

Telkom SA SOC Limited

Group Provisional Annual Results

for the year ended 31 March 2019



Telkom

Telkom SA SOC Ltd

(Incorporated in the Republic of South Africa)

Registration number 1991/005476/30

JSE share code: TKG

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JSE bond code: BITEL

("Telkom" or "the company")

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

Special note regarding forward-looking statements

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

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

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

Any forward looking financial information disclosed in this group provisional annual results for the year ended 31 March 2019 (the "results announcement") has not been reviewed or audited or otherwise reported on by our external joint auditors.

The FY2018 comparatives of the results announcement are restated for the adoption of IFRS 15 and change in the presentation of cash flows.

Pro forma information

Certain financial information presented in the results announcement constitute pro forma financial information. This is presented for illustrative purposes only. Because of its nature, the pro forma financial information may not fairly present Telkom's financial position, changes in equity, and results of operations or cash flows. The pro forma financial information is the responsibility of the board of directors of Telkom. The pro forma financial information contained in this results announcement has been reviewed by the group's joint independent external auditors and their unmodified limited assurance report prepared in terms of ISAE 3420 is available for inspection at the company's registered office during office working hours.

The financial information presented in the results announcement has been prepared excluding the impact of the voluntary severance packages (VSP), voluntary early retirement packages (VERP) and the section 189 costs ('the pro forma adjustments') and constitute pro forma financial information to the extent that it is not extracted from the segment disclosure included in the summary audited consolidated provisional financial statements for the year ended 31 March 2019. This pro forma financial information has been presented to eliminate the impact of the pro forma adjustments from the consolidated financial results for the year ended 31 March 2019 to achieve a comparable year on year analysis and show the underlying performance of the business. The pro forma adjustments have been determined in terms of the group accounting policies disclosed in the consolidated financial statements for the year ended 31 March 2019, except for the changes in accounting policies as a result of the adoption of the accounting pronouncements effective 1 January 2018 and the JSE Listing Requirements.

Reported March 2019 refers to the March 2019 financial information as included in the summary audited consolidated provisional financial statements.

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

The directors of Telkom take full responsibility for the preparation of this results announcement including the pro forma financial information that has been correctly extracted from the underlying audited financial statements.

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

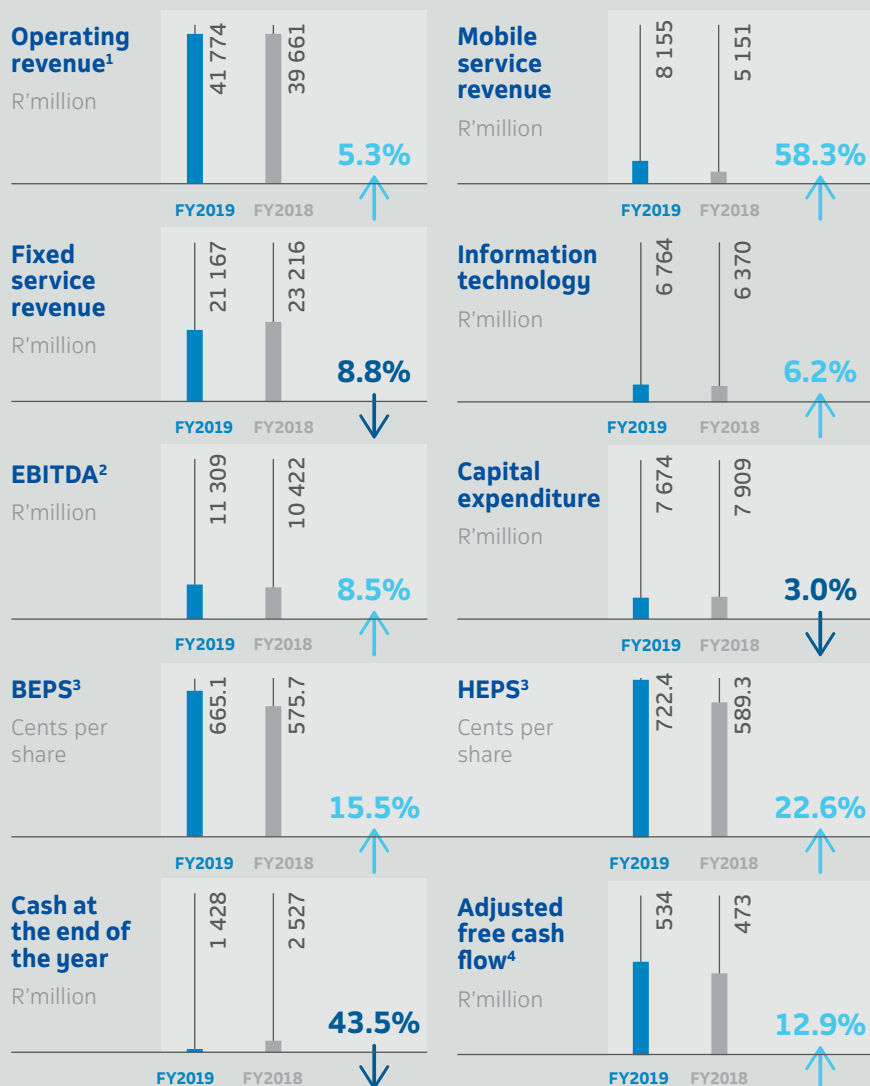


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Key indicators

All commentary, messaging and indicators in this report for the current year exclude VSP, VERP and section 189 costs of R728 million and the related tax impact of R215 million (the pro forma adjustments).



¹ During the year we restated the prior year revenue by R1 357 million. Of this amount, R656 million related to Smart Office Connexion (SOX). The implementation of IFRS 15 also highlighted a prior year error of R641 million relating to the recognition of Mobile CPE revenue to dealer stores and R60 million related to the adoption of IFRS 15. These revenue adjustments led to a restatement of the prior year number from R41 018 to R39 661 million.

² EBITDA as defined in the IFRS 8 segment note in the consolidated financial information and includes the pro forma adjustments. Refer to page 5 for the reconciliation for the reported figures to the adjusted figures.

³ Based on pro forma financial information. Refer to page 5 for the reconciliation of the reported figures to the adjusted figures.

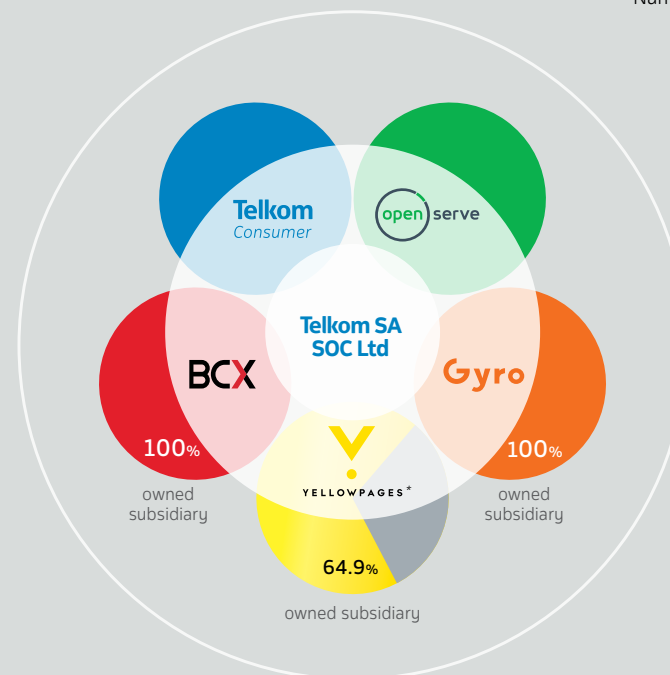
⁴ Based on pro forma financial information. Refer to page 11 for the reconciliation of the reported figures to the adjusted figures.

Telkom structure

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

In the context of our operating model, business units comprise our divisions and subsidiaries. The "Other" segment includes Yellow Pages, VS Gaming and Corporate Centre.

<p>Openserve is South Africa's leading wholesale infrastructure connectivity provider with the largest open access network across South Africa.</p>	<p>Telkom Consumer is South Africa's largest fixed-broadband provider and, together with its mobile network, a converged communications provider.</p>	<p>BCX is a leading technology company that provides ICT solutions and an integrated portfolio of technology solutions across South Africa.</p>	<p>Gyro is a turn-key solutions provider responsible for managing the mast and tower portfolio, property development and property management services on behalf of the group.</p>	<p>Yellow Pages is a local advertising and marketing company that provides services and digital solutions to local businesses. Yellow Pages' business units operate in South Africa and Namibia.</p>
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*known as Trudon

Adjustments and restatements

Revenue restatements

The 31 March 2018 comparative financial information was restated due to a prior year adjustment relating to the adoption of **IFRS 15** (Revenue from contracts with customers). The adoption of the standard had no material impact on earnings before interest, taxation, depreciation and amortisation (EBITDA), profit before tax, cashflows, or basic earnings per share (BEPS) and headline earnings per share (HEPS).

As part of the IFRS 15 implementation process, the group reassessed the revenue recognition principles of **IAS 18** and the judgement applied to mobile customer premises equipment (CPE) sales. This resulted in a restatement of revenue and cost of handsets. There was no impact on the EBITDA, profit before tax, cashflows or BEPS and HEPS.

During the year we identified that due to protective rights historically granted to the minority shareholder, in respect of SOX which, is a 51 percent previously consolidated entity, BCX concluded that it did not have control of the entity as defined by **IFRS 10** (Consolidated financial statements). There was no material impact from the accounting standard on the EBITDA, profit before tax, cashflows or BEPS and HEPS.

Both matters (IAS 18 and IFRS 10) were assessed as material prior year errors and were corrected by restating the comparative figures as required by IAS 8 (Accounting policies, changes in accounting estimates and errors).

	Previously reported March 2018 Rm	Restatements Rm	Restated March 2018 Rm
Revenue	41 018	(1 357)	39 661
IFRS 15		(60)	
IAS 18		(641)	
IFRS 10		(656)	
EBITDA	10 544	(122)	10 422
IFRS 15		(29)	
IFRS 10		(93)	
Profit after tax	3 158	(160)	2 998
IFRS 15		(29)	
IFRS 10		(131)	
BEPS (cents)	602.3	(26.6)	575.7
IFRS 15		(5.7)	
IFRS 10		(20.9)	
Free cash flow	501	(28)	473
IFRS 10		(28)	

IFRS 9

IFRS 9 (Financial instruments) was adopted without restating comparative financial information. In accordance with the transitional provisions of the standard, the adjustment arising from the implementation of the expected credit loss model is not reflected in the restated statement of financial position as at 1 April 2017 and 31 March 2018, but is recognised as an adjustment to the retained earnings opening balance as at 1 April 2018.

Pro forma financial information

Certain financial information presented in this results announcement constitutes pro forma financial information in terms of the JSE Listings Requirements. The pro forma financial information is presented to assist a user to analyse the underlying performance of the business. The pro forma adjustments include the impact of the VSP, VERP and section 189 costs of R728 million and the related tax impact of R215 million. The pro forma consolidated income statement and the pro forma consolidated cash flow statement and all related KPI's and messages in this booklet are based on this adjusted 31 March 2019 base. The applicable criteria on which this pro forma financial information is reported and prepared, is set out below.

	Reported March 2019 Rm	Pro forma adjustment Rm	Adjusted March 2019 ¹ Rm
Operating expenses	22 310	(728)	21 582
Employee expenses	10 777	(728)	10 049
EBITDA	10 581	728	11 309
Operating profit	4 767	728	5 495
Taxation	1 176	215	1 391
Profit for the period	2 831	513	3 344
BEPS (cents)	561.9		665.1
HEPS (cents)	619.2		722.4

¹ Excluding the impact of VSP, VERP and section 189 costs of R728 million and the related tax impact of R215 million.

Results from operations

The group profit after tax increased by 11.5 percent to R3 344 million (FY2018: R2 998 million). This is mainly attributable to the 8.5 percent increase in EBITDA² to R11 309 million, offset by a 25.0 percent increase in the taxation expense and a 4.1 percent increase in depreciation, amortisation, impairments and write-offs, resulting in a 22.6 percent increase in adjusted HEPS.

² EBITDA as defined in the IFRS 8 segment note in the consolidated financial information and includes the pro forma adjustments.

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Overview of our business

Telkom announced its group results for the year ended 31 March 2019 on 27 May 2019 in Centurion, South Africa.

Telkom delivered a solid performance with group operating revenue increasing by 5.3 percent, driven by the stellar performance of our mobile business. Mobile service revenue increased by 58.3 percent, underpinned by our broadband-led proposition. BCX recorded growth in information technology (IT) revenue from external enterprise customers despite the weak economic environment and Gyro performed very well. The change in technology continues to put our fixed business under pressure with fixed voice revenue negatively impacting the overall performance of BCX and Openserve. Overall, I am pleased that the growth in the new revenue streams drives overall growth for the group attesting to the success of our investment strategy.



Message from group chief executive officer (GCEO)

Siphso Maseko

The significant growth in mobile service revenue was supported by an 85.9 percent growth in active subscribers to 9.7 million, as our affordable broadband-led proposition continues to resonate with customers. Despite adding 4.5 million subscribers in the year, our blended average revenue per user (ARPU) was stable at R100. Pre-paid subscribers more than doubled compared to the prior year, increasing by 109.3 percent to 7.8 million (FY2018: 3.7 million). Our pre-paid proposition continues to attract good quality subscribers demonstrated by a significant increase in pre-paid ARPU of 19.8 percent to R71. Post-paid subscribers increased by 26.8 percent, with net additions of approximately 396 000 to reach 1.9 million, with an ARPU of R186.

Our strategy to separate our property and mast and tower portfolio to increase management focus and unlock value for the group is bearing fruit. Gyro's external revenue grew by 24.2 percent and the mast and tower tenants grew by 10.5 percent compared to FY2018.

BCX's IT revenue from external customers grew 6.2 percent. This was achieved despite the weak economic environment where South Africa experienced a technical recession in the first half of the year, and consumers were under pressure from increases in tax and fuel and a weaker currency. This is an encouraging result given that BCX touches all sectors of the economy. I am particularly pleased that BCX has now stabilised as an organisation, mainly attributable to a new leadership team, a change in the operating model and an enhanced strategy focusing on customer retention.

Notwithstanding the group's solid performance, evolving technology is a key challenge. This is evident by a decline of 7.9 percent in the fixed business revenue across the group, as customers migrate to new technologies. Fixed voice and interconnection revenue declined by 14.3 percent, which negatively impacted the overall performance of Openserve and BCX. Despite this impact, overall revenue decline was contained at 3.3 percent for Openserve and 3.4 percent for BCX.

The declining traditional revenue has an **EBITDA dilution impact** and requires sustainable cost management initiatives to preserve margins. We implemented several cost optimisation initiatives which led to underlying **group EBITDA increasing by 8.5 percent** ahead of revenue growth of **5.3 percent**. The EBITDA margin expanded by 0.8 percentage points to 27.1 percent. We remain focused on operational efficiencies to preserve margins, while our revenues evolve, and we manage the impact of inflation on our expenses.

Our capital investment of R7.7 billion continues to underpin our growth, with a capital expenditure (capex) to revenue ratio of 18.4 percent. Our ongoing investment enabled Telkom to grow new revenue in evolving technology, offsetting the traditional revenue shrinkage. Over the past six years, the contribution of our new revenue streams has grown significantly, the mobile revenue contribution increased from 3.2 percent to 25.7 percent, and IT revenue grew from 0.9 percent to 16.2 percent. We continue to invest in the fibre ecosystem which sustains our fixed data revenue. We are prudent in our homes passed by fibre strategy and focus on homes connected. We increased the home connectivity rate to 38.4 percent (FY2018: 30.7 percent). We remain a market leader in fibre to the business and backhaul, with the majority of our sites connected with fibre. We continue to modernise our network through the packet optical transport network (POTN), which will future-proof the core network and enable data growth across access aggregation and core networks. This is the foundation for software-defined networks and network functional virtualisation capability.

Siphso Maseko
Group chief executive officer


Overview of our business

Financial capital



Key salient features


 **Group operating revenue¹ up 5.3 percent to R41.8 billion**

 **Capex of R7.7 billion with capex to revenue ratio of 18.4 percent**

 **EBITDA² up 8.5 percent to R11.3 billion**

 **HEPS³ up 22.6 percent to 722.4 cents**

 **EBITDA margin of 27.1 percent**

 **Final ordinary dividend of 249 cents taking the annual dividend to 362 cents, an increase of 2.0 percent year on year**

Financial information summary

	Adjusted March 2019 Rm	Restated March 2018 Rm	Variance %
Gross operating revenue ¹	41 774	39 661	5.3
EBITDA ²	11 309	10 422	8.5
Capital expenditure	7 674	7 909	(3.0)
Free cash flow ⁴	534	473	12.9
Net debt	8 813	6 870	(28.3)
Headline earnings per share (cents) ³	722.4	589.3	22.6
EBITDA margin (%) ²	27.1	26.3	
Effective tax rate (%)	29.4	27.6	
Capex to revenue (%)	18.4	19.9	
Net debt to EBITDA (times)	0.8	0.7	
Return on invested capital (%)	11.3	10.2	

¹ During the year we restated the prior year revenue by R1 357 million. Of this amount, R656 million related to Smart Office Connexion (SOX). The implementation of IFRS 15 also highlighted a prior year error of R641 million relating to the recognition of mobile CPE revenue to dealer stores and R60 million related to the adoption of IFRS 15. These revenue adjustments led to a restatement of the prior year number from R41 018 to R39 661 million.

² EBITDA as defined in the IFRS 8 segment note in the consolidated financial information and includes the pro forma adjustments.

³ Based on pro forma financial information. Refer to page 5 for the reconciliation of the reported figures to the adjusted figures.

⁴ Based on pro forma financial information. Refer to page 11 for the reconciliation of the reported figures to the adjusted figures.

Group revenue driven by new revenue streams

Group revenue increased 5.3 percent to R41 774 million, mainly driven by a 58.3 percent increase in mobile service revenue. BCX's IT and Gyro's external revenue also contributed positively to the group revenue, with a growth of 6.2 percent and 24.2 percent respectively. Ongoing investment, enhanced management focus and broadband-led propositions underpinned our revenue growth.

Notwithstanding the growth in new revenue streams, the fixed business continues to be negatively impacted by a change in technology. Fixed voice and interconnection revenue declined 14.3 percent as customers migrate to newer technologies.

Underlying group EBITDA growth underpinned by sustainable cost management

Group EBITDA increased by 8.5 percent to R11.3 billion, with an EBITDA margin of 27.1 percent (FY2018: 26.3 percent). EBITDA improvement benefited from the revenue growth and our ongoing sustainable cost management.

Direct costs which are associated with the mobile business increased 20.7 percent largely due to an increase in store footprint, extension of distribution channels and an increase in dealer incentives to support the growth in subscriber base. The direct costs growth was much lower than the mobile service revenue growth of 58.3 percent.

Our relentless focus on cost reduction continues, with operating expenses declining 1.4 percent due to a 12.5 percent decline in headcount supported by our staff optimisation process. This was offset by the growth in maintenance costs to support the 28.7 percent increase in mobile sites by 1 142 sites in the year as we grow our mobile coverage and capacity.

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

R41.8 bn

Group operating revenue driven mainly by the mobile business

5.3% increase from the previous year



R8.2 bn

mobile service revenue

58.3% increase from the previous year



R11.3 bn

Group EBITDA

8.5% increase from the previous year



EBITDA margin

of **27.1%**



722.4 cents per share

Group HEPS

22.6% increase from the previous year



Overview of our business

Financial capital continued

Group HEPS benefited from higher EBITDA

Reported HEPS increased 5.1 percent to 619.2 cents per share, mainly due to higher EBITDA. HEPS, excluding the impact of VSP, VERP and section 189 cost, increased 22.6 percent to 722.4 cents. Reported BEPS decreased 2.4 percent. Excluding the impact of VSP, VERP and section 189 costs, BEPS increased 15.5 percent to 665.1 cents, benefiting from EBITDA growth.

Group capital investment for future growth

Capital investment of R7.7 billion, with capex to revenue of 18.4 percent underpins growth. Mobile and fibre remain key capex focus areas with good returns in mobile service revenue growth of 58.3 percent. The investment in FTTH rationalised as we focus on areas showing a propensity for higher connectivity rates. Our FTTH connectivity rate improved to 38.4 percent – the highest connectivity rate in the market. We increased our investment in POTN which will future-proof the core network. This is the foundation for software-defined networks and network function virtualisation capability.

Capex	March 2019 Rm	March 2018 Rm	Variance %
Fibre	1 216	2 112	(42.4)
Mobile	3 011	2 319	29.8
Operations support system (OSS)/business support system (BSS) programme	223	294	(24.1)
Network rehabilitation/sustainment	261	303	(13.9)
Service on demand	1 195	1 292	(7.5)
Core network	1 172	902	29.9
Other	207	131	58.0
Telkom	7 286	7 353	(0.9)
BCX	304	504	(39.7)
Gyro	60	29	106.9
Other			
Yellow Pages	24	16	50.0
VS Gaming	–	7	(100.0)
Total	7 674	7 909	(3.0)

Strong balance sheet to fund future growth

Telkom remains lowly geared with a net debt to EBITDA ratio of 0.8 times, despite net debt increasing to R8 813 million (FY2018: R6 870 million). Group cash balances declined to R1 428 million (FY2018: R2 527 million), mainly due to R566 million paid for VSP, VERP and section 189 costs.

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

Balance sheet

	March 2019 Rm	Restated March 2018 Rm	Variance %
Bank and cash balances	1 428	2 527	(43.5)
Current borrowings	(5 401)	(2 239)	(141.2)
Non-current borrowings	(4 840)	(7 158)	32.4
Net debt	(8 813)	(6 870)	(28.3)
Net debt to EBITDA (times)	0.8	0.7	0.1

Free cash flow impacted by the payment of VSP, VERP and section 189 costs and working capital management

Free cash flow weakened to negative R32 million (FY2018: positive R473 million). This was due to an 8.2 percent decrease in cash generated from operations before dividend paid, mainly impacted by the R566 million VSP, VERP and section 189 costs and a decrease in working capital. The deterioration in working capital was primarily due to the increase in contract assets. Excluding the impact of the VSP, VERP and section 189 payments, our cash flow would have increased by 12.9 percent to R534 million.

Free cash flow

	March 2019 Rm	Restated March 2018 Rm	Variance %
Cash generated from operations	8 903	10 113	(12.0)
Interest received	441	310	42.3
Finance charges paid	(847)	(722)	(17.3)
Taxation paid	(945)	(1 472)	35.8
Cash generated from operations before dividend paid	7 552	8 229	(8.2)
Cash paid for capital expenditure	(7 584)	(7 756)	2.2
Free cash flow	(32)	473	(106.8)
Add back: VSP, VERP and section 189 costs paid	566	–	100.0
Adjusted free cash flow	534	473	12.9

Progress against medium-term guidance

	FY2019 - FY2021	FY2019 Actual	Medium-term guidance
Operating revenue	Mid-single digit	5.3%	Mid-single digit
EBITDA margin	24% - 27%	27.1%	n/a
EBITDA growth	n/a	8.5%	Mid-single digit
Capex to revenue	16% - 20%	18.4%	16% - 20%
Net debt to EBITDA (times)	≤ 1	0.8	1 - 1.2

Note: Excludes corporate action.

Based on initial IFRS 16 take on balances.

As business is evolving, the change in revenue mix has a dilutive impact on EBITDA margins. **Management will now focus on growing absolute EBITDA going forward.** The accounting changes IFRS 16 will have a dilutive impact on earnings while positively impacting EBITDA. **IFRS 16 will significantly impact our balance sheet negatively particularly our net debt and net debt to EBITDA ratio and necessitated that we increase our net debt to EBITDA ratio guidance.**

Overview of our business

Financial capital continued

Segment performance

Inter-company revenue and transfer pricing were included to measure and assess performance and allocate resources.

Adjusted	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	Group Rm
March 2019							
Revenue from contracts with customers	16 940	19 214	19 580	1 169	2 015	(17 144)	41 774
Fixed	16 940	8 265	10 432	-	169	(13 055)	22 751
Mobile	-	10 949	-	-	-	(195)	10 754
Information technology	-	-	8 919	-	-	(2 155)	6 764
Other	-	-	229	1 169	1 846	(1 739)	1 505
Cost of handsets, equipment and directories	-	(2 959)	(2 121)	-	(244)	119	(5 205)
Sales commission, incentive and logistical costs	(6)	(1 250)	(213)	-	-	12	(1 457)
Payments to other operators	(954)	(1 958)	(729)	-	-	701	(2 940)
Other income	378	615	117	-	809	(1 200)	719
Operating expenses	(10 066)	(12 632)	(13 394)	(484)	(2 518)	17 512	(21 582)
Employee expenses	(3 628)	(735)	(4 538)	(104)	(1 032)	(12)	(10 049)
Other operating expenses	(1 553)	(7 990)	(7 071)	(79)	(274)	13 814	(3 153)
Maintenance	(2 413)	(2 087)	(1 041)	(25)	(446)	2 938	(3 074)
Marketing	(24)	(458)	(63)	-	(390)	129	(806)
Impairment of receivables and contract assets	(19)	(416)	50	16	27	(42)	(384)
Service fees	(1 721)	(416)	(490)	(185)	(335)	213	(2 934)
Operating leases	(708)	(530)	(241)	(107)	(68)	472	(1 182)
EBITDA ²	6 292	1 030	3 240	685	62	-	11 309
EBITDA ² margin (%)	37.1	5.4	16.5	58.6	3.1		27.1
Capital expenditure	4 034	3 070	304	60	206		7 674

¹ During the year we restated the prior year revenue by R1 357 million. Of this amount, R656 million related to Smart Office Connexion (SOX). The implementation of IFRS 15 also highlighted a prior year error of R641 million relating to the recognition of Mobile CPE revenue to dealer stores and R60 million related to the adoption of IFRS 15. These revenue adjustments led to a restatement of the prior year number from R41 018 to R39 661 million.

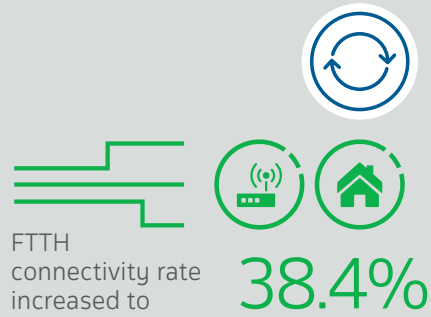
² EBITDA as defined in the IFRS 8 segment note in the consolidated financial information and includes the pro forma adjustments.

FY2018 has been restated to reflect the revised measurement basis used by the chief operating decision makers to measure the performance of the reportable segments in the current financial year.

Restated	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	Group Rm
March 2018							
Revenue from contracts with customers ¹	17 525	16 501	20 263	944	4 457	(20 029)	39 661
Fixed	17 525	9 278	11 253	-	95	(13 446)	24 705
Mobile	-	7 223	-	-	-	(155)	7 068
Information technology	-	-	8 843	-	-	(2 473)	6 370
Other	-	-	167	944	4 363	(3 956)	1 518
Cost of handsets, equipment and directories	(1)	(2 163)	(2 051)	-	-	(196)	(4 411)
Sales commission, incentive and logistical costs	(48)	(779)	(184)	-	-	76	(935)
Payments to other operators	(1 296)	(1 247)	(922)	-	(12)	871	(2 606)
Other income	345	807	3	-	769	(1 317)	607
Operating expenses	(10 621)	(13 265)	(13 799)	(630)	(4 174)	20 595	(21 894)
Employee expenses	(4 145)	(1 003)	(4 777)	(59)	(693)	-	(10 677)
Other operating expenses	(1 754)	(8 493)	(6 940)	-	(423)	14 619	(2 991)
Maintenance	(2 615)	(2 162)	(1 060)	(146)	(2 497)	5 784	(2 696)
Marketing	(14)	(370)	(125)	-	(246)	(8)	(763)
Impairment of receivables and contract assets	3	(438)	(53)	(15)	(139)	7	(635)
Service fees	(1 502)	(323)	(629)	(410)	(164)	-	(3 028)
Operating leases	(594)	(476)	(215)	-	(12)	193	(1 104)
EBITDA	5 904	(146)	3 310	314	1 040	-	10 422
EBITDA margin (%)	33.7	(0.9)	16.3	33.3	23.3		26.3
Capital expenditure	4 728	2 359	504	29	289		7 909

Overview of our business

Productive capital



up 7.7 ppts from FY2018 ↑



up 3.4 ppts from FY2018 ↑

We believe the scale and quality of our network is our primary value differentiator. Our strong footprint and IP-based network create a unique holistic network. We are confident that improved cost-efficiency initiatives and focused customer interactions will redefine South Africa's data connectivity market.

Openserve was awarded the title **2018 Fixed Broadband Provider of the Year** by MyBroadband



Openserve's revenue was resilient despite customers migrating to next-generation technologies at lower price points. Despite pressure on revenue and a change in our revenue mix, EBITDA grew at a better rate than the previous years. This was enabled by, among others, our strategy to modernise the network to improve cost to connect and reduce cost to serve.

Performance overview

Openserve contained the revenue decline at 3.3 percent to R16 940 million (FY2018: R17 525 million), despite voice revenue decreasing by 15.8 percent. The decline in voice revenue was caused by migration of customers from legacy to next-generation technologies, and lower call termination rates. The negative impact was partially offset by fixed data revenue growth of 7.3 percent, mainly due to next-generation fibre and ethernet products, which grew by 40.3 percent to R1 207 million. Fibre to the base station increased by 3.3 percent to 7 018 base stations as mobile operators expand their networks. The demand for ethernet services from enterprise customers increased by 55.6 percent to 37 476 service connections. Our focus on homes connected to improve returns is being realised. The FTTH connectivity rate increased from 30.7 percent in the prior year to 38.4 percent, slightly below our target of 40 percent.

Openserve upgraded the fibre broadband portfolio minimum access speed to 10 Mbps to enable faster broadband access speed and increase data consumption. Openserve also reduced the effective price on IPConnect by 9.1 percent by providing additional capacity to customers. This led to an increase of 11.6 percent on the average daily data usage for FTTH customers in the fourth quarter. This is in line with our commitment to bring down the cost to communicate.

EBITDA improved 6.6 percent to R6 292 million, driven by a 5.2 percent decrease in operating costs as we continue to extract operational efficiencies by modernising our network. The migration from legacy to next-generation technology contributed to a 27.8 percent

reduction in assurance visits, which decreased our subcontractor cost. Our cost optimisation programme included employee productivity and operational efficiencies, which contributed positively with a 12.5 percent decrease in employee costs.

The EBITDA margin increased by 3.4 percentage point basis to 37.1 percent, despite the dilution impact of the change in revenue mix.

Modernising the network

Our capital investment focuses on modernising the network through the POTN, which will future-proof the core network and enable data growth across access, aggregation and core networks. This is the foundation for software-defined networks and network function virtualisation capabilities.

Our investment in the national fibre portfolio increased our footprint by 6 400 km of fibre, with a total fibre network of 163 800 km. This grew ethernet services on the network by 13 400 connections (FY2018: 7 700) to 37 400. The associated capital investment reduced by 7.4 percent.

We are optimising our capital investment through redeploying next-generation broadband equipment from areas recently covered with fibre, to areas serviced with legacy broadband equipment.

Transforming service delivery

Customer experience is an integral part of our service delivery strategy. We implemented a fully integrated workforce dispatching tool, which improved our service delivery. The tool uses real-time scheduling to reduce travel time and improve productivity efficiency.

The service delivery transformation journey decreased redispaches by 21.4 percent, improving our net promoter score (NPS) by 2.9 percent to 48.9 percent.

Our data analytics provides accurate and predictive information that facilitates a proactive approach to managing our network and meeting customer expectations.

Overview of our business

Productive capital continued



Telkom Consumer operating revenue:

R19 214m

an increase of

16.4% ↑

due to accelerated mobile data revenue growth



Active mobile customers increased by

85.9% to

9.7m ↑



Mobile service revenue up

58.3% to

R8.2bn ↑



EBITDA grew exponentially from

(R146m) to

R1 030m ↑

due to the growth in net operating revenue, ongoing cost management and cost efficiencies

Telkom Consumer

Telkom Consumer's performance was driven by the mobile business acceleration, underpinned by our successful data-led value propositions. We are migrating customers from selected traditional fixed-line to wireless technologies, such as LTE and fibre. We continued to invest in the wireless network and started implementing the roaming agreement and facilities leasing agreement between Telkom and Vodacom. We extended distribution channels and increased our store footprint to support the increase in demand for mobile services.

Performance overview

Telkom Consumer's operating revenue increased by 16.4 percent to R19 214 million (FY2018: R16 501 million). This is mainly due to accelerated mobile service revenue of 58.3 percent to R8 155 million (FY2018: R5 151 million).

Mobile

Our data-led proposition and customer value management underpinned growth in subscriber base and ARPUs. Active subscribers increased by 85.9 percent to 9.7 million, with a blended ARPU stable at R100.

Data

Our broadband-led strategy is yielding positive results. Data revenue increased by 34.7 percent to R8 913 million, mainly due to mobile data revenue growth of 60.7 percent to R5 917 million. Our broadband customer base, which includes ADSL, VDSL, LTE and fibre, increased by 8.4 percent to 1.7 million customers. This was supported mainly by new to franchise subscribers and the migration of customers to new products, as well as the Summer and Chinese marketing campaigns. We expanded our innovative product offering through the unlimited home product suite. It offers a premium service with uncapped internet for data-hungry households, and an unlimited Telkom-to-Telkom calling plan. Coupled with this, we introduced the "in home entertainment" offer. This bundled the LIT box media streamer to unlimited home bundles to stream media to a television screen, for example ShowMax, Netflix and YouTube.

Telkom successfully ran the "Summer of More" campaign, which enhanced customer value propositions by providing additional data and streaming value. This led to the highest new subscribers on our flagship FreeMe product suite. By including smaller FreeMe bundles, the offering is more accessible to the mass market and significantly increased the monthly sales of FreeMe bundles. Telkom partnered with YouTube to include free promotional streaming data for customers as part of the FreeMe bundles, which increased accessibility.

	<p>Pre-paid segment</p>	<p>Pre-paid subscribers grew by 109.3 percent, adding net additions of 4.1 million subscribers to 7.8 million customers. Despite the significant growth in subscribers, ARPU increased by 19.8 percent to R71.</p>
	<p>Post-paid segment</p>	<p>The customer base increased by 26.8 percent to 1.9 million subscribers. ARPU marginally declined to R186 as we drive increased value through our deals.</p>

Overview of our business

Productive capital continued

Telkom Consumer continued

Content and gaming

Our various LIT content offerings, such as video, music and TV streaming, address the lifestyle and entertainment needs of our customers. We continuously build on the LIT value proposition. We offer mobile streaming bundles, which enable customers to source cost-effective streaming data in conjunction with LIT content partners.

We continue to strengthen relationships with our content partners. **We entered into a partnership agreement with Netflix – a first for Netflix with a South African telecommunications company.** The agreement makes it easier and more affordable for customers to consume streaming services across the network.

Our entry into the gaming arena fortified our standing in the content space through heightened gaming possibilities through our largest African e-sport tournament management capability, VS Gaming. We hosted the first South African EA FIFA World Cup qualifier event in May 2018. This increased the access and participation of South Africans in e-sports, locally and globally.

EBITDA improvement

EBITDA swung from a loss of R146 million in the prior year to R1 030 million in FY2019, benefiting from the strong growth in revenue and ongoing cost management.

The continued growth in mobile is now beginning to achieve scale. The deterioration of our copper base technology is being more than offset by a strong double-digit growth in the mobile business, resulting in a positive revenue growth of 16.4 percent at the consumer level. Our net operating revenue percentage continues to improve as we manage our variable cost effectively. This is driven by an increased network footprint that mitigates the roaming growth, as well as favourable termination rates coupled with a reduction in internal connectivity

costs linked to the old technology copper business. As we drive volumes of traffic through the network and reduce our unit marginal costs, we grow the mobile network footprint. This translates into a more efficient operating expenses structure as we strive to offer the lowest cost per bit on the mobile network. This is evidenced by the strong value proposition deals that we take to market.

Capital investment

Telkom Consumer continued its 4G-driven network expansion programme to support growing customer numbers and data traffic. **We increased capital investment** by 30.1 percent to R3 070 million, increasing base stations by 28.7 percent to 5 116 base stations, 3 438 of those base stations are 4G, an increase of 47.4 percent compared to the prior year. We started refarming a portion of our 2 100 MHz spectrum to LTE, following the successful refarming of the 1 800 MHz spectrum for smartphones. The strategic intent of focusing spectrum resources towards 4G contributed to smartphone subscribers increasing by 91.8 percent to 5.3 million.

We entered into a roaming agreement and facilities leasing agreement with Vodacom, to provide a seamless roaming experience across all their mobile sites. The roaming agreement was implemented in phases starting in the Limpopo region, and is 80.0 percent complete. Work commenced in other regions. The facilities leasing agreement allows Telkom to use its roaming partners' passive equipment (towers, antennas and shelters) to accelerate its network build. This, together with our **own capital deployment, facilitates an efficient capital and operational expenditure profile, while accelerating time to market.**

Customer experience

Service delivery remains our key focus and we are determined to achieve more across our fixed and mobile operations. Continuously evaluating customer feedback guides our approach and actions and we seek to constantly improve the customer experience. We realised significant benefits, including improving our composite NPS and halving the number of repeat callers in certain areas of business.

How Telkom Consumer is improving the customer experience:

expanding our network 

capital investment of R3 070m

improved data traffic through 
5 116 base stations

Smartphone subscribers 
increased by 91.8% to 5.3m



Overview of our business

Productive capital continued



Improved IT external revenue by **6.2%** to **R6.8bn**



BCX restructured the business operations into two main service offerings – telecommunications and IT solutions. This will improve focus and ensure we service customers effectively. We appointed a chief revenue officer to manage BCX's go-to-market model that is based on customer segmentation and dedicated channels to serve. The initial feedback from customers is positive and the model has led to improved customer experience as demonstrated by a 4 points improvement in NPS and 11 points improvement in quality of service measurement.

B-BBEE rating now

Level 1

up from level 3



EBITDA margin of

16.5%

due to optimised operating costs



BCX

BCX has gone through a restructuring process with an aim to stabilise the business by arresting the declining financial performance, simplifying the structure to create efficiencies and reducing the organisation's cost to serve. The restructuring process is gaining traction evidenced by better financial performance in the second half of the year where the rate of decline in revenue improved to 1.8 percent compared to 4.9 percent decline in the first half of the year, and EBITDA increased by 46.0 percent compared to a decline of 36.5 percent in the first half of the year.

Performance overview

Revenue declined 3.4 percent to R19 580 million, a decline of R683 million compared to a R1 billion revenue decline in the prior year. The decline in revenue is primarily due to a 13.3 percent decline in fixed voice revenue, a deteriorated performance from small and medium-sized enterprises (SMEs) and continued delays in spending from the public sector.

Our strategy to reduce fixed voice customer churn and migrating customers to next-generation voice solutions has started to bear fruit. In the second half of the year next-generation voice revenue increased by 28.3 percent compared to 56.9 percent in the first half of the year and fixed voice revenue in the second half of the year declined by 10.5 percent compared to 13.4 percent in the first half of the year.

However, IT revenue delivered solid growth of 6.2 percent from external customers, underpinned by good performance from retail and financial services sectors despite the poor economic conditions. Overall, IT revenue increased by 0.9 percent impacted by the reduction in Telkom group IT charge as well as hardware and software sales.

Data revenue decreased by 3.3 percent, driven by an increase in next-generation data revenue of 44.0 percent as data demand continues to surge. However, this was offset by the decline in traditional data revenue of 19.0 percent, due to convergence from legacy ADSL and diginet to fibre. We will continue to focus on migrating customers from diginet to metro-ethernet.

EBITDA declined 2.1 percent to R3 240 million with an EBITDA margin expanding from 16.3 percent to 16.5 percent negatively impacted by the continued decline in traditional business which are high-margin businesses. This was partially offset by the optimisation of operating costs through renegotiations of supplier contracts, consolidation of offices, containing discretionary expenditure and using robotics to improve some processes. In line with our employee optimisation programme, towards the end of the year, we reduced permanent employee numbers by 13.4 percent to 5 782. We expect the savings from this programme to come through in the next financial year. The employee optimisation programme was managed to ensure that daily operations were not disrupted, and key skills were retained.

Overview of our business

Productive capital continued
BCX continued

Business portfolio review

In the prior year, BCX initiated a review of its business portfolio identifying some of the African subsidiaries as assets held for sale and integrating South African subsidiaries into One BCX to drive efficiencies within the company. To this end, BCX Nigeria, Tanzania and SOX group are held for sale. The remaining international subsidiaries are retained to have presence across borders.

The integration of the South African subsidiaries into One BCX is progressing according to plan with only two subsidiaries which will be divisionalised in the next financial year.



BCX

How we are improving the customer experience at BCX:

customer-centric focus drives innovation 

digital transformation 

automated client surveys 

problem resolved within 1 month 

Client experience

Our clients are at the core of our business and we are driving innovative ways to redesign client experience. The goal is to position BCX as the most recommended digital transformation partner, and to repurpose it to be more customer centric.



We implemented initiatives to improve our NPS. These included a robust, automated solution that feeds client survey responses to the account manager within 24 hours. This starts a closing-of-the-loop process with clients to resolve their pain points. A total of 85 percent of client pain points highlighted were resolved within one month, with the remainder within two months, compared to the previous six-month turnaround. This is testament that BCX values and responds to client feedback.



A client experience risk platform for each vertical owner, that is financial services, retail and public sector, earmarks accounts needing high care. These accounts require targeted interventions to re-establish trust and convert clients to become promoters of BCX. We closely monitor high-risk clients to ensure retention and to identify upsell and cross-sell opportunities.



Overview of our business

Productive capital continued



Gyro operating revenue of **R1 169m** 
23.8% increase driven by our mast and tower portfolio 

EBITDA margin increased from **33.3%** to **58.6%** 
 25.3 ppts due to revenue growth and active cost management 

Mast and tower revenue increased **35.4%** to **R930m** 


Gyro manages Telkom's property portfolio, which consists of 1 332 properties, comprising exchange and switch, office, client service centre, centre for learning buildings, radio transmission sites and residential dwellings.

Gyro

Gyro focused on optimising the mast and tower portfolio, undertaking development planning for selected properties, and optimising the group's property-related expenses. We established a solid foundation for revenue opportunities and asset value enhancement going forward. The mast and tower portfolio generates the bulk of our external revenue, as external rental income will only be realised as properties are redeveloped.

Revenue increased 23.8 percent to R1 169 million, mainly driven by our mast and tower portfolio, underpinned by revenue enhancement initiatives in the tower portfolio.

EBITDA increased by 118.2 percent to R685 million and the EBITDA margin expanded by 25.3 percentage basis points to 58.6 percent, driven by revenue growth and active cost management.

Mast and tower portfolio

Our mast and tower revenue increased by 35.4 percent, primarily from 1 380 multi-tenanted towers. We are removing redundant equipment from 120 of these towers to make rental space available for new tenancy. We assessed the entire portfolio for suitability of mobile network operator multi-tenancy. As a result, we introduced 2 000 additional towers to potential tenants. We are aggressively marketing these sites to our major tenants and have received positive interest.

The tower portfolio is anchored by Telkom Mobile as it penetrates new markets and enhances its 4G network coverage. We have a new tower build programme for 2 000 sites over the next three years, underpinned by Telkom Mobile's demand for new sites. We established supplier panels for site permitting and acquisitions, tower manufacturing and construction for expeditious execution of the build programme. In line with the evolving technology landscape and customer requirements, Gyro has developed a small cell offering for 4G network augmentation and 5G rollout preparation.

Gyro will establish adjacent revenue streams from property developments as part of its core objective of unlocking value in the tower and property portfolios.

Property portfolio

We are assessing each of the group's 1 332 properties to determine the best use. Development planning is underway for selected properties with development potential. We conducted market research for most of the selected properties to identify supportable property segments per site. We continue adding suitable properties to the development pipeline and commence with the rezoning and development planning process to prepare the properties for redevelopment.

We continued rationalising the Telkom property portfolio and started with Telkom regional centres in major cities. Telkom business units will be consolidated into regional offices and operational/warehoused building centres. This will lead to greater productivity and efficiencies among business units and will optimise occupancy expenses at the regional level.

While regional centres are being prepared for office space, warehouse and operational consolidation, Gyro focused on reducing third-party rental expenditure where Telkom properties offer suitable alternative accommodation. We identified leases for BCX, Yellow Pages and Openserve in Cape Town, Durban, Port Elizabeth and Johannesburg that can be replaced with more cost-effective tenancy in Telkom properties. This initiative is at various phases of completion and the financial benefits will be realised from the next financial year. This initiative will be extended to other major cities.

We are decommissioning 62 exchange properties that are no longer fit for operational purpose. We will sell decommissioned properties if they do not meet development criteria or other strategic uses. We continue to aggressively assess buildings and properties in the portfolio to identify assets that are no longer required for operational purposes that we can either redevelop or sell, thereby reducing occupancy costs while generating revenue.

Overview of our business

Productive capital continued



How we have evolved our business:

optimised 
underlying cost base

implemented a new operating model 

We added value for clients with our **enhanced** 
online platform

which contributed to

↑175% increase in users

908 354 customer visits

↑93% increase in organic page views

reduced 
operating expenditure and increased EBITDA by **↑7%**



YELLOW PAGES (known as Trudon)

Yellow Pages continued to evolve from a traditional print directory publisher to a technology-enabled organisation that provides a range of digital-centric marketing and e-commerce services to customers.

We stabilised the business by optimising the underlying cost base, implementing a new operating model and enhancing the current online Yellow Pages platform. The new operating model implementation, including the employee reorganisation process, is complete and has unlocked further operating cost-efficiency opportunities.

Print revenue continued to be under pressure due to churn of high-value subscribers away from the traditional printed directories, combined with churn on the Internet Yellow Pages product due to the lack of value associated with the low traffic volumes to the site. To address the churn and provide increased value to customers, we relaunched the online Yellow Pages platform in September 2018. This has contributed to the 175 percent increase in users since March 2018. We have 908 354 customers that visit the site monthly. Organic page views increased by 93 percent to 2.1 million impressions per month.

We continue to expand our third-party channels, including the pilot of the tied agency model. This will support the growth of digital marketing solutions in traditionally underserved areas and improve the simplicity, quality and pricing of product offerings. We introduced new bundles to simplify the decision-making process. Customers can now choose a bundle, which includes a range of products, from those

suited to start-up businesses, that require a basic internet presence, to more mature organisations looking to drive traffic to their website or establish an e-commerce capability.

EBITDA for the period, excluding the impact of VSP, VERP and section 189 costs, increased by 7 percent. This was achieved through the 31 percent reduction in operating expenditure which offset the 20 percent decline in net operating revenues due to loss in high-margin print revenues.

We will continue developing and enhancing the online Yellow Pages platform with new functionality, such as a customer dashboard that will be launched during the next financial year. This will allow customers to purchase selected digital marketing products via the self-service portal and allow them to market their services to other businesses on the Yellow Pages platform.

Yellow Pages will be reported as part of the Telkom Small and Medium Business unit from the next financial year. It will be leveraged to support customer retention and provide integrated product offerings to SMEs.

Overview of our business

Intellectual capital

The increasingly inter-connected world influences how technology interacts within businesses, and with their customers and users. A customer's ability to utilise and consume services across multiple channels is becoming a common requirement and changes how we implement technology and IT solutions.



Our central focus is the **customer**



IT and technology are pivotal in enabling relationships with our customers. We are transforming our IT operating model to ensure we put customers and their experience with us at the centre of our IT transformation journey. Digitalisation across multiple platforms forces higher dependency on IT and requires a relook at our customer journeys and process flows. We successfully concluded the prior year projects on workforce management, by retiring solutions in this space, and various security and customer service-related initiatives, such as improved access to the geographic information system platform. We continue to implement internal projects such as Office 365 and SAP-based modules. Our endeavour to move towards comprehensive digital platforms continues and we achieved multiple milestones across self-service apps, online portal upgrades and multiple new functionalities like zero-touch options across customer interaction points.

We are transforming our **operating model for IT** to put the customer experience first



We have evolved our **OSS/BSS** systems to enable a better client experience



Our focus remains on transforming the OSS/BSS landscape through effective fulfilment, assurance and billing across each business unit, and improved enterprise IT solutions, which support the group. This is in line with the impact of a software-defined network and network field virtualisation, enabling better network management and system availability, which enables a better customer experience.

This overarching focus to enable better service delivery relies on

5 key transformation drivers:

1. Digitalisation and process enablement	Overhaul business processes to conform to intuitive interfaces, near real-time fulfilment, personalised treatment and service demands through digitalisation
2. Reliable service delivery	Deliver faster and better services by utilising underpinning technologies and sustainable and reliable IT infrastructure
3. Outcome-based delivery	Deliver end-to-end, outcome-based services driven by harnessing, creating and maintaining customer and business value
4. Flexible fulfilment, assurance and billing solutions	OSS/BSS that enable dynamic product catalogue and advanced service orchestration tools to enable a digital abstraction of data
5. Improved cost structures	Prioritise profitable and consumption-based services across all IT transformation projects and partnerships to improve cost efficiencies

Telkom is cognisant of its obligation to manage information and cybersecurity threats. The group is required to comply with legislation and regulations such as the Protection of Personal Information Act and the Payment Card Industry Data Security Standard. We continuously mitigate these potential risks. We operate within a mature and compliant ISO 27001 information security management system environment. We continue to implement our Information Security Management programme and drive

upgrades and enhancements to our multi-pronged approach towards information and cybersecurity. This includes effective detection and protection against various cyberattacks and cybercrime. We continue to review and enhance our information and cybersecurity assurance capability to monitor the effectiveness of the information security management initiatives. We create greater awareness among employees and our customers through the various programmes.

Overview of our business

Human capital



Having the right talent, in the right place, at the right time is critical to our success, and delivering on our vision. The group employs, supports and develops people to ensure we have the right capabilities, commitment and enthusiasm to achieve our strategic objectives.

Telkom's focus areas remain transformation and talent development. The total permanent group workforce as at 31 March 2019 is 15 296 compared to 17 472 in FY2018. The decrease in permanent workforce was primarily due to VSP's and VERP's offered and the section 189 process. The racial breakdown of permanent employees within the reporting year comprised of 64 percent black South Africans, 33 percent white South Africans and 3 percent non-South Africans. In total, 35 percent of our external recruitment was made up of women. It remains a challenge to realise gender equality and female representation which aligns to the challenges of the broader ICT sector. Within the group, women represent 31 percent of our employee base. Telkom is committed to increasing female representation and transformation, confirmed by our female promotion rate of 54 percent, which is higher than the representation rate.

Our external recruitment points to Telkom's strong resolve to hire in accordance with our transformation objective, and 84 percent of all external hires were black. Our top management black representation increased from 62 percent to 100 percent.

Our enduring talent management framework enables actionable career development plans aligned to personal aspirations and business needs. Telkom focuses on developing high-potential talent in line with specific business needs and invested R11 million in talent and skills development programmes. Programmes include Top Flight, Step Up, Female Leadership Development and two new programmes, Traction and Digital Leadership Development. The group spent R293 million on employee training and development and each employee received an average of 14 hours of training (FY2018: 17 hours).

Following on from the Bright Young Minds programme and the succeeding Future Minds programme, 12 young talented individuals were successfully positioned in various permanent roles across the group. Added to this, other programmes continue to attract, develop and employ young talent.

Telkom had 848 learnerships and internships (FY2018: 703) active during the year. Candidates comprise 46 percent female (FY2018: 56 percent), 100 percent black (FY2018: 100 percent) and 27 percent learners with disabilities (FY2018: 13 percent). Learnerships were aimed at unemployed learners as a talent pipeline in line with future talent requirements, and internships were aimed at unemployed learners enabling them to gain meaningful work experience.

For talent mapping and succession planning purposes, all management and employees were reviewed and assessed against predetermined criteria. To address potential challenges and minimise talent risks for the group, the talent mapping findings were used to inform the identification of successors and to provide input into the actions required.

The Top Flight and Step Up programmes were launched in June 2018 to develop highly educated, high-potential leaders. There are 18 and 23 executives on the programmes respectively. Individual key challenges and development needs are identified by the participants to construct their development journey for the year. Each participant has a personal coach and will receive coaching sessions as part of their development. Three of the 23 executives were promoted during the year.

Overview of our business

Social and relationship capital



By focusing on social and relationship capital, we contribute to national and global development goals, comply with legislation, drive our business strategy, create shared value, promote transformation and maintain our social licence to operate. BCX B-BBEE rating improved from level 3 to level 1.

Transformation is a key strategic pillar in our business strategy. We implemented several strategic initiatives to drive transformation across the group. Two governance committees, the broad-based black economic empowerment (B-BBEE) forum and the skills development forum, developed the B-BBEE improvement plan with targets for implementation. These forums are mandated to advocate transformation as a strategic imperative when making business decisions.

Telkom applied to the Department of Trade and Industry for the government shareholding to be classified as a B-BBEE facilitator status. The application proved successful and was gazetted on 7 May 2019. Although we believe this conversion will contribute significantly to our growth strategy, we continue to investigate other avenues to improve the ownership element.

FutureMakers was launched in May 2015 as Telkom's Enterprise and Supplier Development programme. It demonstrates our commitment to SME development to drive our beyond-compliance approach to develop black-owned businesses in the information and communications technology (ICT) sector. This initiative is aimed at enhancing market access opportunities, driving ICT innovation, and fostering inclusive participation of majority black-owned ICT businesses in Telkom's supply and value chain. SMEs that are identified for inclusive procurement are supported by FutureMakers through incubation and business development support. During the year, BCX through FutureMakers invested in the incubation of innovative start-ups. Openserve and consumer through Futuremakers invested in business development support for the Independent Field Technician (IFT), Consumer Dealer and Subcontractor programmes.

The IFT programme increased from three pilot companies that consisted of four qualified technicians in 2015, to 45 companies in FY2019. Total cumulative procurement spend was R192 million in FY2019. The programme offers commodity services such as ADSL, fibre and jointing services in support of qualifying black small business development. The programme created 804 jobs to date.

The Consumer Dealers' programme consists of 25 dealers, including 3 flagship dealers and 6 multi-dealers, 23 internet cafes, 3 events companies and 1 debt collector.

The programme aims to leverage SMEs as a channel to increase the distribution footprint, contributing to inclusive procurement, access to connectivity in underserved areas, and promoting job creation.

The Innovation programme has R30 million cumulatively invested through grant funding and connectivity, of which R10 million was invested in FY2019. There are 76 enterprises incubated in emerging technologies from ideation to commercialisation in FY2019. The programme aims to incubate, accelerate, and invest in enterprises that develop solutions in areas such as the Internet of Things, big data analytics, artificial intelligence, smart cities and cybersecurity.

Telkom Foundation invested R78.3 million (FY2018: R57.2 million) including administration costs, of which R54.5 million was invested in education and R15.8 million in social development programmes. The three-phased Telkom Foundation strategy supports learners, enabling their economic participation in the ICT sector and assists the youth to grasp opportunities.

Overview of our business

Natural capital



Measuring and managing our environmental impact is important for the planet and the communities in which we work, and essential for the financial sustainability of our supply chain and our business.

The ICT industry is categorised as a low environmental impact sector. The most significant environmental impact of our operations is e-waste, energy use and the related carbon emission in our network. Our focus is on minimising Telkom's energy intensity and carbon footprint by improving the energy efficiency of our activities.

Telkom has participated in the CDP (formerly the Carbon Disclosure Project) for the past seven years. This provides feedback on how

well Telkom manages energy and greenhouse gas inventory to reduce the group's environmental impact within our operational boundary. We disclose our greenhouse gas (GHG) emissions to demonstrate our commitment as a responsible global citizen to the legal obligations under the United Nations Framework Convention on Climate Change and its Kyoto Protocol. Our commitment to reduce GHG emissions safeguards our long-term sustainability and equips us to effectively respond to regulatory and policy changes.

To minimise the increases in energy use and carbon emissions, we continue to roll out energy-efficient measures and technologies, and we also have water-saving initiatives. **These include:**

<p>Smart lighting controls, LED lighting roll out and smart metering</p>	<p>Installation of smart control technologies (motion sensors and daylight switches), LED lighting and smart meters at our high energy consuming sites so that lights are off when not in use. The benefits of these projects are to enhance and improve control of energy costs and consumption, benchmarking of facilities' electricity usage, sustainability reporting and effective utilities management. The implementation of these projects is planned to be completed in FY2020.</p>
<p>Telkom Park energy management system</p>	<p>Implementing an energy management system (EnMS) at Telkom Park to achieve ISO 50001 certification: The EnMS will enhance the adoption of best practices and sustainable energy savings.</p>
<p>Resource efficiency assessments</p>	<p>Implementing a Resource Efficiency programme at five of our priority sites (Rosebank exchange, New Doornfontein exchange, Braamfontein exchange, Germiston exchange and Telkom Park). The programme focuses on energy efficiency, sustainable water uses and waste management.</p>

The increase of e-waste is a source of income for waste collectors and handlers. We sell our cabling to a leading e-waste recycling organisation, which processes the cabling by using environmentally and socially responsible techniques without chemicals or burning. We sell copper recovered from the recycling

process to local and international markets. This sensitive, labour-intensive process provides employment and empowerment for an Eastern Cape rural community, where 22 families rely solely on this project as a source of income.

Outlook

The group ended the year with a solid performance despite the pressures from the regulatory landscape, a weak economic environment, a decline in fixed voice revenue and customers migrating to next-generation technologies at lower margins.

Looking forward, we expect to accelerate the migration of customers to next-generation technologies in line with our strategy focusing on retaining customers. It is imperative to continue investing in key growth areas in line with our strategy to ensure that we win against our peers.

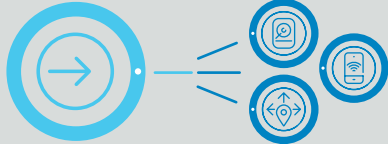
The capex investment to date is already yielding positive results with the growth in our new generation revenue streams driving growth for the group. We expect the trends to continue with new revenue streams driving growth for the group.

We will continue to manage the decline in traditional revenue by proactively migrating customers from traditional to new generation revenue and partnering with over-the-top players to provide data-led propositions to our customers.

To support the migration strategy, we intend to accelerate our investment in our network for coverage and capacity and continue to utilise our LTE coverage (4G) spectrum efficiently, as the bulk of the traffic is on our 4G network.







  **Year end** with a solid performance



Accelerate
the migration of customers to next-generation technologies

It is imperative to continue investing in key growth areas in line with our strategy to ensure that we win against our peers.

Growth pillars

Mobile Information technology Next-generation data Mast and tower

Overview of our business

Outlook continued

Roaming agreement



and facilities leasing agreement



to accelerate the network deployment

Disciplined approach to

✓ allocating sources of capital

✓ considering our investment strategy

✓ return to shareholders

while maintaining a healthy balance sheet.

Telkom will host a Capital Markets Day

on
29 May 2019.

During the year, we entered into a **roaming agreement and facilities leasing agreement** that will further strengthen our ability to accelerate the network deployment. The new roaming agreement will provide us with deep passive sharing, seamless roaming, access to 4G and enhanced high value location coverage. This will enable us to provide improved customer experience and allow us to extend our coverage footprint. **Our focus is to retain customers** as customers become technology agnostic.

We are mindful of the **migration from traditional to new revenue streams at lower margins** with increased cost to serve. As a result, we are embarking on a structured and focused sustainable cost management program to rebase the cost structure to improve absolute EBITDA growth and ensure that we are sustainable on a long-term basis.

We are renewing our **capital framework to ensure that we apply a disciplined approach** to how we allocate the **various sources of capital**, taking into account our continued **investment strategy, return to shareholders**, while maintaining a **healthy balance sheet**.

Capital Markets Day

Telkom will host a Capital Markets Day on 29 May 2019. A webcast link with live streaming and all presentations of the day will be made available on the website at www.telkom.co.za/ir at 08h00 (South African standard time).

Dividend policy remains unchanged



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

Declaration of dividend

In line with our dividend policy, the board declared a final ordinary dividend number 24 of 249.40317 cents per share. This follows an interim dividend of 112.14144 cents per share declared in the interim results. This takes the annual dividend for FY2019 to 361.54461 cents per share (FY2018: 355.08846 cents per share).

The declared dividend is payable on Tuesday, 18 June 2019 to shareholders recorded in the register of the company at close of business on Friday, 14 June 2019. The dividend will be subject to a local dividend withholding tax rate of 20 percent which will result in a net final dividend of 199.52254 cents per ordinary share to those shareholders not exempt from paying dividend withholding tax. The ordinary dividend will be paid out of available cash balances.

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

Salient dates with regard to the ordinary final dividend

Declaration date	Monday, 27 May 2019
Last date to trade cum dividend	Tuesday, 11 June 2019
Shares trade ex-dividend	Wednesday, 12 June 2019
Record date	Friday, 14 June 2019
Payment date	Tuesday, 18 June 2019

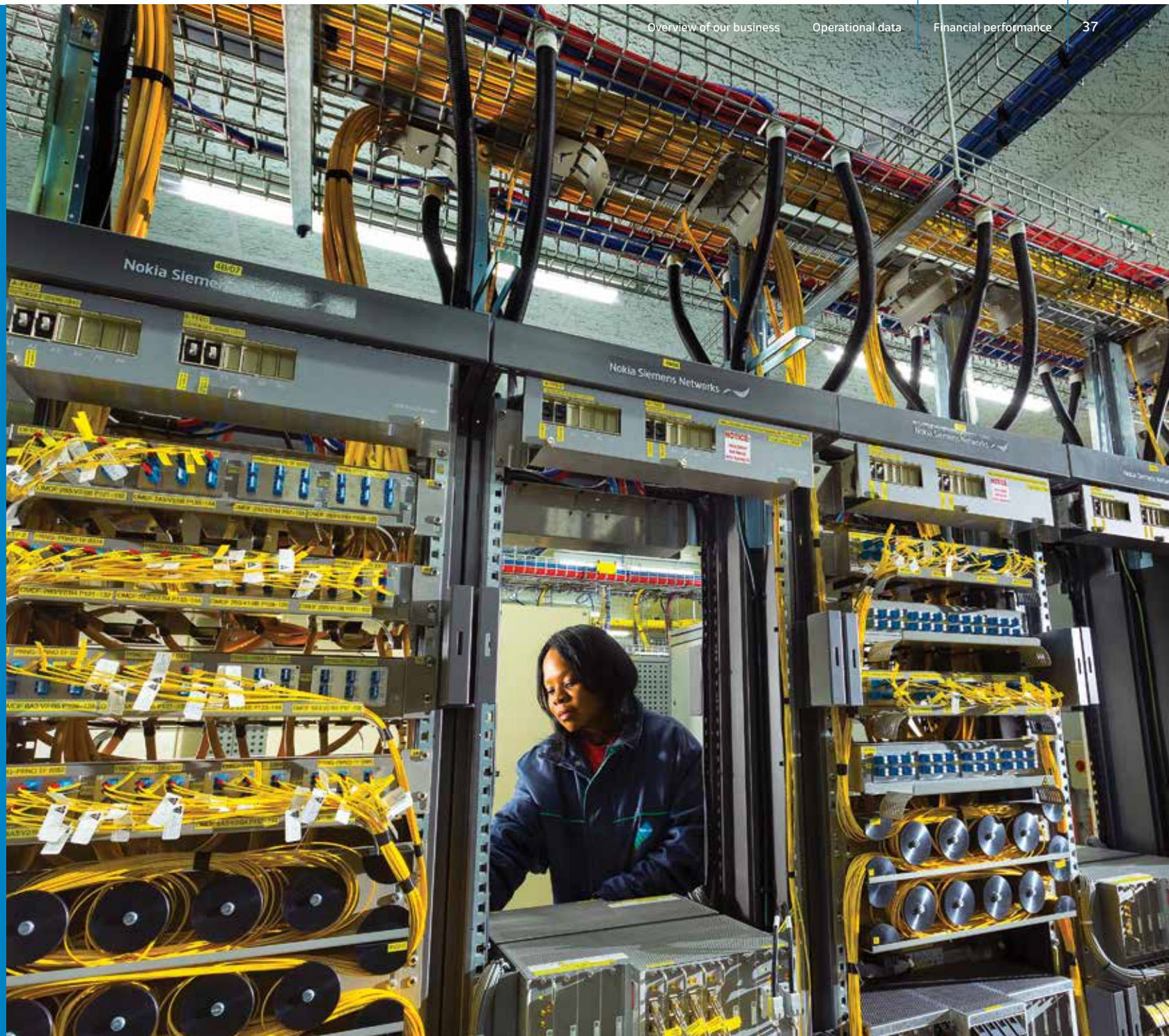
Share certificates may not be dematerialised or re-materialised between Wednesday, 12 June 2019 and Friday, 14 June 2019, both days inclusive.

On Tuesday, 18 June 2019, dividends due to holders of certificated securities on the South African register will be transferred electronically to shareholders' bank accounts.

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

2

Operational data



Operational data

Subscribers	March 2019	March 2018	Variance %
Broadband subscribers			
Fixed broadband subscribers ¹	847 650	981 176	(13.6)
Mobile broadband subscribers	6 377 056	3 626 527	75.8
Fixed subscribers			
Closer subscribers	718 968	790 207	(9.0)
Internet all access subscribers ²	507 172	572 402	(11.4)
Fixed access lines ('000) ³	2 267	2 678	(15.3)
Revenue per fixed access line (Rand)	4 545	4 703	(3.4)
Fixed voice ARPU	351.8	360.8	(2.5)
Fixed broadband ARPU	204.6	190.3	7.5
Managed data network sites	43 996	47 059	(6.5)
Mobile subscribers			
Active mobile subscribers ⁴	9 680 725	5 207 876	85.9
Pre-paid	7 807 255	3 729 943	109.3
Post-paid	1 873 470	1 477 933	26.8
ARPU (Rand)	99.90	98.19	1.7
Pre-paid	71.44	59.62	19.8
Post-paid	186.08	191.90	(3.0)
Pre-paid churn (%)	57.2	51.6	5.6
Post-paid churn (%)	13.1	12.0	1.1
Blended churn (%)	48.7	40.4	8.3

¹ Includes xDSL and FTTH lines of which 6 134 (FY2018: 6 927) are internal lines

² Includes Telkom Internet ADSL, ISDN and WIMAX subscribers

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

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

Volumes	March 2019	March 2018	Variance %
Fixed broadband data volumes (terabytes)	1 023 252	848 314	20.6
Mobile broadband data volumes (terabytes)	379 641	191 813	97.9
Total fixed-line traffic (millions of minutes)	10 707	12 028	(11.0)
Network			
Ports activated via MSAN access	1 467 984	1 536 133	(4.4)
Fibre to the home	430 659	356 684	20.7
Fibre to the cabinet	2 390 235	2 237 057	6.8
Mobile sites integrated	5 116	3 974	28.7
LTE sites integrated	3 438	2 333	47.4
Active fibre connectivity rate (%)	38.4	30.7	7.7
Group employees⁵	15 296	17 472	(12.5)
Telkom company employees	9 202	10 143	(9.3)
Consumer	1 105	1 370	(19.3)
Openserve	8 097	8 493	(4.7)
Corporate Centre	339	280	21.1
BCX group employees ⁶	5 782	6 675	(13.4)
Yellow Pages group employees	216	444	(51.4)
Gyro employees ⁶	96	210	(54.3)

⁵ Based on number of group permanent employees

⁶ 132 Gyro employees were transferred to BCX

3

Financial performance



Financial performance

Pro forma condensed consolidated provisional annual statement of profit and loss*

	Adjusted March 2019 Rm	Restated March 2018 Rm	%
Revenue from contracts with customers	41 774	39 661	5.3
Payments to other operators	2 940	2 606	(12.8)
Cost of handsets, equipment and directories	5 205	4 411	(18.0)
Sales commission, incentive and logistical costs	1 457	935	(55.8)
Other income	719	607	18.5
Operating expenses	21 582	21 894	1.4
Employee expenses	10 049	10 677	5.9
Other operating expenses	3 153	2 991	(5.4)
Maintenance	3 074	2 696	(14.0)
Marketing	806	763	(5.6)
Impairment of receivables and contract assets	384	635	39.5
Service fees	2 934	3 028	3.1
Operating leases	1 182	1 104	(7.1)
EBITDA	11 309	10 422	8.5
Depreciation, amortisation, impairment and write-offs	5 814	5 585	(4.1)
Operating profit	5 495	4 837	13.6
Investment income	185	186	(0.5)
Income/(Loss) from associates	2	(70)	102.9
Finance charges and fair value movements	947	842	(12.5)
Net finance charges	885	884	(0.1)
Cost of hedging	88	167	47.3
Foreign exchange and fair value movements	(26)	(209)	87.6
Profit before taxation	4 735	4 111	15.2
Taxation	1 391	1 113	(25.0)
Profit for the year	3 344	2 998	11.5

* Based on pro forma financial information. Refer to page 5 for the reconciliation of the reported figures to the adjusted figures.

Notes

Revenue from contracts with customers grew 5.3 percent, supported by significant growth in mobile revenues. Traditional fixed voice and data continued to decline.

Payments to other operators increased 12.8 percent mainly because of higher payments to mobile operators in line with the 51.1 percent increase in our mobile voice and subscription revenue.

Costs of handsets, equipment and directories and sales commission, incentive and logistical costs increased 18.0 percent and 55.8 percent respectively following an increase in mobile acquisition cost driven by the 85.9 percent increase in active mobile subscribers.

Operating expenses increased due to:
a. Employee expenses decreased due to the group headcount decreased 12.5 percent to 15 296 full-time employees.

Partially offset by:
b. Maintenance expenditure driven by the 28.7 percent increase in mobile sites.
c. Marketing expenditure increased in Telkom Consumer.
d. Operating leases cost increased as a result of the 7.1 percent increase in mobile sites and costs relating to the new BCX building.

Group EBITDA positively impacted by the 5.3 percent increase in operating revenue while operating expenses decreased 1.4 percent. The lower-than-inflation growth in operating expenses is attributable to our continued focus on cost-efficiency initiatives as part of ongoing business transformation.

Depreciation, amortisation, impairments and write-offs increased 4.1 percent, mainly due to the increase in capex, partially offset by the extension of useful lives.

Finance charges and fair value movements increased largely driven by the lower fair value gain of R65 million (FY2018: R171 million) on the revaluation of the cell captive as a result of the partial divestment from the fund in the prior year. The decrease in the cost of hedging is offset by the corresponding loss in foreign exchange movements

Financial performance

Operating revenue

	March 2019 Rm	Restated ¹ March 2018 Rm	%
Fixed	22 751	24 705	(7.9)
Voice and subscriptions	10 450	12 249	(14.7)
Usage	3 898	4 586	(15.0)
Subscriptions	6 552	7 663	(14.5)
Interconnection	792	868	(8.8)
Fixed-line domestic	347	380	(8.7)
Fixed-line international	445	488	(8.8)
Data	9 925	10 099	(1.7)
Data connectivity	6 795	7 056	(3.7)
Internet access and related services	2 040	1 907	7.0
Managed data network services	1 050	1 096	(4.2)
Multi-media services	40	40	(0.3)
Customer premises equipment sales and rentals	1 542	1 345	14.6
Sales	483	252	91.5
Rentals	1 059	1 093	(3.1)
Other revenue	43	144	(70.1)
Mobile	10 754	7 068	52.2
Mobile voice and subscriptions	1 968	1 302	51.1
Mobile interconnection	270	166	62.8
Mobile data	5 917	3 683	60.7
Mobile handset and equipment sales	2 407	1 775	35.6
Significant financing component revenue	191	142	34.7
Information technology	6 764	6 370	6.2
Information technology service solutions	4 169	3 918	6.4
Application solutions	1 528	1 592	(4.0)
IT hardware and software	923	692	33.3
Industrial technologies	145	168	(13.8)
Other	1 505	1 518	(0.9)
Trudon	651	850	(23.4)
Gyro	609	491	24.2
VS Gaming	15	11	33.0
BCX - Fastnet	230	167	37.9
Total	41 774	39 661	5.3

¹ During the year we restated the prior year revenue by R1 357 million. Of this amount R656 million related to Smart Office Connexion (SOX). The implementation of IFRS 15 also highlighted a prior year error of R641 million relating to the recognition of mobile CPE revenue to dealer stores and R60 million related to the adoption of IFRS 15. These revenue adjustments led to a restatement of the prior year number from R41 018 to R39 661 million.

Notes

Gyro revenue disclosure was restated to exclude the R166 million impact of Fastnet revenue in the prior year and included as BCX-Fastnet revenue.

Revenue variance explanations

Fixed-line voice usage and subscription revenue decreased by 14.7 percent to R10 450 million (FY2018: R12 249 million) as the declining trend accelerated, driven by migration to new technologies and a 15.3 percent decline in the number of fixed access lines.

Fixed interconnection revenue decreased 8.8 percent to R792 million (FY2018: R868 million), mainly due to lower traffic volumes.

Fixed data connectivity services decreased 3.7 percent to R6 795 million (FY2018: R7 056 million). This is due to the decline in traditional revenue streams, offset by the increase in fibre and new data products including FTTH and metro-ethernet.

Mobile voice and subscription revenue increased 51.1 percent to R1 968 million (FY2018: R1 302 million). This is attributed to an 85.9 percent increase in the number of active mobile subscribers.

Mobile data revenue increased 60.7 percent to R5 917 million (FY2018: R3 683 million), driven by our strategy to focus on data which led to an increase in mobile data traffic.

Information technology increased 6.2 percent to R6 764 million (FY2018: R6 370 million), mainly due to an increase in application solutions revenue.

Financial performance

Condensed consolidated provisional statement of financial position*

	Reported March 2019 Rm	Restated March 2018 Rm	%
Assets			
Non-current assets	37 961	36 359	4.4
Property, plant and equipment	32 035	30 324	5.6
Intangible assets	4 521	4 492	0.6
Other investments	78	100	(22.0)
Employee benefits	729	627	16.3
Other financial assets	133	60	121.7
Finance lease receivables	210	262	(19.8)
Deferred taxation	255	494	(48.4)
Current assets	14 783	13 778	7.3
Inventories	1 267	1 341	(5.5)
Income tax receivable	76	54	40.7
Current portion of finance lease receivables	108	112	(3.6)
Contract asset	2 518	1 672	50.6
Trade and other receivables	7 425	6 370	13.9
Current portion of other financial assets	388	163	138.0
Current portion of other investments	1 573	1 509	4.2
Cash and cash equivalents	1 428	2 557	(44.2)
Asset of disposal group classified as held for sale	200	204	(2.0)
Total assets	52 944	50 341	5.2
Equity and liabilities			
Equity attributable to owners of the parent	29 573	26 957	9.7
Share capital	5 050	5 050	-
Share-based compensation reserve	512	377	35.8
Non-distributable reserves	1 621	1 579	2.7
Retained earnings	22 390	19 951	12.2
Non-controlling interest	195	194	0.5
Total equity	29 768	27 151	9.6
Non-current liabilities	6 740	10 268	(34.4)
Interest-bearing debt	4 840	7 158	(32.4)
Provisions	1 193	2 427	(50.8)
Other financial liabilities	79	-	100.0
Deferred revenue	466	502	(7.2)
Deferred taxation	162	181	(10.5)
Current liabilities	16 436	12 922	27.2
Trade and other payables	7 406	6 898	7.4
Shareholders for dividend	29	58	(50.0)
Current portion of interest-bearing debt	5 401	2 239	141.2
Current portion of provisions	1 316	1 489	(11.6)
Current portion of deferred revenue	1 396	1 597	(12.6)
Income tax payable	572	361	58.4
Current portion of other financial liabilities	316	250	26.4
Credit facilities utilised	-	30	(100.0)
Total liabilities	23 176	23 190	(0.1)
Total equity and liabilities	52 944	50 341	5.2

Notes

Property, plant and equipment constitutes largely of fixed and mobile network equipment. The increase is driven by additions of R7 034 million, partially offset by depreciation of R4 842 million

Intangible assets constitute largely of software and goodwill. The increase in intangibles is due to additions of R640 million, mainly attribute to software acquisitions, partially offset by amortisation.

Employee benefits increased due to a higher discount rate applied to the calculation of the post employment liabilities.

Deferred tax asset reduction of 48.4 percent is attributable to a R67 million additional liability raised in Telkom SA SOC Ltd relating to the actuarial gains recognised on the post-employment benefit plans. This movement was accounted for in other comprehensive income. The remaining movement in the asset is attributable to the IFRS implication noted below, the full recognition of the deferred tax asset in respect of prior year losses and the utilisation of temporary differences. At 31 March 2018, the group did not recognise a deferred tax asset of R341 million in respect of temporary differences and tax losses amounting to R1 220 million that could be carried forward against future taxable income. These differences originated in Telkom company in the prior year. There was no unrecognised deferred tax asset at 31 March 2019.

Contract assets recognised in accordance with the adoption of IFRS 15. The 50.6 percent increase is supported by the 35.6 percent increase in mobile handset and equipment sales.

Trade receivables increased 13.9 percent from R6 370 million to R7 425 million, mainly driven by the increase in Mobile revenue. Telkom Mobile debtors increased by R775 million as a result of increased subscribers in the current year.

Current portion of other financial assets and liabilities increased to R388 million and R316 million respectively due to the movement in Telkom company derivatives.

Interest bearing debt increased largely due to increased borrowings to fund capital expenditure and optimise the group's capital structure. R2.3 billion of TL20 bond is maturing in February 2020 and was moved from long term to short term. Also, R500 million of the Nedbank term loan is maturing in April 2019.

The reduction in **provisions** is largely due to the decrease in provision for bonuses and a decrease in BCX's provisions for UCS which were paid off in the current year.

Trade payables increased largely due to an increase in accruals supported by the 4.5 percent increase in direct and operating expenses, excluding the VERP, VSP and section 189 costs of R728 million.

Financial performance

Condensed consolidated provisional statement of cash flows*

	Reported March 2019 Rm	Restated March 2018 Rm	%
Cash flows from operating activities	5 706	6 039	
Cash receipts from customers	40 341	40 091	0.6
Cash paid to suppliers and employees	(31 438)	(29 978)	4.9
Cash generated from operations	8 903	10 113	(12.0)
Interest received	441	310	42.3
Finance charges paid	(847)	(722)	(17.3)
Taxation paid	(945)	(1 472)	35.8
Cash generated from operations before dividend paid	7 552	8 229	(8.2)
Dividend paid	(1 846)	(2 190)	(15.7)
Cash flows from investing activities	(7 522)	(6 617)	(13.7)
Proceeds on disposal of property, plant and equipment and intangible assets	35	82	(57.3)
Additions to assets for capital expansion	(7 584)	(7 756)	2.2
Realisation of investment in other financial assets	45	31	45.2
Investments made by FutureMakers	(18)	(24)	25.0
Proceeds on realisation of Cell Captive assets	–	1 050	(100.0)
Cash flows from financing activities	717	1 731	(58.6)
Loans raised	3 246	7 680	(57.7)
Loans repaid	(2 544)	(4 685)	45.7
Purchase of shares for the Telkom and subsidiaries long term incentive share scheme	(47)	(68)	(30.9)
Shares repurchased and cancelled	–	(759)	(100.0)
Finance lease repaid	(42)	(16)	(162.5)
Repayment of derivatives	(222)	(546)	59.3
Proceeds from settlements of derivatives	326	125	160.8
Net decrease in cash and cash equivalents	(1 099)	1 153	195.3
Net cash and cash equivalents at the beginning of the year	2 527	1 374	83.9
Effect of foreign exchange rate gains on cash and cash equivalents	–	–	–
Net cash and cash equivalents at the end of the year	1 428	2 527	(43.5)

Notes

Cash flow from operating activities decreased mainly due to our 4.9 percent increase in cash paid to suppliers and employees.

Increased finance charges paid is largely due to increased borrowings.

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

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

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

* Does not represent pro forma information reported.

4

Summary audited consolidated provisional financial statements

Board approval

These summary consolidated provisional financial statements were authorised for issue on 24 May 2019 by the Telkom SA SOC Limited board of directors and published on 27 May 2019.

Directors responsibility and audit report

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

Preparer and supervisor of the summary consolidated provisional financial statements

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

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Independent auditor's report on the summary consolidated provisional financial statements

for the year ended 31 March 2019

To the shareholders of Telkom SA SOC Limited

Opinion

The summary consolidated provisional financial statements of Telkom SA SOC Limited, set out on pages 54 to 105 of the Telkom SA SOC Limited audited summary consolidated provisional financial statements for the year ended 31 March 2019, which comprise the summary consolidated provisional statement of financial position as at 31 March 2019, the summary consolidated provisional statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Telkom SA SOC Limited for the year ended 31 March 2019.

In our opinion, the accompanying summary consolidated provisional financial statements

are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports, as set out in note 3.1 to the summary consolidated provisional financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Summary consolidated financial statements

The summary consolidated provisional financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated provisional financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.



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

T: +27 (11) 797 4000, F: +27 (11) 797 5800, www.pwc.co.za

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

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

Reg. no. 1998/012055/21, VAT reg.no. 4950174682.



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

T: +27 (11) 231 0600, F: +27 (11) 234 0933, info@sng.za.com

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Victor Sekese [Chief Executive]

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

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

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 24 May 2019. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Director's responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the requirements

of the JSE Limited Listings Requirements for provisional reports, set out in note 3.1 to the summary consolidated provisional financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated provisional financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: KJ Dikana
Registered Auditor
Johannesburg

24 May 2019

Sizwe Ntsaluba Gobodo Grant Thornton Inc.

SizweNtsalubaGobodo Grant Thornton Inc.

Director: SY Lockhat
Registered Auditor
Johannesburg

24 May 2019

Summary consolidated provisional statement of profit or loss and other comprehensive income

for the year ended 31 March 2019

	Notes	31 March 2019 Rm	Restated 31 March* 2018 Rm
Revenue	4	41 774	39 661
Other income		719	607
Payments to other operators		2 940	2 606
Cost of handsets, equipment and directories		5 205	4 411
Sales commission, incentives and logistical costs		1 457	935
Employee expenses	5	10 777	10 677
Other operating expenses		3 153	2 991
Maintenance		3 074	2 696
Marketing		806	763
Impairment of receivables and contract assets	15	384	635
Service fees		2 934	3 028
Operating leases		1 182	1 104
EBITDA		10 581	10 422
Depreciation of property, plant and equipment	5	4 842	4 760
Amortisation of intangible assets	5	702	778
Write-offs, impairments and losses of property, plant and equipment and intangible assets	5	270	47
Operating profit		4 767	4 837
Investment income		185	186
Income/(loss) from associates		2	(70)
Net finance charges, hedging costs and fair value movements		947	842
Net finance charges		885	884
Cost of hedging		88	167
Foreign exchange and fair value movements		(26)	(209)
Profit before taxation		4 007	4 111
Taxation		1 176	1 113
Profit for the year		2 831	2 998

	Notes	31 March 2019 Rm	Restated 31 March* 2018 Rm
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange gains/(losses) on translating foreign operations**		23	(22)
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gains/(losses)		1 352	(652)
Income tax relating to actuarial gains/(losses)		(67)	-
Other comprehensive income/(loss) for the year, net of taxation		1 308	(674)
Total comprehensive income for the year		4 139	2 324
Profit attributable to:			
Owners of Telkom		2 795	2 917
Non-controlling interests		36	81
Profit for the year		2 831	2 998
Total comprehensive income attributable to:			
Owners of Telkom		4 101	2 243
Non-controlling interests		38	81
Total comprehensive income for the year		4 139	2 324
Basic earnings per share (cents)	6	561.9	575.7
Diluted earnings per share (cents)	6	551.8	563.6

* Restated. Refer to note 3.3, 3.4, 3.5 and 3.6.

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

Summary consolidated provisional statement of financial position

at 31 March 2019

Notes	31 March 2019 Rm	Restated 31 March** 2018 Rm	Restated 1 April** 2017 Rm
Assets			
Non-current assets	37 961	36 359	34 339
Property, plant and equipment	32 035	30 324	27 863
Intangible assets	4 521	4 492	4 719
Other investments	78	100	314
Employee benefits	729	627	635
Other financial assets	133	60	60
Finance lease receivables	210	262	310
Deferred taxation	9 255	494	438
Current assets	14 783	13 778	13 539
Inventories	1 267	1 341	1 268
Income tax receivable	76	54	9
Finance lease receivables	108	112	237
Trade and other receivables	15 7 425	6 370	7 012
Contract assets	15 2 518	1 672	1 031
Other financial assets	388	163	126
Other investments	1 573	1 509	2 388
Cash and cash equivalents	8 1 428	2 557	1 468
Assets classified as held for sale	11 200	204	12
Total assets	52 944	50 341	47 890

Notes	31 March 2019 Rm	Restated 31 March** 2018 Rm	Restated 1 April** 2017 Rm
Equity and liabilities			
Equity attributable to owners of the parent	29 573	26 957	27 635
Share capital	5 050	5 050	5 208
Share-based compensation reserve	512	377	452
Non-distributable reserves	1 621	1 579	1 376
Retained earnings	22 390	19 951	20 599
Non-controlling interests	195	194	197
Total equity	29 768	27 151	27 832
Non-current liabilities	6 740	10 268	6 991
Interest-bearing debt	12 4 840	7 158	4 733
Employee related provisions	13 1 186	2 388	1 536
Non-employee related provisions	13 7	39	51
Other financial liabilities	79	-	-
Deferred revenue	466	502	529
Deferred taxation	9 162	181	142
Current liabilities	16 436	12 922	13 067
Trade and other payables	7 406	6 898	7 465
Shareholders for dividend*	29	58	25
Interest-bearing debt	12 5 401	2 239	1 535
Employee related provisions	13 1 175	1 325	1 383
Non-employee related provisions	13 141	164	124
Deferred revenue	1 396	1 597	1 571
Income tax payable	572	361	431
Other financial liabilities	316	250	440
Credit facilities utilised	8 -	30	93
Total liabilities	23 176	23 190	20 058
Total equity and liabilities	52 944	50 341	47 890

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

** Restated. Refer to note 3.3, 3.4 and 3.7.

Summary consolidated provisional statement of changes in equity

for the year ended 31 March 2019

	31 March 2019 Rm	Restated 31 March** 2018 Rm
Balance at 1 April (as previously reported)	27 385	27 906
Attributable to owners of Telkom	27 026	27 569
Non-controlling interests	359	337
Adjustments on initial adoption of IFRS 15 – Revenue from Contracts with Customers**	(90)	(61)
Adjustments on initial adoption of IFRS 9 – Financial Instruments	207	–
SOX deconsolidation**	(48)	(13)
SOX remeasurement**	(96)	–
Restated balance at 1 April	27 358	27 832
Total comprehensive income for the year	4 139	2 324
Profit for the year	2 831	2 998
Other comprehensive income/(loss)	1 308	(674)
Exchange gains/(losses) on translating foreign operations	23	(22)
Net defined benefit plan remeasurements	1 285	(652)
Dividend declared*	(1 817)	(2 223)
Disposal of non-controlling interest	–	(3)
Increase in share-compensation reserve	135	48
Shares repurchased and cancelled during the year	–	(759)
Increase in treasury shares	(47)	(68)
Balance at the end of the year	29 768	27 151
Attributable to owners of Telkom	29 573	26 957
Non-controlling interests	195	194

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

** Restated. Refer to note 3.3, 3.4, 3.6 and 3.7.

Summary consolidated provisional statement of cash flows

for the year ended 31 March 2019

	Notes	31 March 2019 Rm	Restated 31 March* 2018* Rm
Cash flows from operating activities		5 706	6 039
Cash receipts from customers		40 341	40 091
Cash paid to suppliers and employees		(31 438)	(29 978)
Cash generated from operations	18	8 903	10 113
Interest received		441	310
Finance charges paid		(847)	(722)
Taxation paid		(945)	(1 472)
Cash generated from operations before dividend paid		7 552	8 229
Dividend paid		(1 846)	(2 190)
Cash flows utilised for investing activities		(7 522)	(6 617)
Proceeds on disposal of property, plant and equipment and intangible assets		35	82
Additions to assets for capital expansion		(7 584)	(7 756)
Realisation of investment in other financial assets		45	31
Investments made by FutureMakers		(18)	(24)
Proceeds on realisation of sinking fund		–	1 050
Cash flows from financing activities		717	1 731
Loans raised	19	3 246	7 680
Loans repaid	19	(2 544)	(4 685)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		(47)	(68)
Shares repurchased and cancelled		–	(759)
Finance lease repaid	19	(42)	(16)
Repayment of derivatives		(222)	(546)
Proceeds from derivatives		326	125
Net (decrease)/increase in cash and cash equivalents		(1 099)	1 153
Net cash and cash equivalents at 1 April		2 527	1 374
Net cash and cash equivalents at the end of the year	8	1 428	2 527

* Restated. Refer to note 3.8.

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

1. Independent audit

The summary consolidated provisional financial statements have been derived from the audited group financial statements. The directors of the company take full responsibility for the preparation of the summary consolidated provisional financial statements and that the financial information has been correctly derived and are consistent in all material respects with the underlying audited group financial statements. The summary consolidated provisional financial statements for the year ended 31 March 2019 have been audited by our joint auditors PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc., who have expressed an unmodified opinion thereon. The auditors also expressed an unmodified opinion on the group financial statements from which the summary consolidated provisional financial statements were derived. A copy of the auditors' report on the group financial statements is available for inspection at the company's registered office, together with the financial statements identified in the auditors' report.

2. Corporate information

Telkom SA SOC Limited (Telkom), the ultimate parent of the group, is a company incorporated and domiciled in the Republic of South Africa (South Africa) whose shares are publicly traded on the Johannesburg Stock Exchange (JSE). The main objective of Telkom, its subsidiaries, joint ventures and associates (the group) is to supply telecommunication, multimedia, technology, information, mobile communication services and other related information technology services to the group's customers in Africa. Turnkey property and tower management solutions are also provided through the Gyro group, which is a wholly owned subsidiary of the group.

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

3.1 Basis of preparation

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

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

The summary consolidated provisional financial statements are prepared on the historical cost basis, with the exception of certain financial instruments subsequently measured at fair value. Details of the group's significant accounting policies are consistent with those applied in the previous financial year except for those listed below.

3.2 Significant accounting judgements, estimates and assumptions

In preparing these summary consolidated provisional financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the consolidated annual financial statements for the year ended 31 March 2018, with the exception of the judgements and estimates related to the adoption of IFRS 15 Revenue from Contracts with Customers (refer to note 3.3.1), IFRS 9 Financial Instruments (refer to note 3.3.2) and the useful lives of property, plant and equipment (refer to note 5).

3.3 Significant accounting policies

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

The group adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments in the current year.

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

3.3.1 Adoption of IFRS 15 Revenue from Contracts with Customers

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

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

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

The group is in the business of supplying fixed voice and data services to post and pre-paid customers and the sale of subscription based value-added voice services and calling plans. The group also sells fixed line customer premises equipment and services both for voice and data needs. Mobile communication services include voice and data services and customer premises equipment. Sundry revenue includes directory services and wireless data services. The equipment and services are sold both on their own in separate identified contracts with customers and together as a bundled package of goods and/or services. Separate performance obligations are identified to the extent that the goods and services are distinct and the customer can benefit from it, either on its own or together with other goods and services.

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

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

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

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

3.3 Significant accounting policies *continued*

3.3.1 Adoption of IFRS 15 Revenue from Contracts with Customers *continued*

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

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

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

3.3 Significant accounting policies *continued*

3.3.1 Adoption of IFRS 15 Revenue from Contracts with Customers *continued*

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

Contract costs

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

Significant financing component

The group assesses post-paid contracts at inception to determine whether a significant financing component exists. If the financing component is less than 5% of the total transaction price allocated to the customer premises equipment, it is deemed not to be significant and the finance component will not be recognised separately. The financing element is assessed on a contract-by-contract basis.

3.3.2 Adoption of IFRS 9 Financial Instruments

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

Initial classification and measurement

IFRS 9 introduces new measurement categories for financial assets. The impact of the measurement categories of IFRS 9 on the group's financial instruments is illustrated in the table below.

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original (IAS 39)	New (IFRS 9)	Difference
Assets					
(As at 1 April 2017)					
Other investments	Fair value through profit or loss	Fair value through profit or loss	2 399	2 399	-
Trade and other receivables	Loans and receivables	Amortised cost	7 557	7 557	-
Other financial assets					
Forward exchange contracts	Fair value through profit or loss	Fair value through profit or loss	54	54	-
Firm commitments	Fair value through profit or loss	Fair value through profit or loss	24	24	-
Asset finance receivables	Loans and receivables	Amortised cost	73	73	-
Loans	Loans and receivables	Amortised cost	35	35	-
Finance lease receivables	Loans and receivables	Amortised cost	547	547	-
Cash and cash equivalents	Loans and receivables	Amortised cost	1 612	1 612	-
Liabilities					
(As at 1 April 2017)					
Interest-bearing debt	Amortised cost	Amortised cost	(6 285)	(6 285)	-
Trade and other payables	Amortised cost	Amortised cost	(7 516)	(7 516)	-
Shareholders for dividend	Amortised cost	Amortised cost	(25)	(25)	-
Other financial liabilities					
Forward exchange contracts	Fair value through profit or loss	Fair value through profit or loss	(189)	(189)	-
Firm commitments	Fair value through profit or loss	Fair value through profit or loss	(229)	(229)	-
Interest rate swaps	Fair value through profit or loss	Fair value through profit or loss	(22)	(22)	-

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

3.3 Significant accounting policies *continued*

3.3.2 Adoption of IFRS 9 Financial Instruments *continued*

Impairment

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

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

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

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

IFRS 9 has revised the criteria for the write-off of a financial instrument. The group has historically been writing off trade receivables at the point where a trade receivable balance is handed over for debt collection. Trade receivables are handed over for collection when the group has been unable to collect outstanding amounts through its internal collection processes. The subsequent collection was then accounted for as a reduction in the provision for bad debt expense. Following the adoption of IFRS 9, the group has implemented a process whereby trade receivable balances are only written off at the point where there is no longer any probable recovery on a trade receivable balance. This has resulted in an increase in the trade receivable balance of R746 million and R559 million in the allowance account for credit losses. The net adjustment has been accounted for as an adjustment to the opening balance of retained earnings on transition to IFRS 9.

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

balance will realise as the balance is billed to the customer over the lifetime of the instrument and will thus follow the same pattern of expected loss as the trade receivable balance.

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

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

Hedge accounting

Subsequent to making the decision which informed the transition disclosures in the 31 March 2018 financial statements, the group has elected to continue applying the hedge accounting requirements of IAS 39.

Transition

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

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

3.4 Prior period error

3.4.1 Prior period error – mobile CPE revenue recognition

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

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

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

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

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

3.4 Prior period error *continued*

3.4.1 Prior period error – mobile CPE revenue recognition *continued*

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

3.4.2 Prior period error – Smart Office Connexion group consolidation

Telkom group, through its wholly owned subsidiary BCX, is invested in the Smart Office Connexion (SOX) group. The SOX group consists of 9 individual entities. These entities were consolidated during the prior financial year.

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

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

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

During the comparative financial period, the investment in the SOX group was classified as held for sale. The consolidated net asset value of the SOX group was assessed in terms of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, and it was concluded that there was no remeasurement required at a Telkom group level. Following the change to account for the investments as equity accounted investments, a remeasurement was identified. The income from joint ventures and associates line item in the financial statements has been restated to reflect the remeasurement as an adjustment in the 2018 financial year. This resulted in an additional R96 million impairment accounted for in the 2018 financial year.

Refer to note 3.6, 3.7 and 3.8 for each materially affected line item as part of the adoption of the new standards and the correction of the prior period error.

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

In the current financial reporting period, the JSE queried the hybrid presentation basis applied in Telkom's statement of profit or loss and other comprehensive income. The JSE is of the opinion that this basis is contrary to the requirements of IFRS.

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

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

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

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

These line items are now being presented separately.

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

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

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

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

Following the change referred to above, the subtotal "net operating revenue" was removed from the statement of profit or loss and other comprehensive income.

As the group continues to implement its current business plan, a greater focus has been placed on the key reporting metrics on which the group provides financial guidance:

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

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

The changes made above have had no impact on any of the reported key metrics as noted above and do not impact any of the financial guidance issued by the group. The group has re-presented the 31 March 2018 statement of profit or loss and other comprehensive income.

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

3.6 Adjustment to the summary consolidated statement of profit or loss and other comprehensive income

	Year ended 31 March 2018						Restated Rm
	As previously reported Rm	SOX Deconsolidation **** Rm	SOX Remeasurement **** Rm	Change in presentation basis and reclassifications *** Rm	IFRS 15 Rm	Mobile CPE restatement **** Rm	
Operating revenue	41 018	(656)	-	-	(60)	(641)	39 661
Voice**	13 679	-	-	-	(128)	-	13 551
Interconnection	1 034	-	-	-	-	-	1 034
Data*	13 629	-	-	-	153	-	13 782
Customer premises equipment**	3 988	-	-	-	(227)	(641)	3 120
Significant financing component**	-	-	-	-	142	-	142
Sundry revenue	1 662	-	-	-	-	-	1 662
Information technology	7 026	(656)	-	-	-	-	6 370
Other income	607	-	-	-	-	-	607
Payments to other operators	2 606	-	-	-	-	-	2 606
Cost of sales	6 256	(238)	-	(6 018)	-	-	-
Cost of handsets, equipment and directories	-	-	-	5 052	-	(641)	4 411
Sales commission, incentives and logistical costs	-	-	-	966	(31)	-	935
Employee expenses	10 917	(240)	-	-	-	-	10 677
Selling, general and administrative expenses	7 132	(47)	-	(7 085)	-	-	-
Other operating expenses	-	-	-	2 991	-	-	2 991
Maintenance	-	-	-	2 696	-	-	2 696
Marketing	-	-	-	763	-	-	763
Impairment of receivables and contract assets	-	-	-	635	-	-	635
Service fees	3 054	(26)	-	-	-	-	3 028
Operating leases	1 116	(12)	-	-	-	-	1 104
EBITDA	10 544	(93)	-	-	(29)	-	10 422
Depreciation of property, plant and equipment	4 780	(20)	-	-	-	-	4 760
Amortisation of intangible assets	778	-	-	-	-	-	778
Write-offs, impairments/(reversals) and losses of property, plant and equipment and intangible assets	47	-	-	-	-	-	47
Operating profit	4 939	(73)	-	-	(29)	-	4 837

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

3.6 Adjustment to the summary consolidated statement of profit or loss and other comprehensive income *continued*

	Year ended 31 March 2018						Restated Rm
	As previously reported Rm	SOX Deconsolidation **** Rm	SOX Remeasurement **** Rm	Change in presentation basis and reclassifications *** Rm	IFRS 15 Rm	Mobile CPE restatement **** Rm	
Investment income	203	(17)	-	-	-	-	186
Income/(loss) from associates	-	26	(96)	-	-	-	(70)
Net finance charges, hedging costs and fair value movements	851	(9)	-	-	-	-	842
Net finance charges	893	(9)	-	-	-	-	884
Cost of hedging	-	-	-	167	-	-	167
Foreign exchange and fair value movements	(42)	-	-	(167)	-	-	(209)
Profit before taxation	4 291	(55)	(96)	-	(29)	-	4 111
Taxation	1 133	(20)	-	-	-	-	1 113
Profit for the year	3 158	(35)	(96)	-	(29)	-	2 998
Other comprehensive income							
Items that will be reclassified subsequently to profit or loss							
Exchange gains on translating foreign operations	(22)	-	-	-	-	-	(22)
Items that will not be reclassified to profit or loss							
Defined benefit plan actuarial loss	(652)	-	-	-	-	-	(652)
Income tax relating to actuarial loss	-	-	-	-	-	-	-
Other comprehensive income for the year, net of taxation	(674)	-	-	-	-	-	(674)
Total comprehensive income for the year	2 484	(35)	(96)	-	(29)	-	2 324
Profit attributable to:							
Owners of Telkom	3 052	(10)	(96)	-	(29)	-	2 917
Non-controlling interests	106	(25)	-	-	-	-	81
Profit for the year	3 158	(35)	(96)	-	(29)	-	2 998
Total comprehensive income attributable to:							
Owners of Telkom	2 378	(10)	(96)	-	(29)	-	2 243
Non-controlling interests	106	(25)	-	-	-	-	81
Total comprehensive income for the year	2 484	(35)	(96)	-	(29)	-	2 324
Basic earnings per share (cents)	602.3	(2.0)	(18.9)	-	(5.7)	-	575.7
Diluted earnings per share (cents)	589.7	(1.9)	(18.6)	-	(5.6)	-	563.6

* Includes a R45 million restatement relating to installation fees. Refer to note 3.3.1.2 and 3.3.1.3.

** Refer to note 3.3.1.3.

*** Refer to note 3.5.

**** Refer to note 3.4.1 and 3.4.2.

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

3.7 Adjustments to the summary consolidated statement of financial position

	As at 31 March 2018				As at 1 April 2017			
	As previously reported Rm	SOX Restatement Rm	IFRS 15 Rm	Restated Rm	As previously reported Rm	SOX Restatement Rm	IFRS 15 Rm	Restated Rm
Assets								
Non-current assets	36 417	(58)	-	36 359	34 125	214	-	34 339
Property, plant and equipment	30 377	(53)	-	30 324	27 918	(55)	-	27 863
Intangible assets	4 492	-	-	4 492	4 720	(1)	-	4 719
Other investments	100	-	-	100	40	274	-	314
Employee benefits	627	-	-	627	635	-	-	635
Other financial assets	60	-	-	60	60	-	-	60
Finance lease receivables	262	-	-	262	310	-	-	310
Deferred taxation	499	(5)	-	494	442	(4)	-	438
Current assets	14 127	(403)	54	13 778	13 912	(384)	11	13 539
Inventories	1 435	(94)	-	1 341	1 384	(116)	-	1 268
Income tax receivable	54	-	-	54	9	-	-	9
Finance lease receivables	112	-	-	112	237	-	-	237
Trade and other receivables	8 126	(138)	(1 618)	6 370	8 156	(124)	(1 020)	7 012
Contract assets	-	-	1 672	1 672	-	-	1 031	1 031
Other financial assets	163	-	-	163	126	-	-	126
Other investments	1 509	-	-	1 509	2 388	-	-	2 388
Cash and cash equivalents	2 728	(171)	-	2 557	1 612	(144)	-	1 468
Assets classified as held for sale	-	204	-	204	12	-	-	12
Total assets	50 544	(257)	54	50 341	48 049	(170)	11	47 890

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

3.7 Adjustments to the summary consolidated statement of financial position *continued*

	As at 31 March 2018				As at 1 April 2017			
	As previously reported Rm	SOX Restatement Rm	IFRS 15 Rm	Restated Rm	As previously reported Rm	SOX Restatement Rm	IFRS 15 Rm	Restated Rm
Equity and liabilities								
Equity attributable to owners of the parent	27 026	21	(90)	26 957	27 569	127	(61)	27 635
Share capital	5 050	-	-	5 050	5 208	-	-	5 208
Share-based compensation reserve	377	-	-	377	452	-	-	452
Non-distributable reserves	1 579	-	-	1 579	1 376	-	-	1 376
Retained earnings	20 020	21	(90)	19 951	20 533	127	(61)	20 599
Deferral of incremental contract costs	-	-	149	-	-	-	118	-
Deferral of installation fee revenue	-	-	(46)	-	-	-	(1)	-
Earlier recognition of fixed-line customer premises equipment revenue and recognition of significant financing component	-	-	32	-	-	-	27	-
Lower recognition of mobile customer premises equipment revenue and recognition of significant financing component	-	-	(225)	-	-	-	(205)	-
Non-controlling interests	359	(165)	-	194	337	(140)	-	197
Total equity	27 385	(144)	(90)	27 151	27 906	(13)	(61)	27 832

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

3.7 Adjustments to the summary consolidated statement of financial position *continued*

	As at 31 March 2018				As at 1 April 2017			
	As previously reported Rm	SOX Restatement Rm	IFRS 15 Rm	Restated Rm	As previously reported Rm	SOX Restatement Rm	IFRS 15 Rm	Restated Rm
Non-current liabilities	10 240	(10)	38	10 268	7 004	(13)	–	6 991
Interest-bearing debt	7 165	(7)	–	7 158	4 744	(11)	–	4 733
Employee related provisions	2 388	–	–	2 388	1 536	–	–	1 536
Non-employee related provisions	44	(5)	–	39	56	(5)	–	51
Deferred revenue	464	–	38	502	529	–	–	529
Deferred taxation	179	2	–	181	139	3	–	142
Current liabilities	12 919	(103)	106	12 922	13 139	(144)	72	13 067
Trade and other payables	6 878	(78)	98	6 898	7 516	(122)	71	7 465
Shareholders for dividend	58	–	–	58	25	–	–	25
Interest-bearing debt	2 247	(8)	–	2 239	1 541	(6)	–	1 535
Employee related provisions	1 340	(15)	–	1 325	1 397	(14)	–	1 383
Non-employee related provisions	164	–	–	164	124	–	–	124
Deferred revenue	1 589	–	8	1 597	1 570	–	1	1 571
Income tax payable	363	(2)	–	361	433	(2)	–	431
Other financial liabilities	250	–	–	250	440	–	–	440
Credit facilities utilised	30	–	–	30	93	–	–	93
Total liabilities	23 159	(113)	144	23 190	20 143	(157)	72	20 058
Total equity and liabilities	50 544	(257)	54	50 341	48 049	(170)	11	47 890

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

3.8 Adjustments to the summary consolidated statement of cashflows

	Year ended 31 March 2018		
	As previously reported Rm	SOX Restatement* Rm	Restated Rm
Cash flows from operating activities	6 084	(45)	6 039
Cash receipts from customers	41 049	(958)	40 091
Cash paid to suppliers and employees	(30 878)	900	(29 978)
Cash generated from operations	10 171	(58)	10 113
Interest received	327	(17)	310
Finance charges paid	(731)	9	(722)
Taxation paid	(1 493)	21	(1 472)
Cash generated from operations before dividend paid	8 274	(45)	8 229
Dividend paid	(2 190)	-	(2 190)
Cash flows utilised for investing activities	(6 634)	17	(6 617)
Proceeds on disposal of property, plant and equipment and intangible assets	82	-	82
Additions to assets for capital expansion	(7 773)	17	(7 756)
Realisation of investment in other financial assets	31	-	31
Investments made by FutureMakers	(24)	-	(24)
Proceeds on realisation of sinking fund	1 050	-	1 050

	Year ended 31 March 2018		
	As previously reported Rm	SOX Restatement* Rm	Restated Rm
Cash flows from financing activities	1 729	2	1 731
Loans raised	7 680	-	7 680
Loans repaid	(4 685)	-	(4 685)
Purchase of shares for the Telkom and subsidiaries long term incentive share scheme	(68)	-	(68)
Shares repurchased and cancelled	(759)	-	(759)
Finance lease repaid	(18)	2	(16)
Repayment of derivatives	(546)	-	(546)
Proceeds from derivatives	125	-	125
Net increase/(decrease) in cash and cash equivalents	1 179	(26)	1 153
Net cash and cash equivalents at 1 April	1 519	(145)	1 374
Net cash and cash equivalents at the end of the year	2 698	(171)	2 527

* Refer to note 3.4.2.

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

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

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

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

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

3.9.1 IFRS 16 Leases

IFRS 16 Leases, issued by the IASB in January 2016, is effective for reporting periods beginning on, or after, 1 January 2019 and will be adopted by the group on 1 April 2019.

IFRS 16 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.

Leases where the group acts as lessor

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The group is not materially affected by the changes made to operating and finance leases and the treatment of residual guaranteed values. However, additional disclosures will be required in the 2020 financial year.

Leases in which the group is a lessee

The adoption of the standard will result in a significant increase in the asset and liability position from the recognition of right-of-use assets and lease liabilities representing the present value of future minimum lease payments discounted at a rate appropriate after taking the lease term into account, attributable to the following major lease categories:

- Mast and Tower infrastructure lease agreements
- Property leases (including warehousing)
- Vehicle fleet leases

The right-of-use assets will be subsequently measured using the cost model as set out in IAS 16 Property, Plant and Equipment. The right-of-use liabilities will subsequently be measured at amortised cost.

As at the reporting date, the group has non-cancellable operating lease commitments of R1 906 million.

The adoption of the new standard will not affect the profit after tax over the duration of a contract as the total lease payments which would have been expensed over the lease term are unaffected. However, due to the impact of higher finance charges in the early years of the lease, the impact on earnings will initially be dilutive, before being accretive in later periods.

The new standard moves the majority of lease payments below EBITDA, as well as a depreciation charge on the right-of-use asset and interest expense on the lease liability as opposed to operating lease expenses. This will result in an increase in EBITDA over the lease term. Application of the standard will also impact key ratios linked to EBITDA e.g. Net debt to EBITDA.

Under IAS 17 Leases, the operating lease payments were included in cash flows from operating activities. Following the adoption of IFRS 16 Leases, the lease payments will be included in cash flows from financing activities. This will result in an increase in the inflows from operating activities and an increase in the outflows from financing activities owing to a significant reclassification between the line items on the statement of cash flows.

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

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

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

3.9.1 IFRS 16 Leases *continued*

The following key judgements will be applied in the adoption of the new standard:

Lease discount rate	Except where a discount rate implicit in the lease has been stipulated in the lease agreement, the discount rate for a lease will be determined with reference to the incremental borrowing rate for a loan with a similar period as the lease term. The rate will be determined by Telkom treasury, which acts as a centralised treasury function.
Separation of lease components	Where a lease includes various components, which are not service related, management has applied the practical expedient to treat the components as one lease.
Low value assets and short-term leases	The group has elected to apply the practical expedient to account for all short-term leases (<12 months) as operating expenses. All leases where the underlying asset being used is of low value (<\$5 000) are assessed on a lease-by-lease basis and accounted for as expenses as incurred.
Lease term	<p>It will be assumed that in the event where a lease termination clause exists which is exercisable at the lessee's discretion that the termination option will not be exercised.</p> <p>It has been assumed that where a lease contract is currently ongoing on a monthly basis, that the lease term be limited to the one month enforceable period and therefore that the lease be excluded from the lease population for the calculation of the right-of-use asset and liability on adoption of the standard.</p> <p>Where a contract contains a renewal clause, management has assumed that the lease will be renewed for a period calculated based on past historical renewal behaviour, taking into consideration the strategic nature of the asset.</p>

Transition

The group is adopting the new standard on 1 April 2019, using the modified retrospective approach. The cumulative effect of adopting IFRS 16 will therefore be recognised as an adjustment to the opening balance of retained earnings at 1 April 2019, with no restatement of comparative information.

The group will also adopt the practical expedient in IFRS 16 to apply the new standard to all contracts being accounted for under IAS 17 and IFRIC 4 at 1 April 2019 and to apply the principles outlined in IFRS 16 for identifying a lease to all new contracts entered into after that date.

4. Segment information

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

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

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

- Significant financing component; and
- Interest on overdue accounts

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

"Other" includes Yellow Pages and other business units.

The 31 March 2018 segment information has been restated for the adoption of IFRS 15 Revenue from Contracts with Customers, the change in presentation basis and the SOX and Mobile CPE error.

During the current reporting period, the structure of the segment below has been updated to reflect operating expenses on an operating segment level. The comparative segment has been restated to reflect intersegmental transactions in all operating expenses and costs included in net operating revenue per segment. During the current year, the Fastnet business was transferred from the Gyro group into BCX. The comparative segment information has been restated to include Fastnet as part of the BCX segment.

The current period EBITDA for segmental purposes has been normalised for voluntary severance, retirement and retrenchment package expenses of R728 million.

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

4. Segment information continued

March 2019	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	Consolidated Rm
Revenue from external customers*	4 207	18 866	17 426	609	666	-	41 774
<i>Revenue recognised over time</i>							
Voice	-	6 845	5 633	-	-	-	12 478
Interconnection	792	270	-	-	-	-	1 062
Data	3 415	8 913	3 446	-	-	-	15 774
Information technology services	-	-	5 841	-	-	-	5 841
Significant financing component revenue	-	191	-	-	-	-	191
Sundry revenue	-	-	269	-	-	-	269
<i>Revenue recognised at a point in time</i>							
Customer premises equipment	-	2 635	1 314	-	-	-	3 949
Information technology hardware	-	-	923	-	-	-	923
Sundry revenue	-	12	-	-	666	-	678
Operating lease revenue	-	-	-	609	-	-	609
Intersegmental operating revenue	12 733	348	2 154	560	1 349	(17 144)	-
Other income	378	615	117	-	809	(1 200)	719
Payments to other operators	(954)	(1 958)	(729)	-	-	701	(2 940)
Cost of handsets, equipment and directories	-	(2 959)	(2 121)	-	(244)	119	(5 205)
Sales commission, incentives and logistical costs	(6)	(1 250)	(213)	-	-	12	(1 457)
Employee expenses	(3 628)	(735)	(4 538)	(104)	(1 032)	(12)	(10 049)
Selling, general and administrative expenses	(4 009)	(10 951)	(8 125)	(88)	(1 083)	16 839	(7 417)
Service fees	(1 721)	(416)	(490)	(185)	(335)	213	(2 934)
Operating leases	(708)	(530)	(241)	(107)	(68)	472	(1 182)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	6 292	1 030	3 240	685	62	-	11 309
Reconciliation of operating profit to profit before tax							
<i>Normalisations</i>							
Voluntary severance, retirement and retrenchment package expenses							(728)
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments							10 581
Depreciation, amortisation, impairments, write-offs and losses							(5 814)
Operating profit							4 767
Investment income							185
Income/(loss) from associates							2
Net finance charges, hedging costs and fair value movements							(947)
Profit before taxation							4 007
Other segment information							
Capital expenditure of property, plant and equipment and intangible assets	4 034	3 070	304	60	206	-	7 674

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

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

4. Segment information continued

	Openserve ** Rm	Consumer ** Rm	BCX ** Rm	Gyro Rm	Other ** Rm	Eliminations ** Rm	Consolidated ** Rm
Restated March 2018***							
Revenue from contracts with external customers*	4 296	16 129	17 790	709	737	-	39 661
<i>Revenue recognised over time</i>							
Voice	-	7 052	6 499	-	-	-	13 551
Interconnection	868	166	-	-	-	-	1 034
Data	3 351	6 773	3 563	-	95	-	13 782
Information technology services	-	-	5 678	-	-	-	5 678
Significant financing component revenue	-	142	-	-	-	-	142
Sundry revenue	-	-	218	-	-	-	218
<i>Revenue recognised at a point in time</i>							
Customer premises equipment	-	1 980	1 140	-	-	-	3 120
Information technology hardware	-	-	692	-	-	-	692
Sundry revenue	77	16	-	-	642	-	735
Operating lease revenue	-	-	-	709	-	-	709
Intersegmental operating revenue***	13 229	372	2 473	235	3 720	(20 029)	-
Other income	345	807	3	-	769	(1 317)	607
Payments to other operators	(1 296)	(1 247)	(922)	-	(12)	871	(2 606)
Cost of handsets, equipment and directories	(1)	(2 163)	(2 051)	-	-	(196)	(4 411)
Sales commission, incentives and logistical costs	(48)	(779)	(184)	-	-	76	(935)
Employee expenses	(4 145)	(1 003)	(4 777)	(59)	(693)	-	(10 677)
Selling, general and administrative expenses***	(4 380)	(11 463)	(8 178)	(161)	(3 305)	20 402	(7 085)
Service fees	(1 502)	(323)	(629)	(410)	(164)	-	(3 028)
Operating leases	(594)	(476)	(215)	-	(12)	193	(1 104)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	5 904	(146)	3 310	314	1 040	-	10 422
Reconciliation of operating profit to profit before tax							
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments							10 422
Depreciation, amortisation, impairments/(reversals), write-offs and losses							(5 585)
Operating profit							4 837
Investment income							186
Income/(loss) from associates							(70)
Net finance charges, hedging costs and fair value movements							(842)
Profit before taxation							4 111
Other segment information							
Capital expenditure of property, plant and equipment and intangible assets	4 728	2 359	504	29	289	-	7 909

Entity wide disclosures

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

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

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

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

** Restated. Refer to note 3.3, 3.4, 3.5 and 3.6.

*** Restated to reflect the revised measurement basis used by the CODM to measure the performance of the reportable segments in the current financial year.

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

5. Operating expenses

	31 March 2019 Rm	Restated 31 March 2018 Rm
Employee expenses	10 777	10 677
Included in employee expenses is a R728 million (31 March 2018: Rnil) provision for voluntary severance, retirement and retrenchment packages.		
Depreciation, amortisation, impairments, write-offs and losses	5 814	5 585
Depreciation of property, plant and equipment	4 842	4 760
Amortisation of intangible assets	702	778
Write-offs, impairments and losses of property, plant and equipment and intangible assets	270	47

During the year, the group reassessed the useful lives on various technologies. The reassessment takes into account the group's current CAPEX strategy and changes in the technological environment. The reassessment of useful lives decreased the depreciation and amortisation expense at a group level by R537 million (31 March 2018: R280 million).

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

Provision for credit losses

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

6. Earnings and dividend per share

	31 March 2019	Restated 31 March 2018
Total operations		
Basic earnings per share (cents)*	561.9	575.7
Diluted earnings per share (cents)*	551.8	563.6
Headline earnings per share (cents)*	619.2	589.3
Diluted headline earnings per share (cents)*	608.1	577.0

6. Earnings and dividend per share continued

	Number of shares	Number of shares
Reconciliation of weighted average number of ordinary shares:		
Weighted ordinary shares in issue	511 140 239	522 421 876
Weighted average number of treasury shares	(13 759 299)	(15 728 674)
Weighted average number of shares outstanding	497 380 940	506 693 202
Reconciliation of diluted weighted average number of ordinary shares:		
Weighted average number of shares outstanding	497 380 940	506 693 202
Expected future vesting of shares related to group share scheme incentive plans	9 146 285	10 840 186
Diluted weighted average number of shares outstanding	506 527 225	517 533 388

* The disclosure of headline earnings is a requirement of the JSE Limited and is not a recognised measure under IFRS. It has been calculated in accordance with the South African Institute of Chartered Accountants' circular 4/2018 issued in this regard.

	31 March 2019 Rm	Restated 31 March 2018 Rm
Total operations		
Reconciliation between earnings and headline earnings:		
Profit for the year	2 831	2 998
Non-controlling interests	(36)	(81)
Profit attributable to owners of Telkom	2 795	2 917
Profit on disposal of property, plant and equipment and intangible assets	(2)	(59)
Write-offs, impairments and losses of property, plant and equipment and intangible assets	270	47
Remeasurement of associates	30	96
Taxation effects**	(13)	(15)
Headline earnings	3 080	2 986
Dividend per share (cents)	349.11	408.89

The dividend per share is based on a dividend of 236.97 cents per share declared on 28 May 2018 and 112.14 cents per share declared on 13 November 2018 (31 March 2018: 290.75 cents per share declared on 1 June 2017 and 118.11 cents per share declared on 10 November 2017). 511,140,239 number of ordinary shares were outstanding on the dates of the dividend declaration (31 March 2018: 526,948,700).

** The taxation impact consists of a R13 million increase (31 March 2018: R15 million) in tax expense related to recoupment of tax on write-offs of property, plant and equipment and intangible assets.

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

7. Capital additions and disposals

	31 March 2019 Rm	31 March 2018 Rm
Property, plant and equipment		
Additions	7 034	7 416
Disposals	(40)	(19)
	6 994	7 397
Intangible assets		
Additions	640	493
Disposals	(30)	(4)
	610	489

Finance charges of R59 million (31 March 2018: R135 million) were capitalised to property, plant and equipment in the current financial period.

8. Net cash and cash equivalents

	31 March 2019 Rm	Restated 31 March 2018 Rm
Cash disclosed as current assets	1 428	2 557
Cash and bank balances	1 308	1 498
Short-term deposits	120	1 059
Credit facilities utilised	-	(30)
Net cash and cash equivalents	1 428	2 527
Undrawn borrowing facilities	6 402	5 250

The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 31 March 2019, R5.3 billion (31 March 2018: R4.5 billion) of these undrawn facilities were committed.

9. Deferred taxation

	31 March 2019 Rm	Restated 31 March 2018 Rm
Deferred taxation balance is made up as follows:	93	313
Deferred taxation assets	255	494
Deferred taxation liabilities	(162)	(181)

9. Deferred taxation continued

The decrease in the deferred tax balance in the current year is attributable to a R67 million (31 March 2018: Rnil) additional liability raised in Telkom SA SOC Limited relating to the actuarial gains recognised on the post-employment benefit plans. This movement was accounted for in other comprehensive income. The remaining movement in the asset is attributable to the IFRS implication noted below, as well as the full recognition of the deferred tax asset in respect of prior year losses and the utilisation of temporary differences.

At 31 March 2018, the group did not recognise a deferred tax asset of R341 million in respect of temporary differences and tax losses amounting to R1 220 million that could be carried forward against future taxable income. These differences originated in Telkom company in the prior year. There was no unrecognised deferred tax asset at 31 March 2019.

The adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments has had no impact on the deferred tax asset position as a result of the limitation of the deferred tax asset applied in the Telkom company results in the prior year. The 1 April 2018 adjustment to the allowance account for credit losses attributable to the change in the write-off criteria following the adoption of IFRS 9 has resulted in a reduction of the deferred tax asset of R41 million.

10. Fair value measurement

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

10.1 Fair value of financial instruments

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

Type of financial instrument	Fair value at 31 March 2019 Rm	Valuation technique	Significant inputs
Derivative assets	231	Discounted cash flows	Yield curves
Derivative liabilities	(280)		Market interest rates
Investment in ABSA sinking fund	1 573	Quoted market prices adjusted for counterparty credit risk	Market prices
Investment in FutureMakers	69	Discounted cash flows	Cash flow forecasts and market related discount rates
Interest-bearing debt	(10 327)	Discounted cash flows and quoted bond prices	Market interest rate

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

10. Fair value measurement continued

10.1 Fair value of financial instruments continued

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

Fair value hedge

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

A decrease in fair value of the forward exchange contracts, designated as fair value hedges, of R311 million (31 March 2018: decrease of R319 million) has been recognised in finance charges and fair value movements and offset with a similar gain (31 March 2018: gain) on the hedged items (property, plant and equipment and inventory).

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

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

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

The fair value of cash and short-term deposits, trade and other receivables, finance leases, shareholders for dividend and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments and market related interest rates included in finance lease receivables. Long-term receivables and borrowings are evaluated by the group based on parameters such as interest rates, specific country factors and the individual creditworthiness of the customer. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at the reporting date, the carrying amount of such receivables, net of allowances, are not materially different from their calculated fair values. Fair values of quoted bonds are based on price quotations at the reporting date.

10.2 Fair value hierarchy

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

The different levels have been defined as follows:

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

	Hierarchy levels*	31 March 2019 Rm	31 March 2018 Rm
Assets measured at fair value			
Investment in Absa sinking fund	Level 2	1 573	1 509
Investment made by FutureMakers	Level 3	69	50
Forward exchange contracts	Level 2	161	14
Firm commitments	Level 2	70	149
Liabilities measured at fair value			
Forward exchange contracts	Level 2	(13)	(222)
Interest rate swaps	Level 2	(30)	(23)
Firm commitments	Level 2	(237)	(5)
Liabilities measured at amortised cost			
Interest-bearing debt consisting of:			
Listed debt	Level 2	(10 327)	(9 694)

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

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

11. Business combinations and disposals

Subsidiaries classified as held for sale in the year

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

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

The mandate provided to management by the board to dispose of the Smart Office Connexion group expired in June 2018 and the asset was no longer held for sale at this date. During the second half of the year, management re-initiated the sale negotiations regarding the sale. As at 31 March 2019, the sale of the SOX group is considered highly probable. The asset held for sale is accounted for at its fair value less costs of disposal of R200 million (31 March 2018: R204 million).

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

African subsidiaries – BCX Tanzania and BCX Nigeria	Rm
Revenue	366
Expenses	(358)
Net finance costs and fair value movements	(11)
Loss before tax	(3)
Taxation	(2)
Loss for the period	(5)
Total non-current assets	28
Total current assets	149
Total non-current liabilities	1
Total current liabilities	94

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

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

An impairment of R30 million (31 March 2018: R96 million) was recognised on the investment in SOX following the increase in carrying value of the investment owing to the equity accounted income of R26 million (31 March 2018: R20 million) of the SOX group of entities.

12. Interest-bearing debt

	31 March 2019 Rm	Restated 31 March 2018 Rm
Non-current interest-bearing debt	4 840	7 158
Local debt	4 700	6 998
Foreign debt	123	118
Finance leases	17	42
Current portion of interest-bearing debt	5 401	2 239
Local debt	5 370	2 200
Foreign debt	5	4
Finance leases	26	35

The current portion of interest-bearing debt of R5 401 million (31 March 2018: R2 239 million) for group as at 31 March 2019 is expected to be repaid from operational cash flow and other borrowings.

During the period under review, additional loans to the value of R3 246 million (31 March 2018: R7 680 million) in the form of commercial paper were raised. No material transaction fees were raised upon the issue of these debt instruments. The instruments have an average interest rate of 7.9% and are repayable over an average term of 6 months.

13. Provisions

	31 March 2019 Rm	Restated 31 March 2018 Rm
Non-current employee related provisions	1 186	2 388
Subsidiary defined benefit plans	22	21
Telephone rebates	412	402
Telkom Retirement Fund	752	1 965
Current portion of employee related provisions	1 175	1 325
Annual leave	466	573
Post-retirement medical aid	–	6
Telephone rebates	39	39
Bonus, termination packages and other benefits	670	707
Non-current non-employee related provisions		
Other	7	39
Current portion of non-employee related provisions		
Other	141	164

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

13. Provisions continued

Annual leave

In terms of the group's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 15-30 days (31 March 2018: 22-30 days), which must be taken within a 6-19 month (31 March 2018: 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 group's results have been made public, with a 14th cheque for a certain group of employees.

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

During the year under review, the group initiated a voluntary severance and retrenchment process. An expense relating to the process of R728 million (31 March 2018: Rnil) was recognised.

Non-employee related provisions

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

Telkom Retirement Fund

The decrease in the Telkom Retirement Fund obligation is primarily driven by the increase in the discount rate from 8.80% to 9.70%. This resulted in an actuarial gain of R1 334 million.

14. Commitments

	31 March 2019 Rm	31 March 2018 Rm
Capital commitments authorised	9 744	9 270
Commitments against authorised capital expenditure	5 671	4 350
Authorised capital expenditure not yet contracted	4 073	4 920

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

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

15. Trade and other receivables and contract assets

	31 March 2019 Rm	Restated 31 March 2018 Rm
Trade and other receivables	7 425	6 370
Trade receivables	5 884	4 811
Gross trade receivables	7 091	5 638
Impairment of receivables	(1 207)	(827)
Prepayments and other receivables	1 541	1 559
Contract assets	2 518	1 672
Gross contract assets - Handset receivables	2 331	1 520
Contract cost assets	226	149
Ongoing commission capitalised assets	131	98
Impairment of contract assets - Handset receivables	(170)	(95)
Contract cost assets	226	149
Assets recognised from costs incurred to obtain a contract	149	118
Contract costs capitalised during the year	255	154
Amortisation recognised as cost of providing services during the year	(178)	(123)
Allowance account for credit losses - trade receivables	1 207	827
Opening balance as previously reported	827	528
Adoption of IFRS 9 Financial Instruments - Adjustment to allowance account measurement	(61)	-
Adoption of IFRS 9 Financial Instruments - Change to write-off criteria	559	-
Charged to statement of profit or loss and other comprehensive income	184	537
Receivables written-off	(302)	(238)
Allowance account for credit losses - contract assets	170	95
Opening balance as previously reported	95	65
Charged to statement of profit or loss and other comprehensive income	200	98
Contract assets written-off	(125)	(68)

The repayment terms of trade receivables vary between 21 days and 45 days from date of invoice. Interest charged on overdue accounts varies between a rate of prime and a rate of 18%, depending on the contract terms.

Notes to the summary consolidated provisional financial statements

for the year ended 31 March 2019

16. Contingencies

Contingent Liabilities

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

High Court

Radio Surveillance Security Services (Pty) Ltd (RSSS)

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

Phutuma Networks (Pty) Ltd (Phutuma)

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

Tax matters

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

17. Related parties

	31 March 2019 Rm	Restated 31 March 2018 Rm
Details of material transactions and balances with related parties not disclosed separately in the summary consolidated provisional financial statements were as follows:		
With shareholders:		
Government of South Africa		
<i>Related party balances</i>		
Finance lease receivable	207	229
Trade receivables	1 370	1 010
Provision for doubtful debt	(212)	(207)
<i>Related party transactions</i>		
Revenue	(4 128)	(4 557)

17. Related parties continued

At 31 March 2019, the Government of South Africa held 40.5% (31 March 2018: 40.5%) of Telkom's shares, and had the ability to exercise significant influence. The Public Investment Corporation held 11.9% (31 March 2018: 12.9%) of Telkom's shares.

	31 March 2019 Rm	Restated 31 March 2018 Rm
With entities under common control:		
Major public entities		
<i>Related party balances</i>		
Trade receivables	42	54
Provision for doubtful debt	(2)	(10)
Trade payables	(35)	(12)
<i>Related party transactions</i>		
Revenue (excluding operating lease income)	(456)	(573)
Operating expenses (excluding operating lease expenses)	399	427
Operating lease income	(27)	(23)
Operating lease expense	30	19
Key management personnel compensation: (Including directors and prescribed officers' emoluments)		
<i>Related party transactions</i>		
Short-term employee benefits	272	247
Post-employment benefits	17	15
Termination benefits	13	25
Equity compensation benefits	22	(3)

Terms and conditions of transactions with related parties

Except as indicated above, outstanding balances at 31 March 2019 are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Except as indicated above, for the year ended 31 March 2019, the group has not impaired any of the amounts owed by the related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates.

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for the year ended 31 March 2019

18. Reconciliation of profit for the year to cash generated from operations

	31 March 2019 Rm	Restated 31 March 2018 Rm
Cash generated from operations	8 903	10 113
Profit for the year	2 831	2 998
Finance charges and fair value movements	947	842
Taxation	1 176	1 113
Investment income and income from associates	(187)	(116)
Interest received from trade receivables	(250)	(130)
Non-cash items	5 519	5 779
Depreciation, amortisation, impairment and write-offs	5 814	5 585
(Decrease)/increase in provisions	(162)	181
Sale of property, plant and equipment	(2)	(59)
Foreign exchange movements	(29)	25
Share based payment expenses	135	48
Deferred revenue	(237)	(1)
Movement in working capital	(1 133)	(373)
Inventories	(94)	(56)
Accounts receivable	(1 280)	(11)
Accounts payable	241	(306)

19. Net debt reconciliation

	31 March 2019 Rm	Restated 31 March 2018 Rm
Total interest-bearing debt at reporting date	10 241	9 397
Total interest-bearing debt at the beginning of the year	9 397	6 268
Loans raised	3 246	7 680
Loans repaid	(2 544)	(4 685)
Finance leases repaid	(42)	(16)
Foreign exchange revaluation on loans	12	-
Finance charges capitalised to interest-bearing debt	172	150

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

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

20. Significant events and transactions

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

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

Dividends

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

The Telkom Board also declared an ordinary dividend of 112 cents per share on 13 November 2018 which was paid on 3 December 2018 to shareholders registered on 30 November 2018.

Employee Share Plan

In May and June 2018, Telkom purchased 901,068 shares from the market through Rossal, a wholly owned subsidiary, for the purposes of the employee share plan.

Allocation of shares in terms of the Telkom Employee Share Plan

On 25 May 2018, the board approved the sixth allocation of shares to employees in terms of its Employee Share Plan.

The number of shares to vest will depend on the extent to which the performance conditions are met at the end of the applicable vesting period.

Vesting of shares

In terms of the Telkom Share Plan 101 191 and 31 500 shares vested to Mr Siphon Maseko and Mr Deon Fredericks respectively in June 2018.

Appointment of new group chief financial officer and executive director

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

BCX Section 189 Process

On 7 November 2018, BCX issued a company-wide communication advising its employees that it had served unions with a notice in terms of section 189 of the Labour Relations Act. The matter was finalised in February 2019.

Conclusion of Telkom and Vodacom roaming and facilities leasing agreement

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

20. Significant events and transactions continued

Change in JSE sponsor

Telkom announced on 22 March 2019 that it had made a decision that Telkom will be rotating the role of The Standard Bank of South Africa Limited as JSE Sponsor, with effect from 30 June 2019.

The company has appointed Nedbank Corporate and Investment Banking, a division of Nedbank Limited, as JSE Sponsor, with effect from 1 July 2019.

Retirement of non-executive director

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

Telkom announced on 24 August 2018 that Dr Hamadaun Touré has resigned from the board of directors of Telkom as an independent non-executive director with effect from 23 August 2018.

On 21 February 2019, Telkom advised the market that Mr Jabu Mabuza will be stepping down as an independent non-executive director and the chairman of the board of directors of Telkom, with effect from 31 May 2019.

Mr Sello Moloko, currently an independent non-executive director of the board, will act as the new chairman of the Telkom Board with effect from 1 June 2019.

Appointment of non-executive director

Telkom announced on 21 February 2019 that Dr Sibusiso Sibisi has been appointed to the board of directors of the company as an independent non-executive director with effect from 1 April 2019.

Appointment of new external auditors

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

21. Events after the reporting date

Dividends

The Telkom Board declared an ordinary dividend of 249.40 cents per share on 27 May 2019, payable on 18 June 2019 to shareholders registered at the close of business on 14 June 2019.

Acquisition of Trudon (Pty) Ltd minority interest

On 20 March 2019, the Telkom board approved the acquisition of the minority shareholding in Trudon (Pty) Ltd. During May 2019, the parties to the transaction signed the sale of shares agreement. The parties are awaiting approval from the Competition Commission to finalise the transaction.

Disposal of SOX interest

On 20 March 2019, the Telkom Board approved BCX's disposal of its stake in SOX Holdings (Smart Office Connection Group Holdings Ltd).

On 22 May 2019, the parties have agreed to the disposal of BCX's shares in the form of a repurchase of shares agreement, in terms of which SOX Holdings will buy back BCX's shares. The agreement is subject to the fulfillment (or waiver where appropriate) of certain condition precedents, including:

- Competition Commission approval; and
- The conclusion of service, support and maintenance agreements between BCX and SOX.

Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2019 and the date of this report, or otherwise dealt with in the financial statements, which significantly affects the financial position of the group and the results of its operations.

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