | 106 500 | 357 042 | – | – | 463 542 |
| JA Mabuza | 262 190 | 1 219 412 | – | – | 1 481 602 |
| KW Mzondeki | 363 475 | 357 042 | – | – | 720 517 |
| SL Botha | 298 500 | 357 042 | – | – | 655 542 |
| KT Kweyama | 227 500 | 357 042 | – | – | 584 542 |
| F Petersen-Lurie | 410 278 | 357 042 | – | – | 767 320 |
| LL Von Zeuner | 489 975 | 357 042 | – | – | 847 017 |
| *Executive that held office during 31 March 2016* | – | 12 691 200 | 9 829 862 | 1 446 432 | 23 967 494 |
| SN Maseko (CEO) | – | 7 441 200 | 6 127 846 | 941 683 | 14 510 729 |
| DJ Fredericks (CFO) | – | 5 250 000 | 3 702 016 | 504 749 | 9 456 765 |
| Total emoluments - paid by Telkom | 3 846 888 | 17 974 518 | 9 829 862 | 1 446 432 | 33 097 700 |

Refer to remuneration report for appointments and resignations.
Included in fringe and other benefits is motor car insurance for SN Maseko of R11 997 (2016: R11 997), DJ Fredericks, motor car insurance of R11 997 (2016: R11 997).

S Maseko was granted 262 755 shares (2016: 338 923) and the total IFRS 2 expense of R3 371 563 (2016: R4 392 442). DJ Fredericks was granted 69 043 shares (2016: 241 905) and the total IFRS 2 expense of R885 931 (2016: R3 135 089).

*[1] resigned on 3 November 2016*
*[2] appointed 16 October 2016*
** paid to Sphere Holdings (Pty) Limited*

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| **38 Directors' interest and prescribed officers** – continued | Notes | Remuneration * | Incentive bonus | Fringe and other benefits** | Total | Pension -TRF13%*** |
|---|---|---|---|---|---|---|
| | | R | R | R | R | R |
| **Emoluments per prescribed officer:** | | | | | | |
| **Group and company** | | | | | | |
| **2017** | | | | | | |
| BC Armstrong | | **5 001 345** | **4 249 353** | **11 997** | **9 262 695** | **319 086** |
| AN Samuels | | **4 500 000** | **4 433 738** | **11 997** | **8 945 735** | **339 300** |
| LM de Villiers | | **3 288 448** | **2 681 058** | **11 997** | **5 981 503** | **447 229** |
| IM Russell | | **4 153 353** | **4 103 244** | **11 997** | **8 268 594** | **323 961** |
| NM Lekota[1] | | **266 667** | **179 207** | **–** | **445 874** | **28 000** |
| A Vitai | | **5 830 000** | **5 777 314** | **11 997** | **11 619 311** | **–** |
| J Henning[2] | | **1 900 000** | **594 660** | **96 371** | **2 591 031** | **172 841** |
| I Mophatlane | | **5 804 827** | **5 341 562** | **519 909** | **11 666 298** | **246 371** |
| T Seopa | | **3 460 184** | **–** | **–** | **3 460 184** | **260 898** |
| Total emoluments - granted by Telkom | | **34 204 824** | **27 360 136** | **6 76 265** | **62 241 225** | **2 137 686** |

[1] appointed 1 March 2017
[2] resigned on 30 November 2016

| | Notes | Remuneration * | Incentive bonus | Fringe and other benefits** | Total | Pension -TRF13%*** |
|---|---|---|---|---|---|---|
| *2016* | | | | | | |
| MA Altman | 1 | 1 197 396 | 347 857 | 272 522 | 1 817 775 | 124 529 |
| BC Armstrong | | 5 001 345 | 3 340 323 | 481 830 | 8 823 498 | 455 122 |
| TE Msubo | 1 | 1 383 071 | – | 317 475 | 1 700 546 | 107 880 |
| GJ Rasethaba | 1 | 1 192 156 | 692 669 | 274 338 | 2 159 163 | 89 888 |
| AN Samuels | | 4 291 667 | 3 489 288 | 350 649 | 8 131 604 | 524 667 |
| V Scarcella | 1 | 1 430 000 | 1 011 458 | 329 038 | 2 770 496 | 111 540 |
| LM de Villiers | | 3 288 448 | 2 051 514 | 321 557 | 5 661 519 | 447 229 |
| IM Russell | | 4 153 353 | 3 000 011 | 402 977 | 7 556 341 | 323 961 |
| IC Coetzee | | 1 039 819 | 625 000 | 738 597 | 2 403 416 | 78 402 |
| A Vitai | 2 | 2 650 000 | 1 911 922 | 11 997 | 4 573 919 | – |
| J Henning | 2 | 1 295 455 | 1 091 071 | 11 997 | 2 398 523 | – |
| Total emoluments - granted by Telkom | | 26 922 710 | 17 561 113 | 3 512 977 | 47 996 800 | 2 263 218 |

| | Number of shares | IFRS 2 expense R |
|---|---|---|
| **2017** | | |
| Share allocation per prescribed officer: | | |
| BC Armstrong | **65 773** | **2 874 287** |
| AN Samuels | **59 179** | **1 991 962** |
| LM de Villiers | **43 246** | **2 917 017** |
| IM Russell | **54 621** | **2 543 963** |
| NM Lekota | **–** | **–** |
| A Vitai | **76 670** | **2 963 749** |
| J Henning | **17 491** | **1 097 241** |
| I Mophatlane | **255 384** | **4 920 868** |
| T Seopa | **147 804** | **2 195 988** |
| | **720 168** | **21 505 075** |



| **38 Directors' interest and prescribed officers** – continued | Number of shares | IFRS 2 expense R |
|---|---|---|
| *2016* | | |
| Share allocation per prescribed officer: | | |
| MA Altman | 76 735 | 994 486 |
| BC Armstrong | 133 270 | 1 727 179 |
| TE Msubo | 88 635 | 1 148 710 |
| GJ Rasethaba | 76 399 | 990 131 |
| AN Samuels | 96 060 | 1 244 938 |
| V Scarcella | 91 915 | 1 191 218 |
| LM de Villiers | 87 808 | 1 137 992 |
| IM Russell | 110 903 | 1 437 303 |
| IC Coetzee | 32 323 | 418 906 |
| A Vitai | 58 929 | 763 720 |
| J Henning | 13 443 | 174 221 |
| | 866 420 | 11 228 804 |

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

** Remuneration has been apportioned based on the period served as prescribed officers. Comparative information has been provided for members identified as prescribed officers.*
*** Fringe and other benefits include motor car insurance, retention agreements, sign-on bonuses, flexible allowance, acting allowances, leave gratuity and voluntary severance packages/voluntary early retirement packages benefits.*
**** The pension contribution is a company contribution.*

*[1] Ceased 31 August 2015.*
*[2] Appointed to executive committee 16 October 2015.*

| **39 Related parties** | Group | | Company | |
|---|---|---|---|---|
| | **2017 Rm** | 2016 Rm | **2017 Rm** | 2016 Rm |
| Details of material transactions and balances with related parties not disclosed separately in the consolidated annual financial statements were as follows: | | | | |
| **With shareholders:** | | | | |
| **Government of South Africa*** | | | | |
| *Related party balances* | | | | |
| Finance lease receivable | **180** | 272 | **180** | 272 |
| Trade receivables | **692** | 562 | **692** | 562 |
| Provision for doubtful debt | **(147)** | (67) | **(147)** | (67) |
| *Related party transactions* | | | | |
| Revenue | **(3 927)** | (3 700) | **(3 927)** | (3 700) |
| Individually significant revenue** | **(1 376)** | (1 282) | **(1 376)** | (1 282) |
| *Department of Correctional Services* | **(85)** | (78) | **(85)** | (78) |
| *Department of Justice* | **(107)** | (104) | **(107)** | (104) |
| *South African National Defence Force* | **(70)** | (66) | **(70)** | (66) |
| *South African Police Services* | **(586)** | (577) | **(586)** | (577) |
| *S.I.T.A. (Pty) Ltd* | **(214)** | (201) | **(214)** | (201) |
| *Ekurhuleni Metropolitan Council* | **(77)** | (57) | **(77)** | (57) |
| *Department of Internal Affairs* | **(52)** | (53) | **(52)** | (53) |
| *Eastern Cape Department of Health**** | **(52)** | (49) | **(52)** | (49) |
| *Dept of Agriculture* | **(54)** | (33) | **(54)** | (33) |
| *Province of KZN Health Service**** | **(79)** | (64) | **(79)** | (64) |
| Collectively significant revenue** | **(2 551)** | (2 418) | **(2 551)** | (2 418) |

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

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

| 39 Related parties – continued | Company 2017 Rm | Company 2016 Rm |
|---|---|---|
| At 31 March 2017, the Government of South Africa held 39.3% (2016: 39.3%) of Telkom's shares, and has the ability to exercise significant influence, and the Public Investment Corporation held 11.9% (2016: 11.4%) of Telkom's shares. | | |
| **With subsidiaries:** | | |
| **Business Connexion** | | |
| *Related party balances* | | |
| Trade receivables | **999** | 219 |
| Loans, preference shares and other facilities | **3 364** | 418 |
| Interest receivable | **–** | 15 |
| Trade payables | **(1 470)** | (541) |
| *Related party transactions* | | |
| Revenue | **(2 882)** | (18) |
| Expenses | **1 370** | 701 |
| Interest received | **(191)** | (15) |
| **Trudon Proprietary Limited** | | |
| *Related party balances* | | |
| Trade receivables | **4** | 6 |
| Trade payables | **(195)** | (311) |
| *Related party transactions* | | |
| Revenue | **(70)** | (68) |
| Expenses | **12** | 9 |
| Dividend received | **(145)** | (188) |
| **Swiftnet Proprietary Limited** | | |
| *Related party balances* | | |
| Trade receivables | **1** | 1 |
| Trade payables | **(1)** | (3) |
| *Related party transactions* | | |
| Revenue | **(4)** | (4) |
| Expenses | **69** | 56 |
| Dividend received | **(8)** | (7) |
| **Rossal No 65 Proprietary Limited** | | |
| *Related party balances* | | |
| Accruals and other payables | **(6)** | (2) |
| *Related party transactions* | | |
| Dividend paid | **(19)** | 5 |
| **Acajou Investments Proprietary Limited** | | |
| *Related party transactions* | | |
| Dividend paid | **–** | 437 |
| **Intekom Proprietary Limited** | | |
| *Related party balances* | | |
| Accruals and other payables | **(109)** | (112) |
| *Related party transactions* | | |
| Expenses | **–** | 22 |
| **Telkom Foundation** | | |
| *Related party balances* | | |
| Sundry provision | **(1)** | (5) |
| Assets | **(6)** | (5) |
| *Related party transactions* | | |
| Expenses | **50** | 44 |



**39 Related parties** – continued

The sales to and purchases from related parties of telecommunication services are made at normal market prices. Except as indicated above, outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Except as indicated above, for the year ended 31 March 2017, the company has not made any impairment of amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

| | Group 2017 Rm | Group 2016 Rm | Company 2017 Rm | Company 2016 Rm |
|---|---|---|---|---|
| **With entities under common control:** | | | | |
| **Major public entities** | | | | |
| *Related party balances* | | | | |
| Trade receivables | **40** | 130 | **40** | 45 |
| Trade payables | **(21)** | (5) | **(21)** | (5) |
| *Related party transactions* | | | | |
| Revenue | **(291)** | (394) | **(291)** | (244) |
| Expenses | **236** | 226 | **236** | 226 |
| Individually significant expenses | **236** | 207 | **236** | 207 |
| *South African Post Office* | **63** | 52 | **63** | 52 |
| *Eskom* | **173** | 155 | **173** | 155 |
| Collectively significant expenses | **–** | 19 | **–** | 19 |
| Rent received | **(35)** | (28) | **(35)** | (28) |
| Individually significant rent received: South African Post Office | **(26)** | (25) | **(26)** | (25) |
| Collectively significant rent received | **(9)** | (3) | **(9)** | (3) |
| Rent paid | **25** | 10 | **25** | 10 |
| Individually significant rent paid: South African Post Office | **20** | 5 | **20** | 5 |
| Collectively significant rent paid | **5** | 5 | **5** | 5 |
| **Key management personnel compensation:** | | | | |
| **(Including directors and prescribed officers' emoluments)** | | | | |
| *Related party transactions* | | | | |
| Short-term employee benefits | **262** | 308 | **224** | 213 |
| Post-employment benefits | **13** | 17 | **12** | 13 |
| Termination benefits | **19** | 14 | **14** | 14 |
| Equity compensation benefits | **17** | 14 | **17** | 14 |
| **Terms and conditions of transactions with related parties** | | | | |
| Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for related party receivables or payables. | | | | |

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

## 40 Group interest in subsidiaries and associates

Set out below is a list of the significant subsidiaries and associate of the group at 31 March 2017. Unless otherwise stated, the entities as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interest held equals to the voting rights held by the group.

Country of incorporation: RSA - Republic of South Africa

| | Country of incorporation | Issued share capital 2017 R | Interest in issued ordinary share capital 2017 % | Ownership interest held by non-controlling interest 2017 % | Issued share capital 2016 R | Interest in issued ordinary share capital 2016 % | Ownership interest held by non-controlling interest 2016 % |
|---|---|---|---|---|---|---|---|
| Business Connexion | RSA | **2 280 500** | **100** | **–** | 2 280 500 | 100 | – |
| Trudon (Pty) Ltd | RSA | **100 000** | **64.9** | **35.1** | 100 000 | 64.9 | 35.1 |
| Rossal No 65 (Pty) Ltd | RSA | **100** | **100** | **–** | 100 | 100 | – |
| Acajou Investments (Pty) Ltd | RSA | **100** | **100** | **–** | 100 | 100 | – |
| Intekom (Pty) Ltd | RSA | **10 001 000** | **100** | **–** | 10 001 000 | 100 | – |
| Q-Trunk (Pty) Ltd* | RSA | **10 001 000** | **100** | **–** | 10 001 000 | 100 | – |
| Swiftnet (Pty) Ltd | RSA | **5 000 000** | **100** | **–** | 5 000 000 | 100 | – |
| Number Portability company | RSA | **100** | **20** | **–** | 100 | 20 | – |

The total non-controlling interest for the period is R337 million (2016: R390 million), which relates to Trudon and Business Connexion and is not considered material to the group.

The group's interest in the Number Portability company is not regarded as individually material. The equity method is used to account for the financial information of the associate. The investment is recorded at cost.

| **Interest in operating profits from subsidiaries and associate** | **Revenue Rm** | **EBITDA Rm** | **EBIT Rm** | **Net profit/(loss) Rm** |
|---|---|---|---|---|
| **2017** | | | | |
| Business Connexion | **13 977** | **2 118** | **1 785** | **1 065** |
| Trudon (Pty) Ltd | **987** | **216** | **221** | **114** |
| Swiftnet (Pty) Ltd | **184** | **53** | **30** | **21** |
| Rossal No 65 (Pty) Ltd | **–** | **–** | **–** | **–** |
| Acajou Investments (Pty) Ltd | **–** | **–** | **–** | **–** |
| Intekom (Pty) Ltd | **–** | **–** | **–** | **–** |
| Telkom Foundation* | **–** | **(1)** | **(1)** | **(1)** |
| *2016* | | | | |
| Business Connexion** | 4 810 | 353 | 213 | 132 |
| Trudon (Pty) Ltd** | 1 048 | 360 | 362 | 235 |
| Swiftnet (Pty) Ltd | 158 | 47 | 25 | 20 |
| Rossal No 65 (Pty) Ltd | – | – | – | 2 |
| Acajou Investments (Pty) Ltd | – | – | – | (2) |
| Intekom (Pty) Ltd | – | 22 | 22 | 16 |
| Telkom Foundation* | – | (3) | (3) | (3) |

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

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

** Non-profit making trust.*
*** Restated*

## 41 Significant events and transactions

**Results of the Telkom Annual General Meeting regarding directors' re-appointments**
On 24 August 2016, all board members were re-elected as per the Annual General Meeting ordinary resolutions.

**Dividends**
The Telkom board declared an ordinary dividend of 270 cents per share on 6 June 2016 payable on 4 July 2016 to shareholders registered on 1 July 2016.

The Telkom board declared an interim dividend of 131.23874 cents per share on 11 November 2016 which was payable on 5 December 2016 to shareholders registered on 2 December 2016.

**Employee Share Plan**
During April 2016, Telkom purchased 3 710 126 shares from the market through Rossal, a wholly owned subsidiary for the purposes of the employee share plan.

**Telkom Enterprise and Business Connexion (BCX) Integration**
On 6 June 2016, Telkom announced its intention to integrate Telkom Enterprise into BCX. BCX operates as the Business to Business arm of the larger Telkom group. As from November 2016, the Telkom Enterprise business has been integrated with BCX. The integration enables the Telkom group to offer Enterprise solutions beyond connectivity and to strengthen Telkom's leadership in the Enterprise market.

**Allocation of shares in terms of the Telkom Employee Share Plan**
On 3 June 2016, the board approved the fourth 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 and sale of shares**
In terms of the Telkom Share Plan 161 627 and 64 685 shares vested to Sipho Maseko and Deon Fredericks respectively. On 4 July 2016, Sipho Maseko disposed of 145 907 shares. On 5 July 2016, Sipho Maseko and Deon Fredericks disposed of 15 720 and 25 581 shares respectively.

**Appointment of non-executive director**
Telkom announced on 20 October 2016 that Dr Hamadoun Touré has been appointed to the board of directors as a non-executive director with effect from 19 October 2016.

**Resignation of non-executive director**
Telkom announced on 3 November 2016 that Ms Nunu Ntshingila had informed the board of her resignation as director with effect from 3 November 2016.

# Notes to the consolidated annual financial statements – continued

for the year ended 31 March 2017

## 42 Events after the reporting date

**Dividends**
The Telkom Board declared an ordinary dividend of 290.75253 cents per share on 5 June 2017 payable on 3 July 2017 to shareholders registered on 30 June 2017.

**Resignation of non-executive director**
Telkom announced on 11 May 2017 that Ms Thembisa Skweyiya (Dingaan) had informed the Board of her resignation as director with effect from 10 May 2017.

**Establishment of Gyro group**
Telkom SA SOC Ltd (Telkom) and Gyro Group, are entering into a sale of business for shares transaction in terms of which Telkom is selling its Masts and Towers (M&T) business to an existing subsidiary, Swiftnet, and 40 properties to a newly established wholly owned subsidiary, Gyro.

The M&T business will be sold as a going concern. Included in the M&T business are contracts, licenses, M&T fixed assets and free right of use on Intellectual Property (IP) all of which is currently used by the M&T business. The 40 properties consist of technical, commercial and industrial properties owned by Telkom.

The sale is part of the Telkom's endeavor to unlock value in its property and M&T portfolios and the sale will be effective from the date of transfer of the properties.

**Other matters**
The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2017 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.

## 43 Shareholder analysis

| | Number of shareholders | Percentage | Holdings | Percentage |
|---|---|---|---|---|
| **Range of shareholders** | | | | |
| 1 - 100 shares | 52 785 | 69.73 | 1 804 814 | 0.34 |
| 101 - 1 000 shares | 20 714 | 27.36 | 5 489 999 | 1.04 |
| 1 001 - 10 000 shares | 1 657 | 2.19 | 4 406 554 | 0.84 |
| 10 001 - 50 000 shares | 248 | 0.33 | 5 666 519 | 1.08 |
| 50 001 - 100 000 shares | 86 | 0.11 | 6 381 965 | 1.21 |
| 100 001 - 1 000 000 shares | 171 | 0.23 | 61 303 596 | 11.63 |
| 1 000 001 and more shares | 40 | 0.05 | 441 895 251 | 83.86 |
| | 75 701 | 100.00 | 526 948 698 | 100.00 |
| **Type of shareholder** | | | | |
| Banks | 224 | 0.30 | 170 578 131 | 32.37 |
| Close corporations | 31 | 0.04 | 54 423 | 0.01 |
| Endowment funds | 128 | 0.17 | 381 511 | 0.07 |
| Individuals | 72 946 | 96.35 | 11 254 754 | 2.14 |
| Insurance companies | 36 | 0.05 | 8 119 816 | 1.54 |
| Investment companies | 24 | 0.03 | 5 107 506 | 0.96 |
| Medical aid schemes | 10 | 0.01 | 52 613 | 0.01 |
| Mutual funds | 187 | 0.25 | 32 104 428 | 6.09 |
| Other corporations | 51 | 0.07 | 207 087 769 | 39.30 |
| Private companies | 110 | 0.15 | 735 662 | 0.14 |
| Public companies | 5 | 0.01 | 37 228 | 0.01 |
| Retirement funds | 158 | 0.21 | 73 181 632 | 13.89 |
| Treasury stock | 2 | 0.00 | 17 406 085 | 3.30 |
| Trusts | 1 789 | 2.36 | 847 140 | 0.16 |
| | 75 701 | 100.00 | 526 948 698 | 100.00 |



## 43 Shareholder analysis – continued

| | Number of shareholders | Percentage | Holdings | Percentage |
|---|---|---|---|---|
| **Geographical holdings by owner** | | | | |
| South Africa | 75 365 | 99.56 | 344 071 958 | 65.30 |
| United States | 100 | 0.13 | 111 723 621 | 21.20 |
| United Kingdom | 90 | 0.12 | 46 361 134 | 8.80 |
| Europe | 61 | 0.08 | 12 634 070 | 2.40 |
| Other | 85 | 0.11 | 12 157 915 | 2.30 |
| | 75 701 | 100.00 | 526 948 698 | 100.00 |
| **Beneficial shareholders of more than 2%** | | | | |
| The Government of the Republic of South Africa | | | 207 038 058 | 39.29 |
| Government Employees Pension Fund | | | 62 592 042 | 11.88 |
| Old Mutual | | | 17 406 085 | 3.30 |
| | | | 287 036 185 | 54.47 |
| **Public and non-public shareholders** | | | | |
| ***Non-public shareholders*** | | | 224 594 203 | 42.62 |
| The Government of the Republic of South Africa | | | 207 038 058 | 39.29 |
| Government buffer account | | | 9 461 | 0.00 |
| Telkom Treasury Stock | | | 17 406 085 | 3.30 |
| Executive and Non-executive directors* | | | 139 765 | 0.03 |
| Subsidiaries directors* | | | 834 | – |
| ***Public shareholders*** | | | | |
| Institutional and retail investors | | | 302 354 495 | 57.38 |
| | | | 526 948 698 | 100.00 |

The information above is based on registered shareholders, except where only beneficial shareholders' information was available as at 31 March 2017.

** Director holdings consist of direct and indirect holdings.*

# Administration

**Company registration number**
1991/005476/30

**Head office**
61 Oak Avenue
Highveld
Centurion 0157
South Africa

**Postal address**
Telkom South Africa SOC Limited
Private Bag X881
Pretoria 0001

**Telkom register helpline**
0861 100 948

**Group company secretary**
Ephy Motlhamme
Tel: +27 12 311 3911

**United States ADR depository**
The Bank of New York Mellon
Shareholder Relations Department
PO Box 11258
New York
NV 10286-1258
Tel: +1 888 643 4269
shareowner-svcs@bankkofny.com

**Auditors**
Ernst & Young Inc
102 Rivonia Road
Sandton 2146
Tel: +27 11 772 3000
Fax: +27 11 772 4000

Nkonki Inc
Nkonki House 1
1 Simba Road
Sunninghill
Johannesburg
Tel: +27 11 517 3000

**Transfer agents**
Computershare Investor Services (Pty) Ltd
70 Marshall Street
Johannesburg 2001
PO Box 61051
Marshalltown 2107

**Business call centre**
10217

**Investor Relations**
Babalwa George
Tel: +27 12 311 8675
telkomir@telkom.co.za

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