Telkom SA SOC Limited

Group Interim Results

for the six months ended
30 September 2020

Telkom SA SOC Ltd

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

Telkom SA SOC Ltd is listed on the JSE Ltd. Information may be accessed on Reuters under the symbol TKGJ.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 statements in this document, and verbal statements that may be made by Telkom or by officers, directors or employees acting on Telkom's behalf, constitute or are based on forward-looking statements.

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

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

Index

1 **Overview of our business** 6

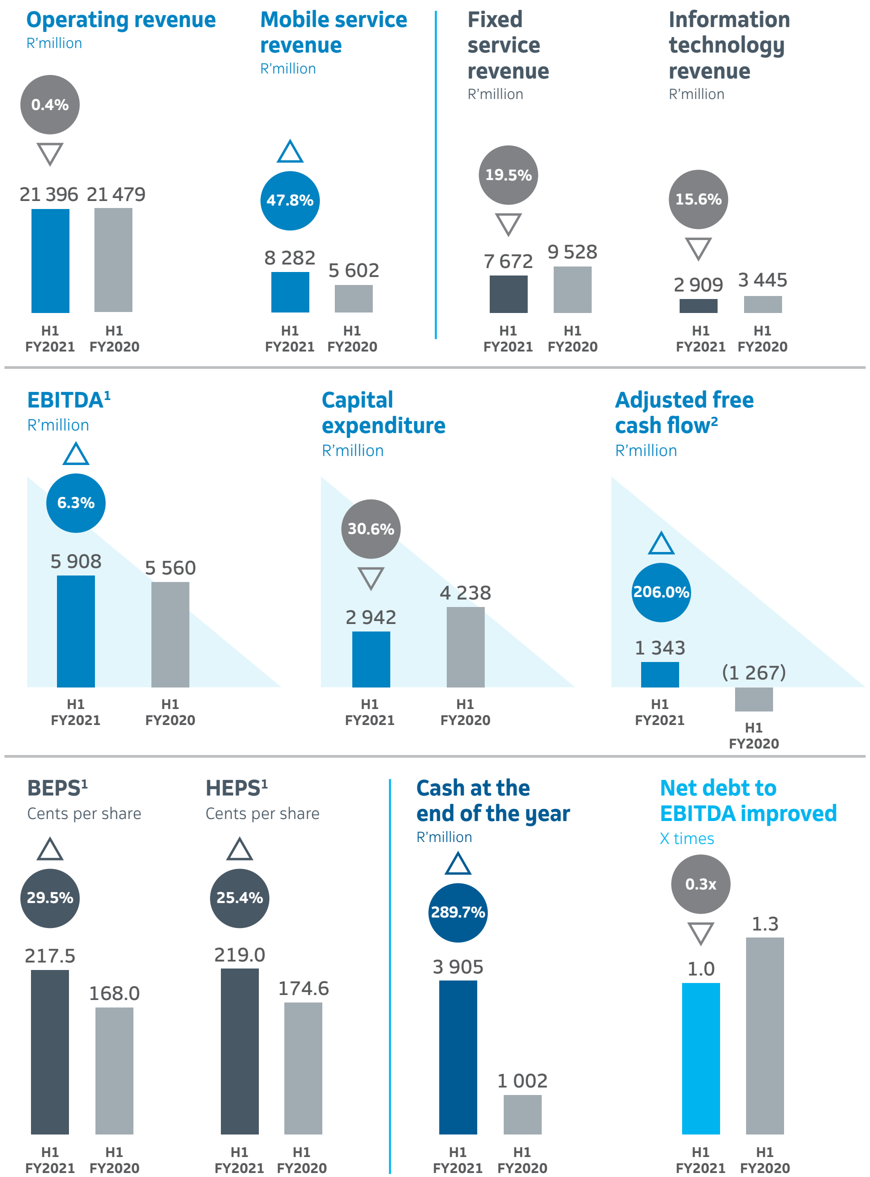
2 **Operational data** 29

3 **Financial performance** 32

4 **Reviewed condensed consolidated interim financial statements** 46

www.telkom.co.za

Key indicators



[1] During the period we restated the prior period's other operating expenses by R44 million. Refer to page 4.
[2] Excludes R1 132 million paid for voluntary severance packages (VSPs) and voluntary early retirement packages (VERPs) during H1 FY2021 and R162 million in the prior period.

Telkom operating structure

Telkom SA SOC Ltd represents Telkom group (Telkom or the group), which comprises Telkom company and its subsidiaries. The Telkom company comprises divisions, namely Openserve, Telkom Consumer and Yep! (previously Telkom Small and Medium Business (SMB)). Telkom group subsidiaries are BCX and Gyro.

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

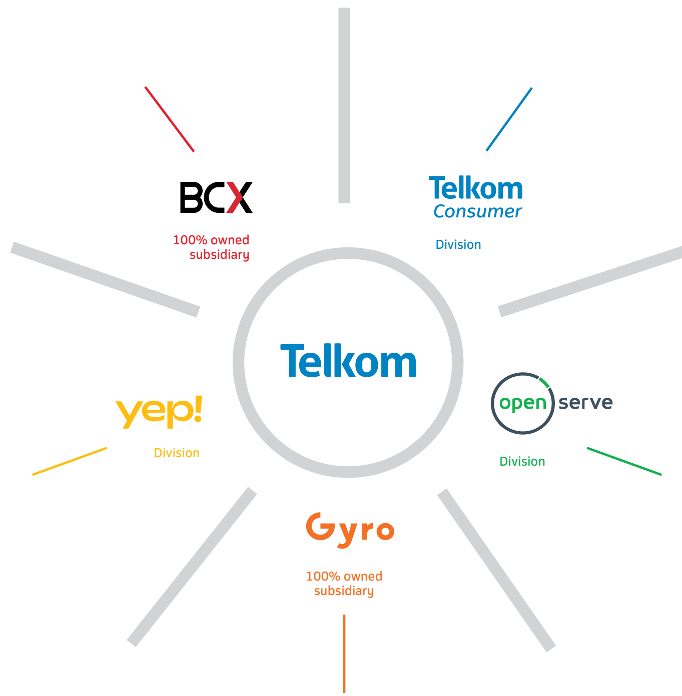
Openserve is South Africa's leading wholesale infrastructure connectivity provider with the largest open access network across South Africa.

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

Telkom SMB was rebranded as **Yep!** and includes Yellow Pages and the small and medium entities that were carved out from BCX. Yep! is also consolidated with Telkom's small and medium entities and is reported under the Telkom Consumer segment.

BCX is a state-of-the-art technology company that provides information and communications technology (ICT) solutions and an integrated portfolio of technology solutions in South Africa.

Gyro manages Telkom's properties and masts and towers portfolio to optimise and unlock asset value.



Restatements and adjustments

Restatements

During the current reporting period, although still part of an ongoing review, BCX identified that certain costs of third party service expenses incurred on a customer contract were not correctly accrued for in the period the costs were incurred.

The error impacted the group income statement and resulted in the understatement of cost of third party service expenses for the six months ended 30 September 2019.

The error has been corrected by restating the 30 September 2019 comparative financial information. Refer to note 3.4 and 3.5 of the reviewed condensed consolidated interim financial statements for full details on the restatement.

	Reported September 2019 R'million	Restatement R'million	Restated September 2019 R'million
Other operating expenses	**1 304**	44	1 348
EBITDA	**5 604**	(44)	5 560
Operating profit	**2 192**	(44)	2 148
Profit after tax	**885**	(44)	841
BEPS	**176.8**	(8.8)	168.0
HEPS	**183.4**	(8.8)	174.6

Segment reporting

Segment reporting is provided on page 12 as part of the notes to the reviewed condensed consolidated interim financial statements. For the period under review, SMB (rebranded as Yep!) was carved out, it consists of small and medium businesses that were previously managed as part of BCX, Consumer and Yellow Pages (previously included in "Other"). The SMB (Yep!) segment has been aggregated into the Consumer segment.

The reportable segments have been determined as Openserve, Consumer, BCX, Gyro and "Other (Head Office)". The previous year has been reported in the same manner.

For comparison purposes, a segment report based on the previous reporting structure is provided as Annexure A on page 42.

In addition to the segment reporting, statements of profit and loss for our Mobile business as well as Masts and Tower business are provided on page 35.

Results from operations

Group profit after tax increased 28.5% to R1 081 million (H1 FY2020: R841 million). This is mainly attributable to higher earnings before interest, taxation, depreciation and amortisation (EBITDA) due to our relentless focus on our sustainable cost management programme. This was partially offset by an increase in the effective tax rate from 29.9% in the prior period to 34.8%.

1

Overview of our business

Telkom announced its group interim results for the six months ended 30 September 2020 on 10 November 2020 in Centurion, South Africa.

Message from Group Chief Executive Officer

Sipho Maseko

The impact of the COVID-19 pandemic (COVID-19 or the pandemic) and the national lockdown dominated the first half of the year. The pandemic represents the largest economic shock the world economy has witnessed in decades, causing a collapse in global activity, with South Africa's gross domestic product declining by 16% in the second quarter of the year. Our group performance for the six months was sturdy in the face of an unprecedented pandemic where some of our corporate customers ceased operations and those who continued operating did so under severe financial pressure. As an essential service, we continued to enable connectivity through the lockdown and innovated to support "flattening the curve" and ensure that learning and teaching were accessible to all South Africans during this period. We weathered the COVID-19 storm and completed the first half of the year with improved profitability, strong liquidity and a strengthened balance sheet.

COVID-19

During the pandemic, organisations have a significant role to play in assisting government in its call to action to help "flatten the curve" and respond to the needs of communities. We took this responsibility very seriously and acted promptly by safeguarding the wellbeing of our employees by maintaining alert level 5 lockdown conditions within our operation for the protection of our employees. Telkom incurred R81 million in COVID-19 related expenses since the beginning of the national lockdown. Furthermore, we collaborated with the Department of Health and National Institute for Communicable Diseases (NICD) to develop the first track-and-trace application.

The impact of the pandemic has changed the world and we are now living through unprecedented times. We continue to invest in the long-term sustainability of education for learners. Telkom has zero-rated educational sites and launched Lightbulb, a comprehensive learning platform, to support learners on their educational journey, despite the disruption caused by COVID-19.

Performance overview

Telkom's business units were impacted in different ways by the pandemic in the first half of the year. The Consumer business benefited from the increased demand from people working from home, while BCX and SMB (known as Yep!) were negatively impacted by the national lockdown, as corporate customers were under severe financial pressure. Overall, group revenue demonstrated resilience in the face of the pandemic, down 0.4% to R21 396 million.

The Mobile business performed exceptionally well, despite the national lockdown negatively impacting distribution channels. The Mobile business sustained its growth trajectory into the first half of the year, growing service revenue by 47.8% to R8 282 million placing us solidly as the third largest mobile operator in South Africa. Our mobile broadband strategy continued to pay off and benefited from the increased data demand due to people working from home during the pandemic with mobile data revenue increasing by 53.8%. The ongoing investment in our mobile network and the temporary spectrum assignment enabled our Mobile business to support the 80.8% increase in broadband traffic.

BCX and SMB (known as Yep!) revenue declined compared to the prior period, negatively impacted by the national lockdown, as customers were under severe financial pressure. We saw customers requesting extended payment terms and applying for payment holidays to manage their liquidity. Migration to work from home negatively impacted the Enterprise fixed business, as usage was diverted to mobile connectivity, leading to a significant decline in fixed voice revenue. Enterprise customers reduced information technology (IT) spend in the first half of the year and postponed some of their capital investment projects as a response to the heightened uncertainty caused by COVID-19. This resulted in BCX IT business revenue declining by 8.6%.

Openserve saw an increase in demand for fixed connectivity resulting in an improved fibre to the home (FTTH) connectivity rate from 43.6% in the prior period to 53.8%, the highest connectivity rate in the market. The lockdown had a negative impact on Enterprise fixed voice volumes and impacted Openserve negatively. Consequently, Openserve's revenue declined by 13.6% compared to the prior period, driven by fixed voice revenue.

Gyro masts and towers continued to commercialise its current masts and towers portfolio in the period, with revenue increasing by 7.7% to R628 million despite the slowdown in the permitting and construction process due to the national lockdown.

During this difficult time, management relentlessly focused on its sustainable cost management programme to protect group EBITDA and margin. Despite a significant decline in group fixed voice revenue with higher margin, group EBITDA grew 6.3% to R5 908 million and EBITDA margin expanded by 1.7 ppts to 27.6% underpinned by our sustainable cost management programme.

Notwithstanding the challenging trading environment, we had robust earnings growth, growing basic earnings per share (BEPS) and HEPS by 29.5% and 25.4% respectively, compared to the prior period.

Management continued to be disciplined in capital allocation. Group capital expenditure (capex) was reduced by 30.6% to R2 942 million with capital intensity at 13.8% in the first half of the year. The capex rollout was also impacted by the national lockdown.

Preserving cash and maintaining a flexible balance remained imperative as we weather the impact of the pandemic. In the first half of the year we strengthened our balance by repaying a maturing debt. We improved our cash generation from a negative FCF in the prior year to generate positive FCF in the period under review.

Message from Group Chief Executive Officer continued

Regulatory environment

Following the temporary assignment of emergency spectrum for the period up to 30 November 2020, the Independent Communications Authority of South Africa (ICASA) extended the validity period to coincide with the auctioning of the high demand spectrum which is envisaged to be completed by 31 March 2021.

The release of the Invitation to Apply (ITA) for spectrum is a significant step in the development of the ICT sector in South Africa. It is an opportunity for Telkom to acquire the much-needed sub 1GHz and we are pleased that ICASA has excluded the disputed 2300 MHz band.

We are however disappointed by ICASA's narrow definition of the market which is likely to entrench the skewed structure of the market and that the spectrum assigned to the wireless open access network is unlikely to drive effective rollout of 5G in South Africa.

Sipho Maseko
Group Chief Executive Officer

Group performance at a glance

Financial capital

Key features

Financial information summary	September 2020 R'million	Restated September 2019 R'million	Variance %
Gross operating revenue	**21 396**	21 479	(0.4)
EBITDA	**5 908**	5 560	6.3
EBITDA margin (%)	**27.6**	25.9	1.7
Capex	**2 942**	4 238	(30.6)
Adjusted FCF	**1 343**	(1 267)	206.0
BEPS (cents)	**217.5**	168.0	29.5
HEPS (cents)	**219.0**	174.6	25.4
Net debt to EBITDA (times)	**1.0**	1.4	0.4
Interim dividend (cents)	**–**	71.5	–

Group revenue was resilient in the face of the pandemic

The group revenue performance was sound despite a difficult trading environment due to the adverse impact of COVID-19 on the economy. Group revenue showed resilience in the face of this pandemic. It declined slightly by 0.4% to R21 396 million despite a 29.5% decline in fixed voice and interconnection. This was driven by the Mobile business which continued its growth trajectory with service revenue increasing by 47.8% to R8 282 million. The massive demand in mobile broadband data translated to 80.8% growth in mobile traffic, with mobile data revenue increasing by 53.8%.

Solid EBITDA growth underpinned by our sustainable cost management

Management relentlessly focused on its sustainable cost management programme to protect group EBITDA and margin. Group EBITDA increased by 6.3% to R5 908 million and EBITDA margin improved to 27.6%. Management optimised both direct costs and operating expenditure (opex), with decreases of 5.3% and 1.5% respectively, and with a significant improvement in total cost to revenue ratio compared to the prior period.

- The reduction in the direct costs was driven by a slowdown in the cost of handset and equipment due to the lockdown impact on distribution. This enabled the Mobile business to reduce its direct cost to revenue ratio from 52.6% in the prior period to 38.2% leading to a significant increase in Mobile's profitability. Excluding handsets and equipment, the cost to serve to mobile service revenue ratio was optimised from 36.3% in the prior period to 30.5%.
- Opex reduced compared to the prior period, which is significantly better than management's target of containing opex growth below inflation. This was mainly underpinned by the benefits of the restructuring program of R443 million realised in the first half of the year, partly offset by employee benefit provisions.

The group EBITDA performance was also supported by the reversal of R66 million relating to the expected credit loss (ECL) COVID-19 impairment on receivables (provision) that was recognised at the 31 March 2020 financial year-end.

Financial capital continued

The group did not see a deterioration in its debtors book performance in the first quarter of the current financial year. However, in the last two months of the first half of the year, management started seeing a deterioration in the debtors book, although it was not to the extent that was anticipated when the provision was raised in the 31 March 2020 annual financial statements. Management remains conservative on provisioning relating to the ECL COVID-19 provision and only released R66 million at 30 September 2020. Management remains comfortable that the group continues to raise sufficient provisioning to cater for the depressed economy due to COVID-19.

On an underlying basis, excluding the once-off reversal of the provision of R66 million, group EBITDA increased by 5.1% to R5 842 million with the EBITDA margin at 27.3%

HEPS growth driven by higher operating profit before tax

Headline earnings per share (HEPS) increased by 25.4% to 219.0 cents per share while basic earnings per share (BEPS) increased by 29.5% to 217.5 cents per share compared to the prior period. This was driven by a 18.8% growth in operating profit as a result of a 6.3% growth in group EBITDA. This was partially offset by an increase in the effective tax rate from 29.9% in the prior period to 34.8%.

Group capital investment impacted by lockdown

Capital investment of R2 942 million, with capex to revenue ratio of 13.8% was impacted by the national lockdown. We remained focused on our strategy and more than 48% of the capital investment was in the Mobile business. Our Mobile investment sustained its good returns, with mobile service revenue increasing by 47.8%. Fibre investment is 33.6% lower than last year, mainly due to slowing down of homes passed to improve the connectivity rate. Our FTTH connectivity rate improved to 53.8%, which is the highest connectivity rate in the market.

Capex	September 2020 R'million	September 2019 R'million	Variance %
Fibre	253	381	(33.6)
Mobile	1 397	2 246	(37.8)
Operations support system (OSS)/business support system (BSS)	83	81	2.5
Network rehabilitation/sustainment	213	76	180.3
Service on demand	252	551	(54.3)
Core network	443	459	(3.5)
Other	22	78	(71.8)
Telkom	2 663	3 872	(31.2)
BCX	189	283	(33.2)
Gyro	63	76	(17.1)
Other			
Yellow Pages	27	7	285.7
Total	2 942	4 238	(30.6)
Capex to revenue ratio (%)	13.8	19.7	

Strong balance sheet to fund future growth

Our conservative funding approach enabled us to report healthy cash balances of R3 905 million at 30 September 2020. We strengthened our balance sheet by repaying maturing debt of R900 million. This resulted in our net debt to EBITDA ratio improving to 1.0 times from 1.3 times when compared to 31 March 2020.

Balance sheet	September 2020 R'million	March 2020 R'million	Variance %
Bank and cash balances	3 905	4 726	(17.4)
Current borrowings	(2 195)	(2 967)	26.0
Non-current borrowings	(13 641)	(13 813)	1.2
Net debt	(11 931)	(12 054)	1.0
Net debt to EBITDA (times)	1.0	1.3	0.3

Strong FCF generation

Adjusted FCF* improved by R2 610 million to R1 343 million (H1 FY2020: negative R1 267 million). This was positively impacted by a slowdown in capex rollout as a result of the national lockdown, ongoing working capital optimisation and the Mobile business generating positive FCF for the first time since establishment. The ongoing cash release initiatives led to 32.7% increase in cash generated from operations, excluding the payment relating to VSP and VERP.

FCF improved 114.8% from negative R1 429 million to R211 million in the period after paying R1 132 million relating to VSP and VERP.

**Excluding the payment of VSP and VERP of R1 132 million.*

FCF	September 2020 R'million	September 2019 R'million	Variance %
Cash generated from operations excluding VSP and VERP costs paid	6 115	4 608	32.7
Add back: VSP and VERP costs paid	(1 132)	(162)	(598.8)
Cash generated from operations	4 983	4 446	12.1
Add back: Repayment of lease liability	(431)	(389)	(10.8)
Interest received	171	116	47.4
Finance charges paid	(681)	(646)	(5.4)
Taxation paid	(898)	(753)	(19.3)
Cash generated from operations before dividend paid	3 144	2 774	13.3
Cash paid for capex	(2 933)	(4 203)	30.2
FCF	211	(1 429)	114.8
Add back: Package costs paid	1 132	162	598.8
Adjusted FCF	1 343	(1 267)	206.0

Productive capital

COVID-19 impact

Surge in fixed traffic

Increased demand for fibre services

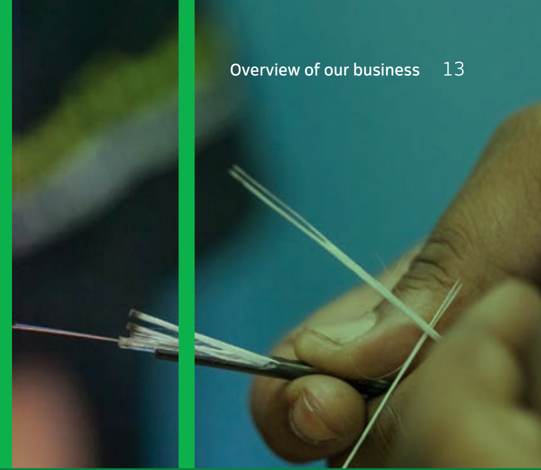
Accelerated decline in fixed voice services

Achievements

FTTH connectivity rate up from 43.6% to 53.8%

Fibre to the base stations up 10.7% to 8 157

Fibre to the business up 15.0% to 48 766 services connected



Openserve's significant investments in modernising the network, including fibre backhaul, have enabled Openserve to carry increased traffic across its network and created a resilient ecosystem to support increased data demand during the pandemic. The lockdown re-emphasised the need for reliable fixed broadband connectivity. Openserve saw an increase in demand for fixed connectivity resulting in an improved FTTH connectivity rate. While we saw an increased need for data during lockdown, Enterprise voice volumes and usage continued to decline, thus impacting Openserve negatively.

Performance overview

Revenue declined by 13.6% to R6 846 million, driven by a 22.7% decline in fixed voice revenue. The continued migration of customers from legacy fixed voice services to next-generation technologies was accelerated by an increase in work from home activities that resulted in Enterprise voice usage declining significantly compared to the previous year. This was partially offset by an increase in the end-to-end fibre ecosystem.

The decline in fixed voice revenue had a negative impact on EBITDA. As a result EBITDA declined 24.7% to R1 931 million. Our cost optimisation initiatives, including the restructuring programme, efficiencies from network modernisation and service delivery led to direct costs and opex reducing by 16.4% and 8.6% respectively. However, this was not sufficient to offset the flow-through impact of the fixed voice revenue decline. Due to the pressure on revenue and the resulting change in revenue mix, EBITDA margin declined by 4.1 ppts to 28.2%.

Scalable network

The scalable network with sufficient redundancy enabled Openserve to carry increased traffic across its network and created a resilient ecosystem to support a 29.6% increase in fixed-line broadband data consumption during the pandemic.

During the national lockdown, telecommunications was declared an essential service, and as one of the largest open access networks in South Africa, the country was looking at Openserve to keep it connected. During the year we invested R949 million to modernise our network. To date, Openserve has passed approximately 459 000 homes with fibre and more than 2.4 million homes are now covered with fibre to the cabinet infrastructure.

We are confident this investment will be the bedrock of a reliable and extensive network that enables our customers to experience affordable high-speed data connectivity across both the fixed and mobile networks.

Commercialise the network

We continued to commercialise our fibre footprint, increasing ethernet business connections and fibre to the base station by 15.0% and 10.7% respectively.

We focused our commercial initiatives to meet the increasing demands of data consumption through new and innovative product offerings. With our recently launched broadband product suite comprising Openserve Fibre Connect, Openserve Pure Connect and Openserve Copper Connect, we further enhanced our product offerings, thus making high-speed broadband connectivity more affordable and attractive. As part of our response to the pandemic and our continued drive to evolve our pricing, we saw an overall price reduction of approximately 12% on the broadband portfolio. This led to an increased demand to connect across our FTTH networks, resulting in an improved FTTH connection rate from 43.6% to 53.8%, the highest in the market.

Transform service delivery

The pandemic saw a greater need for reliable fixed connectivity. We focused on making our services more customer centric by introducing several initiatives, such as the doubling of broadband speeds at no additional cost, free installations and improved pricing across our broadband portfolio. This resulted in an increase in data consumption of approximately 30%.

We remained focused on improving our cost to serve, ensuring the cost transformation enables affordable and reliable products and services to the market. This resulted in a significant reduction in unit costs of deploying FTTH, and we are confident this will contribute to a more aggressive increase in fibre footprint.

Increased adoption of digital processes improved our operational efficiencies across the broadband portfolio, resulting in a decrease in the average time to repair by 7.2%, assurance visits by 53.8% and unnecessary dispatches of our technicians by 9.6%. Similarly, reconfiguration of fulfilment processes improved the installation times of next-generation connectivity such as FTTH by approximately 40.6%.

Over this challenging period our frontline staff continued to show their commitment to always putting the customer first while ensuring the customer is given a safe, timely and best possible experience. This resulted in more than 450 service fulfilment engagements per day while adhering to COVID-19 engagement protocols. Such dedicated focus towards providing excellent customer service was reflected in a year-on-year increase of 2.4% in the interaction Net Promoter Score.

Productive capital

Telkom Consumer

COVID-19 impact

Strong demand for mobile connectivity from people working from home

Massive **mobile data traffic**

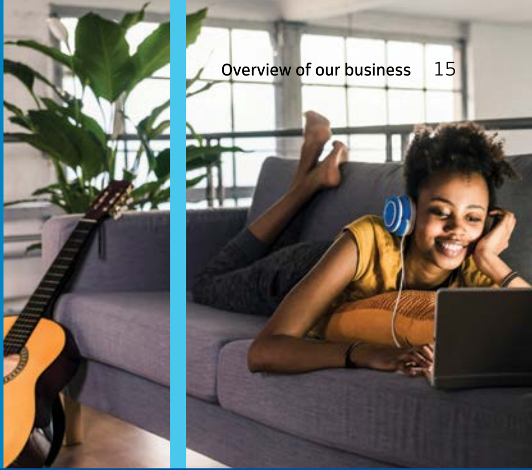
Strong growth in **Mobile customer base**

Achievements

Customer base up 19.0% to 13.7 million

Service revenue up 47.8% to R8 282 million

Mobile data traffic up 80.8%



The Consumer business benefited from the increased demand for connectivity from South Africans working from home, despite the national lockdown initially negatively impacting distribution channels. We enhanced broadband-led propositions across customer segments and scaled up digital platforms, as our stores were closed during the early phase of the national lockdown. As a result, our Mobile business sustained its growth trajectory into the first half of the year driven by data demand.

Performance overview

The Consumer segment delivered a 10.6% increase in revenue to R12 690 million. This was driven by the Mobile business's continued growth trajectory due to mobile data demand, with service revenue increasing 47.8% to R8 282 million. Mobile data contributes over 70% of mobile service revenue. We have seen a continued decline in fixed copper line revenue. However, a portion of this decline can be attributable to the self-induced migration to next-generation technologies, fibre and LTE.

Telkom Consumer's EBITDA increased by 131.1% to R2 593 million with the EBITDA margin expanding from 9.8% in the prior period to 20.4%, supported by a strong Mobile business. The reduction in the direct costs was driven by a slowdown in the cost of handset and equipment due to the lockdown impact on distribution. This enabled the Mobile business to reduce its direct cost to revenue ratio from 52.6% in the prior period to 38.2% leading to a significant increase in Mobile's profitability. Excluding handsets and equipment, the cost to serve to mobile service revenue ratio was optimised from 36.3% in the prior period to 30.5%. Telkom Mobile EBITDA increased by 142.0% to R2 900 million with Mobile's EBITDA margin expanding by 13.2 ppts to 29.9%.

The Yep! business continues to struggle with high levels of churn as small and medium-sized enterprises (SMEs) suffer the impact of the COVID-19 lockdown on their business. Overall, advertising and fixed connectivity revenues declined 27.6% to R1 580 million. This was largely driven by the 27% reduction in voice lines and 29% reduction in digital subscriber line services where customers have migrated to more affordable and higher-speed options available on mobile and fibre. The focus will be on increasing the number of customers on next-generation services including Voice over Internet Protocol and e-Marketplace digital solutions.

Accelerated mobile growth

Despite the disruption in distribution channels during the national lockdown, the customer base increased by 19.0% to 13.7 million. Blended average revenue per user (ARPU) increased by 36.7% to a historic high of R113, mainly due to unprecedented data demand induced by COVID-19. Pre-paid customers grew 17.9% to 11.1 million with pre-paid ARPU increasing by 36.3% to R84. The post-paid customer base increased 24.1% to 2.6 million with ARPU increasing by 18.6% to R211.

The strength of the Mobile base has been underscored by our high-speed broadband products, value-rich data propositions, personalised offers through Mo'Nice, new value-added services and content offerings, and airtime accessibility. The extension of Telkom's market-leading SmartBroadband portfolio to more affordable entry level products ensured that an increased number of customers are able to benefit from these value-rich offers in both the pre-paid and post-paid segments.

Drive high-speed broadband

Our ongoing mobile broadband strategy enabled us to take advantage of the increased data demand through our broadband-led suite of offerings. In addition, the strategic intent of focusing spectrum resources towards 4G contributed to an increase in smartphone sales. We saw a 53.8% growth in our mobile data revenue to R6 010 million supported by a 23.3% growth in mobile broadband subscribers to 9.6 million.

Our fibre base grew by approximately 12%. Fibre access is the primary focus of driving broadband growth, coupled with innovative services that provide customers with relevant and value-rich propositions. Enabling our customers to access home entertainment streaming services and work from home applications in a cost-effective and efficient manner is a key enabler. Furthermore, the introduction of our copper-based broadband unlimited services, namely Unlimited Home Lite, with extremely attractive pricing has provided positive traction for new acquisitions and a retention offer to our customers.

Expand the mobile network

During the lockdown, we saw a surge in mobile network traffic for our mobile services due to more people working from home. Our mobile traffic grew 80.8% to 479 petabytes. Our ongoing capex investment enabled us to carry this massive mobile traffic. Telkom's mobile footprint capacity was improved with increased radio capacity on existing sites, growing sites by 12.5% to 6 159. The expansion aligns with the proven strategy of building a 4G and 4.5G data network that is capable of carrying significant data volumes. We continued with the mobile network expansion programme with an emphasis on 4G and the deployment of temporary spectrum in support of South Africa's COVID-19 response.

The refarming of the 1 800 MHz spectrum allowed us to decommission most of the 2G access nationally, resulting in an improved 4G experience and reducing our reliance on legacy technologies. Furthermore, we completed a number of temporary spectrum upgrades and are integrating these into the network. A total of 17 massive multiple-input and multiple-output sites were completed to cater for abnormally high demand for data at selected sites. We also upgraded over 30% of our base station backhaul links to cater for data growth and the impact of COVID-19.

Telkom will continue to focus on coverage and additional capacity programmes. We initiated our 5G proof of concepts and are developing use cases that will maximise the benefits of this technology.

Productive capital

BCX

COVID-19 impact

Corporate customers **under severe financial pressure**

Requests for **extended payment terms and payment holidays**

Usage migrated from **fixed voice to mobile connectivity**

BCX was negatively impacted by the national lockdown, as customers were under severe financial pressure. We saw customers requesting extended payment terms and payment holidays. Migration to work from home negatively impacted the Enterprise fixed business as usage was diverted to mobile connectivity, leading to a significant decline in fixed voice revenue. Enterprise customers reduced IT spend in the first half of the year and postponed some of their capital investment projects as a response to the heightened uncertain environment caused by COVID-19.

Performance review

Revenue decreased by 10.7% to R7 948 million. The negative impact on financial performance was mainly driven by three factors. Firstly, corporate clients are scaling down on current IT projects and are delaying the start of new projects. Secondly, customers' cost reductions and operational efficiencies coupled with reduced demand for services resulted in customers proactively seeking payment holidays. Lastly, Enterprise spend on connectivity declined as a result of an increased number of employees working from home during lockdown.

IT business revenue declined by 8.6% to R4 199 million, mainly attributable to the negative impact of the lockdown on the economy. These results include divestments of international subsidiaries in the prior financial year. Excluding the international operations, IT service revenue declined by 7.8%.

BCX's **converged communication** – the continued migration of customers from legacy voice to next-generation products – change in customer preferences, increased competition and the impact of lockdown on voice minutes, resulted in a decline of fixed voice revenue by 21.1%. The slowdown in migration as a result of unavailability during lockdown slightly offset the revenue reduction. **Converged communications revenue** declined by 13.0% to R3 749 million.

EBITDA declined by 15.3% to R1 140 million, negatively impacted by the significant decline in overall revenue. To mitigate the impact of the revenue decline, we took pro-active steps to drive cost reductions on all cost lines. This resulted in direct costs and opex down by 6.4% and 11.0% respectively. Overall, the cost savings generated in the first half of the year were not sufficient to offset the flow-through impact of the revenue decline. Due to the pressure on revenue and the resulting change in revenue mix, EBITDA margins declined from 15.1% to 14.3%.

Drive revenue growth

BCX formulated a two-phase approach in response to the pandemic. Firstly, by focusing on business continuity, and then shifting focus to ongoing business resilience midway through the lockdown as the needs of Enterprise changed. The entire BCX portfolio was leveraged during this initiative, rooted in the insight of the greatest innovations being forged in the most difficult of times. There were several significant innovative voice wins that were leveraged as case studies, for example the NICD.

Achievements

Total expenses down **10.1%** to R6 833 million

Developed **innovative solution COVIDConnect**

Clients rapidly adopted digitalisation of their operations, pushed by the pandemic, and are further along the path to true digital transformation. The ability to deliver under the challenging test of COVID-19 placed BCX in a position to leverage this in the medium to long term. We continue to focus on key industry verticals, many of which required rapid assistance and specialised solutions to remain in operation since March. Work from home solutions (including Microsoft Teams Voice) were also promoted, as they became a core requirement for enterprises during lockdown. Development is under way on a biometric cloud solution and a BCX health portal and clinic solution.

In response to the notable increase in cyberattacks, BCX implemented a multi-phase 360-degree security campaign in collaboration with our partners, Atos (cybersecurity) and Cisco (managed network security). BCX also built and implemented Artificial Intelligence for IT Operations application for Telkom. This enhanced response times to proactively identify potential issues and maintain uptime.

Building onto a software-defined wide area network launch last year and subsequent software-defined access implementation, BCX also implemented application-centric infrastructure in our data centres. This is critical to the delivery of the next phase of software-defined infrastructure, which is seen as a critical enabler for our clients, particularly over this period. These technologies ensured BCX can continue to provide best-in-class, cost-effective, scalable and secure networking to clients.

Drive digital transformation

The pandemic and lockdown accelerated the need to adapt and innovate, resulting in the speeding up of digital transformation. During the pandemic, BCX developed solutions that assisted in containing COVID-19 and ensuring business continuity and resilience for South African businesses.

The onset of the pandemic in South Africa saw BCX building a Call Centre on Demand for the NICD within 48 hours. In heeding the call from government for corporates to assist in containing COVID-19, BCX helped create Africa's first contact tracing technology in less than three weeks. We partnered with the Department of Health in developing and deploying COVIDConnect, a leading-edge contact tracing solution.

For businesses to thrive in the fourth industrial revolution, we believe building a dedicated ecosystem that enables effortless innovation is required. We recently launched a new division under our IT Solutions portfolio, namely BCX Exa, with the purpose of advising and co-creating digital transformation solutions with our clients. A selected team of software engineers and other digital experts focus on capabilities including digital advisory and consulting, software engineering and integration, digital automation and development, data insights and intelligence, and digital resourcing.

Productive capital

Gyro

COVID-19 impact

Demand for M&T space continued

M&T build plan impacted by the lockdown regulations

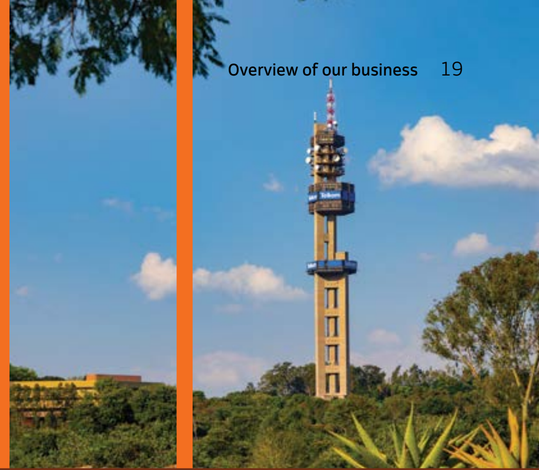
Property disposal process delayed

Achievements

M&T revenue up 7.7% to R628 million

M&T EBITDA up 27.0% to R484 million

Growth in number of leases up 10.9%



Gyro continued remote operations during the national lockdown, with the masts and towers portfolio a critical element in delivering mobile network connectivity and related services. Our property development activities are in the development planning phase, which gives us flexibility to revise development opportunities or extend project commencement timelines.

Performance overview

Revenue for the masts and towers business grew by 7.7% to R628 million, with external revenue increasing by 10.5% to R346 million supported by a 10.9% growth in number of leases. This was achieved despite the delays experienced in the construction of new towers due to municipalities being affected by lockdown restrictions. This was offset by the decline in the property portfolio as properties were vacated due to consolidation by internal tenants while we prepared properties for the development stage, and a formalisation of management services for the different portfolios as the business matures. As a result, group revenue declined 7.2% to R737 million.

EBITDA for the masts and towers business grew 27.0% to R484 million, with the EBITDA margin improving by 11.7 ppts to 77.1%. EBITDA for Gyro declined by 14.9% to R550 million due to lower property rentals, management fees and a once-off cost of R20 million to support government in its efforts to combat COVID-19. This related to operational expenditure incurred at the Olifantsfontein property, which was used as a COVID-19 testing and accommodation facility.

Optimise and grow masts and towers portfolio

We have an active tower expansion programme which is augmented by build-to-suit agreements. The build plan for the first half of the financial year was severely impacted by the country's COVID-19 lockdown regulations. Despite this, 94 towers underwent construction during the period under review. We intend to increase the build pace during the second half of the financial year as operations return to normal. As part of improving multi-tenancy with the associated revenue contribution, we concluded new lease agreements for the current portfolio, as our clients seek to improve their network capacity due to increased demand for services during lockdown. This trend is expected to continue in the second half of the financial year.

Our pursuit for small cell opportunities ensures that Gyro continues to align and meet the growing needs of our tenants and the market. We believe this plug-and-play solution will be suitable for mobile network operators' 4G densification and 5G rollout requirements. We also continued with the planned rollout of in-building solutions to enhance mobile network coverage in commercial buildings. This new initiative enhances our customers' ability to service their clients and presents new revenue opportunities for Gyro.

Commercialise the property portfolio

We continuously evaluate individual properties for highest and best use, and for hold or sell investment decisions. The commercial real estate sector in general has been under severe pressure in the past three years, mainly due to a continually declining economy and oversupply in some sectors, with the office sector being the worst performer. Nevertheless, other property sectors, such as warehousing, continue to perform as demand for space increases due to increased online retailing penetration. All of our development projects are based on the best use approach as informed by the demand and supply dynamics of the particular market.

The remainder of the financial year will be dedicated to reviewing the planned development schemes and to adapting as required per site and with regard to the particular market conditions. We will continue to build partnership development opportunities with external investors.

Enhance building costs and operational efficiencies

We continued to accelerate and execute previously planned cost optimisation programmes. These included energy cost savings, tariff reviews and decommissioning of assets no longer required for operational purposes. Energy initiatives aimed at reducing costs, particularly utilities, were identified and rolled out within Telkom's high-consuming sites. Property consolidation and space optimisation programmes were implemented across various regions, followed by the termination of non-essential utilities and facilities expenditure.

Vacant sites were earmarked and considered for disposals, leasing or property development. The disposals process was affected by COVID-19-related delays at municipalities in effecting transfers. The conveyancing process slowed down as municipalities adhered to lockdown regulations. Although the operating conditions for transacting have improved somewhat, some municipalities are still dealing with the backlogs created during the lockdown period. We expect the transfers to be finalised by the end of the financial year.

We advanced our efforts to consolidate office and warehouse space in major cities, which will reduce property occupancy expenditure across Telkom. The vast majority of Telkom employees continue to work remotely. This resulted in a reduction in property operating costs due to lower employee space utilisation. However, as the majority of our assets accommodate telecom equipment and data centre equipment that consume energy continuously, the savings realised from operating costs were not at a level similar to businesses that primarily utilised assets for administrative purposes.

We are looking at new ways of working across Telkom which will result in further rationalisation of space and further savings in property operating costs going forward.

Productive capital

yep!

(previously Telkom SMB)

COVID-19 impact

SMEs hard hit by COVID-19

Some of the **SME customers ceased operations**

Achievements

Yep! brand launched

Yep! Pay mobile payment device launched

Launched **e-commerce platforms**

This division continues to focus on providing the SMB segment with a diverse range of connectivity and digital marketing services that will enable these customers to thrive in what has become an increasingly digitised market as a result of the impact of COVID-19.

Digital-first approach

In line with the strategy of driving a digital-first approach to business, a number of digital platforms were launched during the period under review. These included the deployment of the new Telkom Business e-commerce platform that enables SMEs to purchase a diverse range of connectivity products online. The uptake on the platform has been positive, with over 240 000 customers utilising the platform monthly.

The Yep! brand was also successfully launched together with the new Yep! application. This represents the first phase of the e-Marketplace strategy. Access to the Yep! platform via the mobile application or desktop site is not associated with a charge cost. This is part of the drive to support the sustainability of SMEs during the pandemic. To date there have been over 18 000 downloads across application stores and the platform has attracted more than 112 000 users. The Yep! proposition is also supported by our new Freed@ platform, a unique platform that allows SMEs to showcase their business and engage with their customers via surveys and competitions. The benefit of this platform is the ability for customers to earn loyalty points via interactions that can be redeemed for a variety of rewards, including Telkom mobile airtime and data.

Adjacent offerings

Driving the growth of adjacent revenue streams and opportunities is key to the strategy. The business has introduced solutions in the insurance, payments and lending space that not only address the needs of small businesses but also consumers.

The insurance offering was expanded to offer customers funeral cover, in addition to the existing handset insurance cover. The funeral cover solution was launched in August 2020 and we have seen a significant uptake with an 18% increase in customers monthly. This is expected to continue to grow as market awareness of the value proposition improves. Easy access to our digital platforms at any given time allows customers to sign up at their convenience. Our handset insurance portfolio showed positive growth with the number of customers increasing 23% year on year with a corresponding 32% improvement in the gross premiums written. The business is also in the process of expanding our offering to allow customers to insure other devices such as routers and private automatic branch exchange systems.

One of the key needs of SMEs is access to funding. We have partnered with Fundrr and Bizcash to run a pilot programme where SMEs can access funding through a frictionless online process. The current offerings include short-term loans and invoice factoring. There has been significant interest in these offerings with the current levels of uptake exceeding expectations.

Yep! Pay has also recently been launched and offers SMEs a class-leading mobile payments device which accepts card payments at a lower transaction fee. The device also has the ability to vend airtime, electricity and other services. The business is engaging with a number of partners to bring these services to market, thus further enabling SMEs to diversify their business and generate alternate streams of income.

Human capital

Telkom prioritised the health and safety of its workforce. We proactively designed and implemented several precautionary measures to mitigate the impact of COVID-19 on the wellbeing and safety of employees, with up to 80% of employees empowered to work from home in the first half of the year.

COVID-19 – wellness and safety of our employees

Telecoms was declared an essential service during the national lockdown and, as a continuously adaptive group, we altered our operations to protect the health of employees.

Approximately 80% of our workforce is set up to effectively work from home. Our frontline employees and field service technicians continue to serve customers. An amount of R58 million was spent in the first half of the year on personal protective equipment, such as face masks, face shields, gloves, sanitiser, personal thermometers and hazmat suits. The group had 406 positive cases with a recovery rate of 91.6%. Sadly, 10 employees passed away as a result of COVID-19 in the period under review. Telkom continues to be on alert level 5 in anticipation of a second wave.

Although we had already introduced the concept of an agile workforce, COVID-19 accelerated its adoption and required investment in management upskilling for the management of people and resources. To guide managers and employees through the dynamics of this new way of work, playbooks were created to support team engagement and create cohesion and common understanding within remote working teams.

Evolution of skills

Operational requirements, including the evolving needs of our customers, technological advancements and the evolving world of work, are the drivers of this organisational restructure. Telkom adopts appropriate strategies and frameworks to facilitate retrenchment processes.

As an alternative to retrenchments, VSPs and VERPs, including a social plan, were offered to employees. A total of 2 271 employees opted to take the offer, with them exiting the company on 1 April 2020. The social plan provides employees with an opportunity to further their studies and broaden their skills base, thereby increasing their employability. The company paid R1 132 million through this process and payments were made in April 2020.

The section 189 consultation process was placed on hold due to the national lockdown and closure by the Commission for Conciliation, Mediation and Arbitration (CCMA). The consultation process resumed in June as the country partially lifted lockdown and CCMA operations resumed. Phase 1 is concluding with the new organisational structures which come into effect from 1 November 2020.

Given the delays in the implementation of phase 1, the timing of phase 2 of the process has been delayed to the second half of the financial year. Due to the significant impact of COVID-19 on BCX, BCX issued the section 189 notice to recognised unions on 15 October 2020.

Learning and development

The group spent R47 million on learning and development. In the context of COVID-19 all initiatives were adapted to be delivered through digital mediums. The focus on developing key operational capability remained, with a number of learnerships, internships and graduate programmes continued from the previous year, with 593 learners and 135 disabled learners on an internship programme. A significant number of new initiatives were launched in the new year (411 learners) including learnerships for unemployed disabled learners (200 learners).

Intellectual capital

Telkom embraced multiple facets of digitisation underpinned by adaptive governance. The proactive adoption of digital capabilities enhanced our response to COVID-19 through the deployment of collaboration tools and seamless remote access to applications ensuring a high standard of productivity and operational readiness.

COVID-19 has accelerated our digital transformation journey and guided us to re-examine key elements of our technology and business processes to maintain operational excellence while aligning to the rapidly changing technology landscape. During this uncertain period, we successfully enabled collaboration tools and secure remote access to our applications. This allowed all our stakeholders, which included employees, vendors and partners, to work from their preferred location, thereby adhering to health and safety protocols.

With increased adoption of remote access, there was a significant increase in cyberattacks across South Africa and the world. To address this inherent risk, additional security measures were adopted to improve governance across both the process and technology dimensions. Furthermore, a renewed focus on improving proactive cybersecurity threat detection capability driven by artificial intelligence and machine learning was incorporated.

Our drive to enable an open digital platform allows for a more flexible and agile enablement of business services. With the increased need for digital touch points, the investments across process re-engineering and enhancing traditional BSS applications to be cloud and platform ready, have been able to effectively include adjacent market offerings such as insurance and financial services. We were consequently able to launch various digital platforms that include e-commerce, Yep! e-Marketplace app, Freed@, SMMESA portal and the development portal for the Department of Small Business.

Customer experience remains an inherent part of our digital enablement journey and we continued to improve our technology deployment and implementation methodology. We inculcated design thinking principles through robotics process automation and embraced big data analytics to create flexible, diverse and efficient solutions. Our drive to create an application programming interface-enabled ecosystem allowed us to improve self-service capabilities resulting in the proactive introduction of new and better customer-centric offerings.

The pandemic has given us a glimpse into the new tomorrow, highlighting the important role technology plays in enabling a better and connected future for all. We are confident that our investments in upgrading our IT and cybersecurity landscape will hold us in good stead as we continue to prioritise our journey to a secure and digital future.

Social and relationship capital

Telkom's strategic intent is to deepen our approach to value creation by embracing shared value as a philosophy in doing business, which is integrated with and rooted in society.

Telkom supporting government initiatives to curb COVID-19

To assist government in its objective to contain COVID-19, Telkom set out on initiatives to help combat the effects of COVID-19 on the economy and society.

We began developing the novel track-and-trace COVID-19 system, after partnering with the NICD and donated 1 500 devices and data to the Department of Health to assist with track-and-trace. We zero-rated educational sites of institutions of higher learning and expanded free high school learning content through our BCX Learn platform. Telkom further pledged R15 million and formed a disaster relief fund that supports the Red Cross in support of our unsung heroes – frontline healthcare workers.

The detrimental effect of the pandemic on communities, economies and health systems will be alleviated, to an extent, with financial contributions. The public took notice and the group has seen an increase in contributions, with donations made via SMS.

The Gauteng Department of Health identified the Telkom Olifantsfontein Centre for Learning as a quarantine site for members of the public who have come into contact with people with COVID-19. The facility was utilised to quarantine impacted individuals for a period of 14 days. If in the quarantine period they developed symptoms, they were taken elsewhere for treatment. This quarantine site was closed in August 2020.

Telkom supporting education

Most education offerings Telkom supports were moved online, and we zero-rated access to almost 1 000 sites for education and other critical public services. Telkom also launched its own education platform, in partnership with Lightbulb Education. This platform offers quality content with features that enable learners to self-regulate, collaborate, assess and access group tutoring services. Lightbulb Education is zero-rated in order to facilitate access, and the Telkom Foundation's nearly 4 000 learners were migrated onto this platform and provided with mobile connectivity and devices to learn remotely.

In addition, the Telkom Foundation continued to provide whole school support to its adopted schools, such as training 263 teachers to utilise online productivity tools to deliver online learning. The Foundation also offers digital skills to 300 learners online and supports 100 unemployed youth with Media, Information and Communication Technologies Sector Education and Training Authority-accredited IT training in partnership with the National Library of South Africa. The Foundation also provided 10 charities with funding through Telkom's staff payroll giving programme.

Through BCX, Telkom continues to invest in coding and data science for young people through its partnerships with the Explore Data Science Academy and WeThinkCode. Approximately 1 500 students to date have been supported with future-focused skills to enable them to participate and lead in the fourth industrial revolution. As a result of COVID-19, the Explore Data Science Academy moved its learners off site and enabled a full platform-based learning approach. WeThinkCode closed its campus and reopened in August with a new home-grown coding curriculum.

Telkom supporting economic growth

Since 2015, FutureMakers (Telkom's enterprise and supplier development unit) has supported just over 2 500 small, medium and micro-sized enterprises (SMMEs) through incubation, investment, connectivity and business development support services. In H1 FY2021, FutureMakers directly supported 244 enterprises primarily in diverse value chain programmes (Consumer Dealer, BCX Subcontracting and Independent Field Technician) and through the IDF Future Fund. The decrease in the number of enterprises in FY2020 from 482 to 244 is primarily due to the database clean-up and revetting of SMMEs on the BCX Subcontracting programme, as we implement quality controls to ensure both commercial and social value to our clients. We have also not included the innovation programmes in the 244 enterprises supported, as most of the innovation programmes launch in the second half of the financial year. These 244 enterprises created 4 951 jobs during the period under review. The decrease in jobs from 5 632 in FY2020 to 4 951 is primarily due to the further decline in jobs in the Independent Field Technician programme because of technology changes.

Natural capital

The world-wide slowdown in human activity from COVID-19 lockdowns has had a number of positive effects on the environment, including decreased emissions due to fewer carbon-consuming planes operating and fewer fuel-burning cars on the road.

Reduction on our emissions, energy and water consumption

With reduced travel and approximately 80% of our staff working from home during the pandemic, we saw a decrease in our emissions and energy and water consumption. Cleaner air has perhaps been the single greatest positive effect of lockdowns on the environment. We saw a significant decrease in our carbon emissions from scope 1: 22 170.1 tCO_2e at H1 FY2020 to 18 594.1 tCO_2e at H1 FY2021; scope 2: 312 169.2 tCO_2e at H1 in FY2020 to 305 817 tCO_2e at H1 in FY2021. Our water consumption has reduced from 691 832 kilolitres to 519 929 kilolitres.

We anticipate our overall emission profile to decrease slightly in the next five years due to the compounding effects of planned and implemented emission initiatives and the ongoing cost management efforts to consolidate floor space and decommission properties, which should slightly decrease scope 2 emissions.

Property consolidation and space optimisation programmes were implemented across various regions, followed by the termination of non-essential utilities and facilities expenditure.

Responding to climate-related risks and opportunities

Climate change and specifically extreme weather conditions were identified as a new material theme in FY2019 and remain as such in FY2021. To protect our business and the environment, Telkom needs to mitigate and adapt to climate change impacts and use our resources responsibly. Climate-related risks and opportunities are initially managed within the business functions from which they are identified. However, all major climate-related risks have response plans which specify the trigger thresholds (related to the severity of the impact) at which higher levels of management involvement occur. Risks that significantly impact business as usual and the execution of Telkom's strategy (i.e. the highest trigger threshold) are eventually managed by our Group Emergency Management (GEMT) structure which reports to the Telkom group executive committee. The structure's mandate is to ensure continuity of service delivery through infrastructure, buildings, equipment, processes and human capital to guarantee the implementation and effectiveness of defined emergency management procedures.

During the period under review, we strengthened Telkom's ability to respond to disasters including extreme weather (i.e. the effects of storms and floods on the network) as part of our risk and compliance transformation journey towards a risk intelligent group. To date, we have group-wide response plans in place for the following climate-related risks: drought and water-shedding, adverse weather conditions, tornadoes and cyclones, fire and flooding plans, as well as an earthquake framework.

As a case in point, KwaZulu-Natal experienced heavy rainfall and tornadoes between April and December 2019 which caused floods that impacted service delivery in Telkom's eastern and central regions. The first floods coincided with a municipal district strike which further prevented staff access to manholes and roads in Durban central, affecting fault finding and copper cable repairs. In addition, employees were impacted in their private capacity with houses and roads flooding, and fence and wall collapse. Resources from other regions were dispatched to assist with service restoration. Although the GEMT monitored the event, the regions managed the impact back to business as usual. The GEMT ensured uninterrupted service to hospitals and other essential service providers and the rapid deployment of temporary electronic communications networks where required. The Tornado and Cycle Response plans were updated from the group's risk management experience during this event.

Furthermore, transitional climate-related risks such as the carbon tax are being managed by the group's compliance department. Phase 1 of the Carbon Tax Act, 15 of 2019 commenced in the reporting period. An external service provider was engaged to evaluate whether Telkom's operations exceed the electricity and heat production of 10 MW installed thermal capacity (the threshold for carbon tax under fuel combustion activities). The outcomes of this study were shared with the risk and social and ethics committees. The compliance department will continue to monitor the carbon tax going forward, considering possible future amendments, especially in phase 2 where regulations are anticipated to become more extensive and austerer.

Outlook

In the second half of the year, management will continue to build financial resilience in the face of a tough trading environment, focusing on a number of levers; sustainable cost management, cash preservation, disciplined capital allocation and mitigating financial risks.

The sustainable cost management programme will continue as a lever to protect group EBITDA and margin with continued focus on both direct and operational costs. We expect the remaining benefits of phase one of the restructuring programme to be realised in the sestrund half of the year and phase two of the restructuring program is already in progress in BCX. We are on track to realise our targeted cost savings of R1 billion to R2 billion for the full year.

Protecting liquidity is of utmost importance to us under the current economic environment. Management remains comfortable with the annual cash release target of R700 million to R1 billion communicated at the end of the prior period to continue to preserve cash. Telkom executed an off-balance sheet disposal of handset receivable book amounting to approximately R170 million in October 2020, with an additional R400 million expected to be concluded before the end of the third quarter. Telkom will be exploring similar initiatives to unlock cash flow during the second half of the financial year.

Through our improved cash generation and positive FCF due to optimised working capital and continued cash release initiatives, we have been able to strengthen our balance sheet, providing us with sufficient headroom to fund spectrum acquisition through debt.

Our capex rollout was impacted by the national lockdown, we expect to be back on schedule in the second half of the year. With the highest connectivity rate of 53.8% in FTTH and a significant reduction in unit cost to deploy FTTH, Telkom will accelerate its fibre rollout programme with the objective to make homes fibre ready while continuing its drive for a higher connectivity rate. We will continue to invest in our Mobile business to support the mobile growth.

Management remains committed to the value unlock strategy. Unlocking value from our portfolio of businesses is a key component of our capital allocation framework and will afford management flexibility to re-base the balance sheet and invest in growth portfolios. In the first half of the year, we commenced with a market sounding exercise to gauge interest on Gyro masts and towers. We are in the process of concluding the analysis of proposals received. Significant work is underway to enable Telkom to perform a valuation of Openserve key assets and prepare Openserve for its value unlock opportunity. We are also reviewing the data centre portfolio, as we seek to expand into a major infrastructure provider.

2

Operational data

Operational data

	September 2020	September 2019	% Variance
Broadband subscribers			
Fixed broadband subscribers[1]	**637 884**	781 255	(18.4)
Mobile broadband subscribers	**9 643 969**	7 822 178	23.3
Fixed subscribers			
Closer subscribers	**343 738**	564 045	(39.1)
Internet all access subscribers[2]	**362 700**	476 763	(23.9)
Fixed access lines ('000)[3]	**1 432**	1 975	(27.5)
Revenue per fixed access line (rand)	**2 199**	2 234	(1.6)
Fixed voice ARPU	**342.08**	338.62	1.0
Fixed broadband ARPU	**242.38**	199.49	21.5
Managed data network sites	**36 412**	41 655	(12.6)
Mobile subscribers			
Active mobile subscribers[4]	**13 686 689**	11 501 458	19.0
Pre-paid	**11 077 104**	9 398 448	17.9
Post-paid	**2 609 585**	2 103 010	24.1
ARPU (rand)	**112.55**	82.31	36.7
Pre-paid	**83.55**	61.29	36.3
Post-paid	**211.19**	178.04	18.6

1 *Includes xDSL and FTTH lines of which 5 175 (FY2019: 5 753) are internal lines.*
2 *Includes Telkom Internet asymmetrical digital subscriber line, Integrated Services Digital Network (ISDN) and WiMAX subscribers.*
3 *Includes copper voice and broadband, ISDN and fixed-line-look-alike (FLLA). Excludes Telkom internal lines.*
4 *Based on a subscriber who participated in a revenue-generating activity within the last 90 days.*

	September 2020	September 2019	% Variance
Volumes			
Fixed broadband data volumes (petabytes)	**723**	558	29.6
Mobile broadband data volumes (petabytes)	**479**	265	80.8
Total fixed-line traffic (millions of minutes)	**3 352**	4 708	(28.8)
Network			
Ports activated via MSAN access	**1 477 259**	1 479 027	(0.1)
Homes passed	**458 791**	458 905	(0.0)
Fibre to the cabinet	**2 411 661**	2 421 145	(0.4)
Mobile sites integrated	**6 159**	5 476	12.5
Active fibre connectivity rate (%)	**53.8**	42.6	11.2
Group employees	**12 677**	15 197	(16.6)
Telkom company employees	**7 234**	9 544	(24.2)
Consumer	**907**	1 095	(17.2)
Openserve	**5 878**	8 025	(26.8)
Corporate Centre	**335**	359	(6.7)
SMB (known as Yep!)	**114**	65	75.4
BCX group employees	**5 232**	5 374	(2.6)
Yellow Pages employees	**112**	184	(39.1)
Gyro employees	**99**	95	4.2

3

Financial performance

Financial performance

Operating revenue

	September 2020 R'million	Restated September 2019 R'million	Variance %
Fixed	**8 513**	10 408	(18.2)
Voice and subscriptions	**3 149**	4 420	(28.8)
Usage	**1 088**	1 633	(33.4)
Subscriptions	**2 061**	2 787	(26.1)
Interconnection	**199**	328	(39.3)
Fixed-line domestic	**106**	157	(32.5)
Fixed-line international	**93**	171	(45.6)
Data	**4 324**	4 780	(9.5)
Data connectivity	**3 032**	3 291	(7.9)
Internet access and related services	**800**	992	(19.4)
Managed data network services	**475**	488	(2.7)
Multimedia services	**17**	10	70.0
Customer premises equipment sales and rentals	**709**	769	(7.8)
Sales	**276**	243	13.6
Rentals	**433**	526	(17.7)
Other revenue	**132**	109	21.1
Mobile	**9 453**	7 073	33.7
Mobile voice and subscriptions	**2 021**	1 489	35.7
Mobile interconnection	**251**	206	21.8
Mobile data	**6 010**	3 907	53.8
Mobile handset and equipment sales	**1 043**	1 338	(22.0)
Significant financing component revenue	**128**	133	(3.8)
Information technology	**2 909**	3 445	(15.6)
IT service solutions	**1 775**	1 980*	(10.4)
Application solutions	**621**	877	(29.2)
IT hardware and software	**434**	527*	(17.7)
Industrial technologies	**64**	61	4.9
Significant financing component revenue	**15**	–	100.0
Other	**521**	587	(11.2)
Trudon	**165**	233	(29.2)
Gyro	**356**	321**	10.9
Total	**21 396**	21 479	(0.4)

* *Group aligned its revenue streams in the BCX segment. This has resulted in the reallocation of R100 million between IT hardware and software and IT service solutions in the prior period.*

Mobile statement of profit and loss

	September 2020 R'million	September 2019 R'million	September 2018 R'million
Operating revenue	**9 708**	7 169	4 798
Payments to other operators	**1 507**	1 220	1 218
Cost of handsets, equipment and directories	**1 091**	1 685	721
Sales commission, incentive and logistical costs	**1 016**	816	458
Other income	**81**	69	46
Operating expenses	**3 275**	2 318	1 986
Employee expenses	**204**	120	113
Selling, general and administrative	**2 788**	1 972	1 470
Service fees	**221**	158	121
Operating leases	**62**	69	282
EBITDA	**2 900**	1 198	461

This has been extracted from the financial information underpinning the audited financial information.

The Mobile EBITDA margin of 29.9% recorded for H1 FY2021 increased by 13.2ppts when compared to the 16.7% achieved in H1 FY2020.

Mast and towers statement of profit and loss

	September 2020 R'million	Restated September 2019** R'million	September 2018 R'million
Operating revenue	**628**	583	379
Other income	**–**	–	3
Operating expenses	**144**	202	207
Other operating expenses	**101**	162	149
Impairment of receivables and contract assets	**15**	12	3
Service fees	**23**	15	49
Operating leases	**5**	13	6
EBITDA	**484**	381	175

Mast and towers recorded an EBITDA margin of 77.1% for H1 HY2021 which is a 11.7 ppts improvement when compared to the 65.4% achieved in H1 FY2020.

** *In September 2019, Gyro incorrectly accounted for transactions between Mast and towers and Telkom relating to the rental of space in Telkom's exchanges, as a principal instead of an agent in the transaction. The September 2019 amounts have been restated, resulting in an external revenue decrease in Gyro and a corresponding increase in other revenue in Openserve of approximately R33 million.*

The comparatives have also been restated for an amount of R38 million, due to Gyro internal cross charges that were previously reported as intersegmental operating revenue and have now been reclassified to service fees.

These restatements did not have an impact on the Mast and towers EBITDA.

Condensed consolidated statement of profit and loss

	September 2020 R'million	Restated September 2019* R'million	Variance %
Revenue from contracts with customers	**21 396**	21 479	(0.4)
Payments to other operators	**1 994**	1 794	(11.1)
Cost of handsets, equipment and directories	**2 228**	2 937	24.1
Sales commission, incentive and logistical costs	**1 203**	995	(20.9)
Other income	**273**	322	(15.2)
Insurance service result	**22**	–	100.0
Operating expenses	**10 358**	10 515	1.5
Employee expenses	**4 588**	4 760	3.6
Other operating expenses	**1 142**	1 348	15.3
Maintenance	**1 962**	2 004	2.1
Marketing	**277**	309	10.4
Impairment of receivables and contract assets	**486**	269	(80.7)
Service fees	**1 661**	1 599	(3.9)
Operating leases^	**242**	226	(7.1)
EBITDA	**5 908**	5 560	6.3
Depreciation, amortisation, impairment and write-offs	**3 356**	3 412	1.6
Operating profit	**2 552**	2 148	18.8
Investment income	**117**	42	178.6
Income from associates	**–**	11	(100.0)
Finance charges and fair value movements	**1 012**	1 002	(1.0)
Net finance charges	**723**	864	16.3
Cost of hedging	**80**	116	31.0
Foreign exchange and fair value movements	**209**	22	850.0
Profit before taxation	**1 657**	1 199	38.2
Taxation	**576**	358	(60.9)
Profit for the period	**1 081**	841	28.5

^ *Represents low value and short-term leases as defined by IFRS 16.*
* *During the period we restated the prior period's other operating expenses by R44 million. Refer to page 4.*

Notes

Payments to other operators increased 11.1% to R1 994 million due to higher traffic mainly attributable to the COVID-19 lockdown, more customers were staying and working from home which led to the consumption of more data.

Cost of handsets, equipment and directories decreased 24.1%, mainly due to lower mobile handset sales negatively impacted by the national lockdown.

Sales commission, incentive and logistical costs increased 20.9%, mainly due to the growth in Mobile, specifically higher demand in pre-paid.

Other operating expenses decreased 15.3% to R1 142 million. Other operating expenses include license fees paid to regulators, COVID-19 costs, market research and losses as a result of theft of copper and fibre lines. Other expenses decreased due to a decline in third party costs as part of the sustainable cost management programme and lower subsistence and travel expenses mainly as a result of the COVID-19 national lockdown.

Impairment of receivables and contract assets increased by 80.7% to R486 million attributable to Mobile growth and impact of COVID-19.

Investment income increased 178.6% due to the higher cash balances during the year.

Finance charges and fair value movements increased 1.0%. The marginal increase in finance charges post IFRS 16 results from a combined decrease in interest and cost of hedging of R177 million and an increase in the foreign exchange and fair value movement of R187 million, largely driven by losses due to the impact of the lower interest rate environment on the valuation of interest rate swaps. The group pays the fixed interest leg of the swap and receives the floating interest leg. The current fixed rates are higher than the floating rate.

Taxation increased 60.9% to R576 million due to an increase in the deferred tax expense and the impact of the increase in the effective tax rate to 34.8% (H1 FY2020: 29.9%). The increase in deferred tax is attributable to a reduction in assessed losses in the group, prior year adjustments and movements in temporary differences.

Condensed consolidated statement of financial position

	September 2020 R'million	Restated March 2020 R'million	% Variance
Assets			
Non-current assets	**45 377**	45 071	0.7
Property, plant and equipment	**33 772**	33 608	0.5
Right-of-use assets	**4 362**	4 502	(3.1)
Intangible assets	**4 614**	4 739	(2.6)
Other investments	**76**	62	22.6
Employee benefits	**1 182**	992	19.2
Other financial assets	**129**	192	(32.8)
Finance lease receivables	**179**	148	20.9
Deferred taxation	**1 063**	828	28.4
Current assets	**15 518**	16 315	(4.9)
Inventories	**849**	972	(12.7)
Income tax receivable	**29**	9	222.2
Finance lease receivables	**313**	106	195.3
Trade and other receivables	**7 826**	7 019	11.5
Contract asset	**1 798**	1 979	(9.1)
Other current assets	**476**	536	(11.2)
Current portion of other financial assets	**71**	759	(90.6)
Sinking fund investment	**163**	161	1.2
Investment in insurance cell captive	**68**	46	47.8
Cash and cash equivalents	**3 925**	4 728	(17.0)
Total assets	**60 895**	61 386	(0.8)
Equity and liabilities			
Equity attributable to owners of the parent	**29 260**	29 390	(0.4)
Share capital	**5 050**	5 050	–
Share-based compensation reserve	**956**	835	14.5
Non-distributable reserves	**1 359**	1 642	(17.2)
Retained earnings	**21 895**	21 863	0.1
Non-controlling interest	**(28)**	(29)	(3.4)
Total equity	**29 232**	29 361	(0.4)
Non-current liabilities	**15 723**	14 767	6.5
Interest-bearing debt	**10 010**	10 105	(0.9)
Lease liability	**3 631**	3 708	(2.1)
Provisions	**1 437**	343	319.0
Other financial liabilities	**78**	62	25.8
Deferred revenue	**294**	396	(25.8)
Deferred taxation	**273**	153	78.4
Current liabilities	**15 940**	17 258	(7.6)
Trade and other payables	**8 855**	8 339	6.2
Shareholders for dividend	**31**	31	–
Interest-bearing debt	**1 100**	1 900	(42.1)
Lease liabilities	**1 095**	1 067	2.6
Provisions	**1 299**	2 006	(35.2)
Deferred revenue	**1 770**	1 754	0.9
Income tax payable	**829**	1 240	(33.1)
Other financial liabilities	**941**	919	2.4
Credit facilities utilised	**20**	2	900.0
Total liabilities	**31 663**	32 025	(1.1)
Total equity and liabilities	**60 895**	61 386	(0.8)

Notes

Employee benefits increased 19.2% to R1 182 million due to the increase in the Telkom Retirement Fund obligation primarily driven by the decrease in the discount rate from 12.1% to 10.7% and the benefits, to the amount of R1 038 million, that were paid from the plan assets in the current financial period. The increase was partly offset by lower employee related provisions.

The increase in the **deferred tax** balance in H1 FY2021 is primarily attributable to a R292 million additional asset raised in Telkom relating to the movement in other comprehensive income including actuarial gains recognised on the post-employment benefit plans. This movement was accounted for in other comprehensive income (FY2020: deferred tax balance reduced by an additional liability of R297 million). This increase is offset by the reduction in the deferred tax balance because of prior period adjustments and movements in temporary differences.

Inventories decreased 12.7% to R849 million driven by improved working capital optimisation.

Trade and other receivables increased 11.5% to R7 826 million mainly driven by growth in the Mobile business.

The **current portion of interest-bearing debt** decreased 42.1% to R1 100 million (31 March 2020: R1 900 million) and is expected to be repaid from operational cash flows.

Net provisions increased 16.5% largely due to the increase in the Telkom Retirement Fund obligation, to the amount of R1 038 million, that were paid from the plan assets in the current financial period. The increase was partly offset by the VERP and VSP payment of R1.1 billion relating to phase 1 of the restructuring programme.

Condensed consolidated statement of cash flows

	September 2020 R'million	September 2019 R'million	% Variance
Cash flows from operating activities	3 318	1 817	82.6
Cash receipts from customers	21 249	20 907	1.6
Cash paid to suppliers and employees	(16 266)	(16 461)	1.2
Cash generated from operations	4 983	4 446	12.1
Interest received	171	116	47.4
Finance charges paid	(681)	(646)	(5.4)
Taxation paid	(898)	(753)	(19.3)
Cash generated from operations before dividend paid	3 575	3 163	13.0
Dividend paid	(257)	(1 346)	(80.9)
Cash flows from investing activities	(2 925)	(3 974)	26.4
Proceeds on disposal of property, plant and equipment and intangible assets	19	28	(32.1)
Additions to assets for capital expansion	(2 933)	(4 203)	30.2
Proceeds on disposal of SOX	–	210	(100.0)
Investments made by FutureMakers	(11)	(9)	(22.2)
Cash flows from financing activities	(1 214)	1 731	(170.1)
Loans raised	–	5 550	(100.0)
Loans repaid	(900)	(3 155)	71.5
Purchase of shares for the Telkom share plan and subsidiaries' long-term incentive share scheme	(285)	(159)	(79.2)
Acquisition of the non-controlling interest in Yellow Pages	–	(160)	100.0
Repayment of lease liability	(431)	(389)	(10.8)
Repayment of derivatives	(72)	(73)	1.4
Proceeds from settlements of derivatives	474	117	305.1
Net decrease in cash and cash equivalents	(821)	(426)	(92.7)
Net cash and cash equivalents at beginning of year	4 726	1 428	231.0
Effect of foreign exchange rate gains on cash and cash equivalents	–	–	–
Net cash and cash equivalents at end of period	3 905	1 002	289.7

Notes

Cash flow from operating activities increased 12.1%, mainly due to higher profits and working capital optimisation.

The increase in **interest received** is largely due to higher cash balances.

Taxation paid increased 19.3% due payments of R350 million made to SARS toward the settlement of the 2012 tax dispute.

Additions to assets for capital expansion decreased 30.2% due to the impact of the national lockdown.

Annexure A

Segment report based on the previous reporting structure.

	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	IFRS 16 reversal Rm	Consolidated Rm
September 2020								
Revenue from contracts with external customers	1 841	11 911	7 123	356	165			21 396
Revenue recognised over time	1 841	10 794	6 055	–	–			18 690
Voice		3 252	1 918					5 170
Interconnection	199	251						450
Data	1 535	7 159	1 641					10 335
Information technology services			2 460					2 460
Significant financing component revenue		128	15					143
Sundry revenue	107	4	21					132
Revenue recognised at a point in time	–	1 117	1 068	–	165			2 350
Customer premises equipment		1 117	634					1 751
Information technology hardware and software			434					434
Sundry revenue					165			165
Operating lease revenue				356				356
Intersegmental operating revenue	5 005	145	1 294	381	432	(6 882)	(375)	–
Other income	105	252	25	–	157	(266)		273
Insurance service result					22			22
Total expenses	(5 020)	(9 857)	(7 153)	(187)	(714)	7 148		(15 783)
Cost of handsets, equipment and directories	–	(1 162)	(1 094)	–	(62)	90		(2 228)
Sales commission, incentive and logistical costs	–	(1 086)	(117)	–	–	–		(1 203)
Payments to other operators	(407)	(1 543)	(269)	–	–	225		(1 994)
Employee expenses	(1 615)	(433)	(2 072)	(55)	(413)	–		(4 588)
Selling, general and administration	(1 814)	(5 265)	(3 382)	(89)	(126)	6 809		(3 867)
Service fees	(1 020)	(323)	(200)	(39)	(123)	44		(1 661)
Operating leases	(164)	(45)	(19)	(4)	10	(20)		(242)
Earnings before interest, tax, depreciation and amortisation (EBITDA for reportable segments including intersegmental transactions)	1 931	2 451	1 289	550	62	–	(375)	5 908

Annexure A continued

Segment report based on the previous reporting structure.

	Open-serve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Elimina-tions Rm	IFRS 16 reversal Rm	Consoli-dated Rm
Restated September 2019								
Revenue from contracts with external customers	2 051	10 469	8 403	321	235	–		21 479
Revenue recognised over time	1 970	9 054	7 056	–	–	–		18 080
Voice		3 423	2 485					5 908
Interconnection	328	206						534
Data	1 642	5 292	1 753					8 687
Information technology services			2 818					2 818
Significant financing component revenue		133						133
Sundry revenue								–
Revenue recognised at a point in time	81	1 415	1 347	–	235	–		3 078
Customer premises equipment		1 409	698					2 107
Information technology hardware and software			627					627
Sundry revenue	81	6	22		235			344
Operating lease revenue				321				321
Intersegmental operating revenue	5 875	117	1 153	473	685	(7 907)	(396)	–
Other income	173	262	50	5	336	(504)		322
Total expenses	(5 536)	(10 051)	(7 982)	(153)	(930)	8 411		(16 241)
Cost of handsets, equipment and directories	–	(1 763)	(1 166)	–	(86)	78		(2 937)
Sales commission, incentive and logistical costs	–	(876)	(120)	–	1	–		(995)
Payments to other operators	(487)	(1 286)	(313)	–	–	292		(1 794)
Employee expenses	(1 967)	(410)	(2 093)	(52)	(251)	13		(4 760)
Selling, general and administration	(1 972)	(5 370)	(3 993)	(59)	(454)	7 918		(3 930)
Service fees	(955)	(258)	(269)	(23)	(129)	35		(1 599)
Lease expenses	(155)	(88)	(28)	(19)	(11)	75		(226)
Earnings before interest, tax, depreciation and amortisation (EBITDA for reportable segments including intersegmental transactions)	2 563	797	1 624	646	326	–	(396)	5 560

4

Reviewed condensed consolidated interim financial statements

for the six months ended 30 September 2020

Board approval

These condensed consolidated interim financial statements were authorised for issue on 7 November 2020 by the Telkom SA SOC Limited board of directors and published on 10 November 2020.

Directors' responsibility and audit report

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

Preparer and supervisor of the condensed consolidated interim financial statements

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

Independent auditors' review report 48
Condensed consolidated interim statement of profit or loss and other comprehensive income 50
Condensed consolidated interim statement of financial position 52
Condensed consolidated interim statement of changes in equity 54
Condensed consolidated interim statement of cash flows 55
Notes to the condensed consolidated interim financial statements 56
1. Independent review 56
2. Corporate information 56
3. Basis of preparation, significant accounting judgements, estimates, assumptions and significant accounting policies 56
4. Segment information 63
5. Operating expenses 68
6. Earnings and dividend per share 70
7. Capital additions and disposals 72
8. Right-of-use assets and lease liabilities 72
9. Employee benefits 73
10. Inventories 75
11. Net cash and cash equivalents 75
12. Taxation and deferred taxation 76
13. Fair value measurement 78
14. Interest-bearing debt 81
15. Provisions 82
16. Commitments 83
17. Trade and other receivables and contract assets 83
18. Other current assets 86
19. Contingencies 87
20. Related parties 88
21. Reconciliation of profit before tax to cash generated from operations 90
22. Net debt reconciliation 91
23. Significant events and transactions 92
24. Events after the reporting date 93

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

for the six months ended 30 September 2020

To the Shareholders of Telkom SA SOC Limited

We have reviewed the condensed consolidated interim financial statements of Telkom SA SOC Limited, as set out on pages 50 to 93 of the accompanying Telkom condensed consolidated interim financial statements for the period ended 30 September 2020, which comprise the condensed consolidated statement of financial position as at 30 September 2020 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-months then ended, and selected explanatory notes.

Directors' Responsibility for the Interim Financial Statements

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

Auditor's Responsibility

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

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Telkom SA SOC Limited for the six months ended 30 September 2020 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa..

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: KJ Dikana
Registered Auditor
Johannesburg

7 November 2020

SizweNtsalubaGobodo Grant Thornton Inc.

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

7 November 2020

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

T: +27 (0) 11 797 4000, F: +27 (0) 11 209 5800, www.pwc.co.za

Chief Executive Officer: L S Machaba

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

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

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

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

Victor Sekese [Chief Executive]

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

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

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

for the period ended 30 September 2020

	Notes	Reviewed six months ended 30 September 2020 Rm	Restated six months ended 30 September[1] 2019 Rm
Revenue	4	21 396	21 479
Operating revenue		21 254	21 346
Interest revenue[2]		142	133
Other income		273	322
Insurance service result		22	–
Payments to other operators	5	(1 994)	(1 794)
Cost of handsets, equipment, software and directories	5	(2 228)	(2 937)
Sales commission, incentives and logistical costs	5	(1 203)	(995)
Employee expenses	5	(4 588)	(4 760)
Other expenses	5	(1 142)	(1 348)
Maintenance	5	(1 962)	(2 004)
Marketing		(277)	(309)
Impairment of receivables and contract assets	17	(486)	(269)
Service fees	5	(1 661)	(1 599)
Lease expenses		(242)	(226)
EBITDA		5 908	5 560
Depreciation of property, plant and equipment		(2 500)	(2 554)
Depreciation of right-of-use assets		(466)	(456)
Amortisation of intangible assets		(371)	(340)
Write-offs, impairments and losses of property, plant and equipment and intangible assets		(19)	(62)
Operating profit		2 552	2 148
Investment income		117	42
Income from associates		–	11
Net finance charges, hedging costs and fair value movements		(1 012)	(1 002)
Finance charges on lease liabilities[3]		(223)	(183)
Net finance charges – other[3]	14	(500)	(681)
Cost of hedging		(80)	(116)
Foreign exchange and fair value movements[4]		(209)	(22)
Profit before taxation		1 657	1 199
Taxation	12.1	(576)	(358)
Profit for the period		**1 081**	**841**

	Notes	Reviewed six months ended 30 September 2020 Rm	Restated six months ended 30 September[1] 2019 Rm
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange gains on translating foreign operations[5]		(13)	3
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial (losses)/gains	9	(1 040)	590
Income tax relating to other comprehensive income	12.2	292	(165)
Other comprehensive income for the period, net of taxation		(761)	428
Total comprehensive income for the period		**320**	**1 269**
Profit attributable to:			
Owners of Telkom		1 079	837
Non-controlling interests		2	4
Profit for the period		**1 081**	**841**
Total comprehensive income attributable to:			
Owners of Telkom		318	1 265
Non-controlling interests		2	4
Total comprehensive income for the period		**320**	**1 269**
Basic earnings per share (cents)	6	217.5	168.0
Diluted earnings per share (cents)	6	216.8	164.5

[1] *Restated. Refer to note 3.3.1.2 and 3.4.*
[2] *Disaggregated. Refer to note 3.3.1.1.*
[3] *Net finance charges as disclosed in the prior year interim financial statements have been disaggregated between finance charges on lease liabilities and other net finance charges.*
[4] *The movement in the foreign exchange and fair value movement line item is largely as a result of unfavourable fair value movements in the interest rate swaps due to reductions in interest rates. The interest rate swaps were taken in prior years in order to protect the Group from increases in interest rates on its floating rate debts.*
[5] *This component of OCI does not attract any tax.*

Condensed consolidated interim statement of financial position

at 30 September 2020

	Notes	Reviewed six months ended 30 September 2020 Rm	Restated 31 March[1] 2020 Rm
Assets			
Non-current assets		**45 377**	45 071
Property, plant and equipment		**33 772**	33 608
Right-of-use assets	8	**4 362**	4 502
Intangible assets		**4 614**	4 739
Other investments		**76**	62
Employee benefits	9	**1 182**	992
Other financial assets		**129**	192
Finance lease receivables		**179**	148
Deferred taxation	12.2	**1 063**	828
Current assets		**15 518**	16 315
Inventories	10	**849**	972
Income tax receivable		**29**	9
Finance lease receivables		**313**	106
Trade and other receivables	17.1	**7 826**	7 019
Contract assets	17.2	**1 798**	1 979
Other current assets	18	**476**	536
Other financial assets		**71**	759
Absa sinking fund investment	13	**163**	161
Investment in insurance cell captive		**68**	46
Cash and cash equivalents	11	**3 925**	4 728
Total assets		**60 895**	**61 386**

	Notes	Reviewed six months ended 30 September 2020 Rm	Restated 31 March[1] 2020 Rm
Equity and liabilities			
Equity attributable to owners of the parent		**29 260**	29 390
Share capital		**5 050**	5 050
Share-based compensation reserve[2]		**956**	835
Non-distributable reserves		**1 359**	1 642
Retained earnings		**21 895**	21 863
Non-controlling interests		**(28)**	(29)
Total equity		**29 232**	**29 361**
Non-current liabilities		**15 723**	14 767
Interest-bearing debt	14	**10 010**	10 105
Lease liabilities	8	**3 631**	3 708
Provisions	15	**1 437**	343
Other financial liabilities		**78**	62
Deferred revenue		**294**	396
Deferred taxation	12.2	**273**	153
Current liabilities		**15 940**	17 258
Trade and other payables		**8 855**	8 339
Shareholders for dividend		**31**	31
Interest-bearing debt	14	**1 100**	1 900
Lease liabilities	8	**1 095**	1 067
Provisions	15	**1 299**	2 006
Deferred revenue		**1 770**	1 754
Income tax payable	12.3	**829**	1 240
Other financial liabilities		**941**	919
Credit facilities utilised	11	**20**	2
Total liabilities		**31 663**	**32 025**
Total equity and liabilities		**60 895**	**61 386**

[1] *Restated. Refer to note 3.3.1.2 and 3.5.*
[2] *The increase in the share compensation reserve is in line with the share scheme expense recognised in the current financial period. Part of the increase is due to the TSA awarded in June 2020. Refer to note 9.*

Condensed consolidated interim statement of changes in equity

for the period ended 30 September 2020

	Reviewed six months ended 30 September 2020 Rm	Restated six months ended 30 September 2019 Rm
Balance at 1 April (as previously reported)	29 475	29 768
Attributable to owners of Telkom	29 504	29 573
Non-controlling interests	(29)	195
Restatement of third party service costs*	(114)	(45)
Restated balance at 1 April	29 361	29 723
Opening retained earnings adjustment*	(44)	–
Total comprehensive income for the period	320	1 269
Profit for the period	1 081	841
Other comprehensive income	(761)	428
Exchange gains on translating foreign operations	(13)	3
Net defined benefit plan remeasurements	(748)	425
Dividend declared	(257)	(1 346)
Disposal of subsidiary	–	(9)
Acquisition of non-controlling interest	–	(160)
Increase in share-based compensation reserve	123	130
Escrow shares realised for settlement to employees	14	–
Increase in treasury shares	(285)	(159)
Balance at 30 September	29 232	29 448
Attributable to owners of Telkom	29 260	29 479
Non-controlling interests	(28)	(31)

* *Refer to note 3.3.1.2.*

Condensed consolidated interim statement of cash flows

for the period ended 30 September 2020

	Notes	Reviewed six months ended 30 September 2020 Rm	Reviewed six months ended 30 September 2019 Rm
Cash flows from operating activities		3 318	1 817
Cash receipts from customers		21 249	20 907
Cash paid to suppliers and employees		(16 266)	(16 461)
Cash generated from operations	21	4 983	4 446
Interest received		171	116
Finance charges paid		(681)	(646)
Taxation paid		(898)	(753)
Cash generated from operations before dividend paid		3 575	3 163
Dividend paid		(257)	(1 346)
Cash flows utilised for investing activities		(2 925)	(3 974)
Proceeds on disposal of property, plant and equipment and intangible assets		19	28
Additions to assets for capital expansion		(2 933)	(4 203)
Proceeds on disposal of SOX, BCX Nigeria and BCX Tanzania		–	210
Investments made by FutureMakers		(11)	(9)
Cash flows from financing activities		(1 214)	1 731
Loans raised	14	–	5 550
Loans repaid	14	(900)	(3 155)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		(285)	(159)
Acquisition of non-controlling interest in Yellow Pages		–	(160)
Repayment of lease liability		(431)	(389)
Repayment of derivatives		(72)	(73)
Proceeds from derivatives		474	117
Net decrease in cash and cash equivalents		(821)	(426)
Net cash and cash equivalents at 1 April		4 726	1 428
Net cash and cash equivalents at the end of the period	11	3 905	1 002

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2020

1. Independent review

The directors of the Company take full responsibility for the preparation of the condensed consolidated interim financial statements. The condensed consolidated interim financial statements for the period ended 30 September 2020 have been reviewed by our joint independent auditors PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc., who have expressed an unmodified conclusion thereon. The joint external auditors have performed their review in accordance with International Standards on Review Engagements (ISRE) 2410. The review conclusion is available for inspection on the Telkom website.

2. Corporate information

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

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

3.1 Basis of preparation

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

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

The condensed consolidated interim financial statements are prepared on the historical cost basis, with the exception of certain financial instruments subsequently measured at fair value. Details of the Group's significant accounting policies are consistent with those applied in the previous financial year.

The results of the period are not necessarily indicative of the results of the entire year and these reviewed condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended 31 March 2020, which have been prepared in accordance with IFRS.

3.2 Significant accounting judgements, estimates and assumptions

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the annual financial statements for the year ended 31 March 2020, with the exception of the judgements and estimates related to the assessment of COVID-19 (refer to note 3.2.1) and the customer relationship period (refer to note 3.2.2).

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

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

The COVID-19 pandemic has dramatically increased the risks that we collectively face as a global community and will likely materially damage the global economic prospects. While we will continue to drive the execution of our strategic objectives, we consider the impact of the situation as it unfolds and prudently manage our human capital and operational and financial risks.

As we entered the economic and social lockdown as a result of the pandemic at the end of March 2020, the Telkom Group focused on the financial and operational risks. To mitigate some of the financial risks such as constrained liquidity, interest rate and currency volatility and customer payments behaviour, the Group elevated the monitoring and controls of these risks. Some of the measures undertaken were to increase the Group's levels of liquidity, maintain undrawn committed facilities and not increase debt exposures. The Group also focused on cost containment and expenditure reductions.

The pandemic has severely curbed the movement of people and the way companies operate; telecommunications and connectivity were prioritised, with the telecoms sector classified as an essential service. As a Group, we are continually exploring mitigating measures to ensure that our business remains resilient, so that we can continue to support our customers and clients who rely on us to sustain their businesses and livelihoods.

Management has considered the potential impact on the Group by taking a variety of risk elements into account, which included considering macro-economic factors, contractual obligations and supply chain impacts. In addition, management performed a scenario analysis on the business prospects going forward and stress tested forecasts considering its "business unusual" impacts. Management has considered all the possible financial effects the virus could have on the measurement, presentation and disclosure in the interim financial statements. Key areas are considered in the table overleaf:

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

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

3.2 Significant accounting judgements, estimates and assumptions continued

3.2.1 *The assessment of COVID-19 as part of accounting judgements and sources of estimation uncertainty* continued

COVID-19 Consideration	Assessment	Potential impact	Note reference
Financial asset impairment (expected credit losses) **Contract assets and trade receivables**	The Group has based the measurement of expected credit losses ("ECL") on an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes and reflecting the time value of money. IFRS 9 requires ECL provisions to be measured in a way that incorporates information available at the reporting date about past events, current conditions and forecasts of future economic conditions. All of these were used in calculating the ECL on financial assets.	High	Note 17
IFRS 16 *Leases* in which the Group is the lessee	The South African repurchase rate was cut by 1.75% from 5.25% on 20 March 2020 to 3.5% on 24 July 2020. On average, the incremental borrowing rate applied to calculate the present value of the lease liabilities decreased by 1.57% due to a decline in the reference rate (South African repurchase rate), which was slightly offset by an increase in the credit spread. This is applicable to leases entered into from 1 April 2020 onwards, as well as leases that were modified during the last six months ending 30 September 2020.	Medium	Note 8
Revenue	The Consumer business benefited from the increased demand for connectivity from South Africans working from home, despite the national lockdown initially negatively impacting distribution channels. We enhanced broadband-led propositions across customer segments and scaled up digital platforms, as our stores were closed during the early phase of the national lockdown. As a result, our Mobile business sustained its growth trajectory into the first half of the year, driven by data demand. The Group's fixed and IT services revenue has however been negatively impacted by COVID-19 during the period under review.	Medium	N/A
Credit risk	The Group's maximum exposure to credit risk is represented by the carrying amount of the Group's financial assets. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There was a material change in the Group's exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the 2021 financial year due to the impact of COVID-19. To support the credit transmission mechanism of the South African economy, given the impact of COVID-19, the South African Reserve Bank (SARB) announced reductions in the Repo (Repurchase) rate. In addition, facilitated by the SARB, the government has also implemented a bond purchase programme to provide liquidity to banks and enabled a well-functioning credit transmission mechanism that resulted in structurally lower interest rates for consumers and corporate borrowers. Telkom derived a lower cost of borrowing on its debt given the lower interest rate levels. The fiscal profile of South Africa has resulted in sovereign credit rating downgrades. The Group's credit profile remains linked to changes in sovereign credit ratings, however it is supported by its improved financial metrics.	Medium	N/A

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

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

3.2 Significant accounting judgements, estimates and assumptions continued

3.2.2 Significant judgements and estimates - change in customer relationship period

The average customer relationship period ("CRP") in respect of Fibre/Broadband changed from 6 years to 4 years in September 2020. This is a change in an accounting estimate in terms of IAS 8 and accounted for prospectively. The change in the CRP resulted in an accelerated rate of deferred installation revenue recognition with the effect being an increase in revenue of R10.2 million in the current financial period. Revenue recognition in respect of deferred installation fees for the future periods is expected to decrease by R10.2 million due to this change in accounting estimate.

3.3 Restatements due to prior period errors

3.3.1 Prior period errors

3.3.1.1 Disaggregation of interest revenue

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

3.3.1.2 Restatement of third party service costs

BCX uses subcontractors to fulfil obligations related to certain customer contracts. During the current reporting period, and although still part of an ongoing review, BCX identified that certain cost of third party service expenses incurred on a customer contract were not correctly accrued for in the period the costs were incurred.

The error resulted in the understatement of cost of third party service expenses (included in the other expenses line item on the statement of profit or loss and other comprehensive income) and related liabilities in the comparative financial periods.

The error has been corrected by restating each of the affected financial statement line items for prior periods. Refer to note 3.4 and 3.5 for each materially affected line item as part of the correction of the prior period error.

Due to this error, a correcting entry was processed in the current period, where retained earnings was decreased and revenue increased with R44 million.

3.4 Restatements to the condensed consolidated interim statement of profit or loss and other comprehensive income

	As at 30 September 2020		
Extract from the condensed consolidated interim statement of profit or loss and other comprehensive income	As previously reported Rm	Restatement* Rm	**Restated Rm**
Other expenses	(1 304)	(44)	**(1 348)**
EBITDA	5 604	(44)	**5 560**
Operating profit	2 192	(44)	**2 148**
Profit before taxation	1 243	(44)	**1 199**
Profit for the period	885	(44)	**841**
Total comprehensive income for the period	1 313	(44)	**1 269**
Profit attributable to:			
Owners of Telkom	881	(44)	**837**
Non-controlling interests	4	–	**4**
Profit for the period	**885**	**(44)**	**841**
Total comprehensive income attributable to:			
Owners of Telkom	1 309	(44)	**1 265**
Non-controlling interests	4	–	**4**
Total comprehensive income for the period	**1 313**	**(44)**	**1 269**
Basic earnings per share (cents)	176.8	(8.8)	**168.0**
Diluted earnings per share (cents)	173.1	(8.6)	**164.5**

** Refer to note 3.3.1.2.*

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

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

3.5 Restatements to the condensed consolidated interim statement of financial position

Extract from the condensed consolidated interim statement of financial position	As at 31 March 2020 As previously reported Rm	Restatement* Rm	Restated Rm
Equity and liabilities			
Equity attributable to owners of the parent	29 504	(114)	**29 390**
Retained earnings	21 977	(114)	**21 863**
Total equity	29 475	(114)	**29 361**
Current liabilities	17 144	114	**17 258**
Provisions	1 892	114	**2 006**
Total liabilities	31 911	114	**32 025**
Total equity and liabilities	**61 386**	**–**	**61 386**

** Refer to note 3.3.1.2.*

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 operating segments classification is based on the business units through which we provide communications products and services via our customer-facing units: Consumer, Openserve and Telkom Small and Medium Business (SMB), as well as our subsidiaries, Gyro and BCX. The customer-facing units are supported by our Corporate Centre.

For the period under review, reports submitted to Exco separately reported SMB's financial performance (statement of profit or loss and other comprehensive income). SMB consists of small and medium businesses that were previously managed as part of BCX, Consumer and Yellow Pages (previously included in "Other").

The reportable segments have been determined as Openserve, Consumer, BCX, Gyro and "Other". The SMB segment has been aggregated into the Consumer segment. The aggregation is based on the similarity in the nature of products and services. SMB customers include primarily sole proprietors and such customers typically consume simplex products which are similar in nature to those consumed within the Consumer segment and the profile of the customers are similar by nature. A large portion of the SMB customer base make use of the Telkom Direct Stores channels and that is the same channel as that of the Consumer customers.

The CODM reviews the performance of the operating segments on an EBITDA basis. EBITDA is adjusted for significant non-recurring items such as restructurings and adoption of new accounting standards, when applicable. EBITDA was not adjusted in the current period.

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

- Interest revenue; and
- Interest on overdue accounts

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

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

4. Segment information continued

	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	IFRS 16 reversal Rm	Consolidated Rm
September 2020								
Revenue from external customers[1]	1 841	12 545	6 654	356	–	–	–	21 396
Revenue from contracts with customers recognised over time	1 841	11 222	5 626	–	–	–	–	18 689
Voice	–	3 586	1 584	–	–	–	–	5 170
Interconnection	199	251	–	–	–	–	–	450
Data	1 535	7 253	1 546	–	–	–	–	10 334
Information technology services	–	–	2 460	–	–	–	–	2 460
Interest revenue	–	128	15	–	–	–	–	143
Sundry revenue	107	4	21	–	–	–	–	132
Revenue from contracts with customers recognised at a point in time	–	1 323	1 028	–	–	–	–	2 351
Customer premises equipment	–	1 158	594	–	–	–	–	1 752
Information technology hardware	–	–	434	–	–	–	–	434
Sundry revenue	–	165	–	–	–	–	–	165
Operating lease revenue	–	–	–	356	–	–	–	356
Intersegmental operating revenue	5 005	145	1 294	381	432	(6 882)	(375)	–
Other income	105	254	25	–	155	(266)	–	273
Insurance service result	–	–	–	–	22	–	–	22
Total expenses	(5 020)	(10 351)	(6 833)	(187)	(540)	7 148	–	(15 783)
Cost of handsets, equipment, software and directories	–	(1 224)	(1 094)	–	–	90	–	(2 228)
Sales commission, incentives and logistical costs	–	(1 086)	(117)	–	–	–	–	(1 203)
Payments to other operators	(407)	(1 558)	(254)	–	–	225	–	(1 994)
Employee expenses	(1 615)	(500)	(2 047)	(55)	(371)	–	–	(4 588)
Selling, general and administrative expenses	(1 814)	(5 591)	(3 102)	(89)	(80)	6 809	–	(3 867)
Service fees	(1 020)	(329)	(200)	(39)	(117)	44	–	(1 661)
Lease expenses	(164)	(63)	(19)	(4)	28	(20)	–	(242)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	1 931	2 593	1 140	550	69	–	(375)	5 908
Reconciliation of operating profit to profit before tax								
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments								5 908
Depreciation, amortisation, impairments and write-offs								(3 356)
Operating profit								2 552
Investment income								117
Income from associates								–
Net finance charges, hedging costs and fair value movements								(1 012)
Profit before taxation								1 657
Other segment information								
Capital expenditure of property, plant and equipment and intangible assets	1 212	1 444	189	55	42	–	–	2 942

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

4. Segment information continued

	Openserve Rm	Consumer[2] Rm	BCX[2] Rm	Gyro Rm	Other[2] Rm	Eliminations Rm	IFRS 16 reversal Rm	Consolidated Rm
Restated September 2019								
Revenue from external customers[1,3]	2 051	11 359	7 746	321	2	–	–	21 479
Revenue from contracts with customers recognised over time	1 970	9 648	6 562	–	–	–	–	18 180
Voice	–	3 900	2 008	–	–	–	–	5 908
Interconnection	328	206	–	–	–	–	–	534
Data	1 642	5 409	1 636	–	–	–	–	8 687
Information technology services[4]	–	–	2 918	–	–	–	–	2 918
Interest revenue	–	133	–	–	–	–	–	133
Sundry revenue[3]	–	–	–	–	–	–	–	–
Revenue from contracts with customers recognised at a point in time	81	1 711	1 184	–	2	–	–	2 978
Customer premises equipment	–	1 472	635	–	–	–	–	2 107
Information technology hardware[4]	–	–	527	–	–	–	–	527
Sundry revenue	81	239	22	–	2	–	–	344
Operating lease revenue	–	–	–	321	–	–	–	321
Intersegmental operating revenue[5]	5 875	117	1 153	473	685	(7 907)	(396)	–
Other income	173	279	46	5	323	(504)	–	322
Total expenses	(5 536)	(10 633)	(7 599)	(153)	(731)	8 411	–	(16 241)
Cost of handsets, equipment, software and directories	–	(1 852)	(1 163)	–	–	78	–	(2 937)
Sales commission, incentives and logistical costs	–	(878)	(118)	–	1	–	–	(995)
Payments to other operators	(487)	(1 315)	(284)	–	–	292	–	(1 794)
Employee expenses	(1 967)	(476)	(2 085)	(52)	(193)	13	–	(4 760)
Selling, general and administrative expenses	(1 972)	(5 762)	(3 652)	(59)	(403)	7 918	–	(3 930)
Service fees[3,5]	(955)	(262)	(269)	(23)	(125)	35	–	(1 599)
Lease expenses[3,6]	(155)	(88)	(28)	(19)	(11)	75	–	(226)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	2 563	1 122	1 346	646	279	–	(396)	5 560
Reconciliation of operating profit to profit before tax								
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions								5 560
Depreciation, amortisation, impairments/(reversals) and write-offs								(3 412)
Operating profit								2 148
Investment income								42
Income/(loss) from associates								11
Net finance charges, hedging costs and fair value movements								(1 002)
Profit before taxation								1 199
Other segment information								
Capital expenditure of property, plant and equipment and intangible assets	1 508	2 246	283	76	125	–	–	4 238

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

4. Segment information continued

Entity-wide disclosures

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

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

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

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

[2] *The 30 September 2019 segment information has been restated to align with the change in the organisational structure, as a result of the introduction of SMB.*

[3] *In September 2019, Gyro incorrectly accounted for transactions between Swiftnet and Telkom relating to the rental of space in Telkom's exchanges, as a principal instead of an agent in the transaction. The September 2019 amounts have been restated, resulting in an external revenue decrease in Gyro and a corresponding increase in Openserve of approximately R33 million. This restatement is in relation to revenue categories and the revenue per the statement of profit or loss and other comprehensive income is not restated.*

[4] *The comparatives have been restated due to IT revenue of R100 million previously recognised as at a point in time, which has now been correctly classified as revenue recognised over time. The total BCX revenue and performance remain unchanged. This restatement is in relation to revenue categories and the revenue per the statement of profit or loss and other comprehensive income is not restated.*

[5] *The comparatives have been restated for an amount of R38 million, due to Gyro internal cross charges that were previously reported as intersegmental operating revenue and have now been reclassified to service fees. This restatement is in relation to revenue categories and the revenue per the statement of profit or loss and other comprehensive income is not restated.*

[6] *For comparability purposes, the September 2019 individual segments lease expense was reported on an IAS 17 Leases basis. In the current period, the September 2019 individual segments lease expense has been restated to reflect IFRS 16 (the new leases standard).*

5. Expenses

	Reviewed six months ended 30 September 2020 Rm	Restated six months ended 30 September 2019 Rm
Payments to other operators	**(1 994)**	(1 794)
Due to the COVID-19 lockdown, more customers were staying and working from home which led to the consumption of more data. The increase in payments to other operators is due to the increased data usage by customers roaming on other networks.		
Cost of handsets, equipment, software and directories	**(2 228)**	(2 937)
The decrease in the cost of handsets, equipment, software and directories is due to the decrease in sales of handsets and devices. This is in line with the decrease in handset and equipment revenue.		
Sales commission, incentives and logistical costs	**(1 203)**	(995)
This increase is largely due to an increase in Telkom Mobile's ongoing commissions paid to dealers.		
Employee expenses	**(4 588)**	(4 760)
The decrease in employee expenses is due to the lower headcount as a result of the voluntary employee severance and voluntary early retirement packages paid to employees in the 31 March 2020 financial year. This decrease was offset by a provision for leave pay and other provisions.		
Maintenance	**(1 962)**	(2 004)
Maintenance costs have slightly decreased year on year, largely due to Telkom's sustainable cost management programme, the impact of the COVID-19 national lockdown on maintenance activities and improved scheduling of general maintenance.		
Service fees	**(1 661)**	(1 599)
Service fees increased mainly due to an increase in utilities, rates and taxes.		
Other expenses	**(1 142)**	(1 348)
Other expenses include licence fees paid to regulators, COVID-19 costs, market research and losses as a result of theft of copper and fibre lines. Other expenses decreased due to a decline in third party costs as part of the sustainable cost management programme and lower subsistence and travel expenses (mainly as a result of the COVID-19 national lockdown).		
Lease expenses	**(242)**	(226)

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

6. Earnings and dividend per share

	Reviewed six months ended 30 September 2020	Restated six months ended 30 September 2019
Total operations		
Basic earnings per share (cents)	**217.5**	168.0
Diluted earnings per share (cents)	**216.8**	164.5
Headline earnings per share (cents)*	**219.0**	174.6
Diluted headline earnings per share (cents)*	**218.3**	171.0

Reconciliation of weighted average number of ordinary shares:	Number of shares	Number of shares
Weighted ordinary shares in issue	**511 140 239**	511 140 239
Weighted average number of treasury shares	**(15 146 901)**	(12 904 147)
Weighted average number of shares outstanding	**495 993 338**	**498 236 092**

Reconciliation of diluted weighted average number of ordinary shares:		
Weighted average number of shares outstanding	**495 993 338**	498 236 092
Expected future vesting of shares related to Group share scheme incentive plans	**1 666 616**	10 645 505
Diluted weighted average number of shares outstanding	**497 659 954**	**508 881 597**

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

Treasury shares

Treasury shares of 17 367 457 (30 September 2019: 14 459 669) are held by the Group.

	Reviewed 30 September 2020 Rm		Restated 30 September 2019 Rm	
	Gross	Net**	Gross	Net**
Total operations				
Reconciliation between earnings and headline earnings:				
Profit for the period		**1 081**		841
Non-controlling interests		**(2)**		(4)
Profit attributable to owners of Telkom		**1 079**		837
Profit on disposal of property, plant and equipment and intangible assets	**(2)**	**(2)**	(1)	(1)
Profit on disposal of subsidiaries and associates	**–**	**–**	(11)	(11)
Write-offs, impairments and losses of property, plant and equipment and intangible assets	**19**	**9**	62	58
Remeasurement of associates	**–**	**–**	(13)	(13)
Headline earnings		**1 086**		870
Dividend per share (cents)		**50.08**		**249.40**

** *The taxation impact consists of a R9.8 million increase (30 September 2019: R4.1 million) in tax expense related to recoupment of tax on write-offs of property, plant and equipment and intangible assets.*

The dividend per share is based on a dividend of 50.08 cents per share declared on 19 June 2020 (30 September 2019: 249.40 cents per share declared on 27 May 2019). 511 140 239 number of ordinary shares were outstanding on the date of the dividend declaration (30 September 2019: 511 140 239 ordinary shares).

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

7. Capital additions and disposals

	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Property, plant and equipment		
Additions	**2 656**	6 766
Disposals	**(11)**	(25)
	2 645	**6 741**
Intangible assets		
Additions	**286**	989
Disposals	**(3)**	(11)
	283	**978**

Finance charges of R9.2 million (31 March 2020: R51 million) were capitalised to property, plant and equipment and intangible assets in the current financial year.

8. Right-of-use assets and lease liabilities

8.1 Right-of-use assets

The carrying amounts for the right-of-use assets are as follows:	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Vehicles	**181**	358
Property	**878**	917
Network equipment	**3 303**	3 227
	4 362	**4 502**

8.2 Lease liabilities

The closing balances for non-current lease liabilities as at 30 September 2020 are as follows:	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Vehicles	**(79)**	(193)
Property	**(829)**	(854)
Network equipment	**(2 723)**	(2 661)
	(3 631)	**(3 708)**
The closing balances for current lease liabilities as at 30 September 2020 are as follows:		
Vehicles	**(115)**	(176)
Property	**(223)**	(223)
Network equipment	**(757)**	(668)
	(1 095)	**(1 067)**

9. Employee benefits

	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Non-current assets	**1 182**	992
Telkom Pension Fund asset	**17**	15
Post-retirement medical aid recognition of net plan asset	**1 165**	977

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

9. Employee benefits continued

	Reviewed six months ended 30 September 2020 Rm	Reviewed six months ended 30 September 2019 Rm
Defined benefit plan actuarial (losses)/gains	(1 040)	590
Telkom Pension Fund net actuarial gain	1	–
Telkom Retirement Fund net actuarial (loss)/gain	(1 084)	492
Medical aid net actuarial gain	74	99
Telephone rebate net actuarial loss	(29)	(1)
Long service award net actuarial loss	(2)	–

The increase in employee benefits, specifically the plan assets, and the increase in the defined benefit actuarial loss is largely due to the decrease in the discount rate from 12.1% to 10.7%.

The increase in the actuarial loss on the Telkom Retirement Fund is also due to benefits to the amount of R1 038 million that were paid from the plan assets in the current financial period. Refer to note 15.

Share scheme

On 1 July 2020, Telkom granted 8 934 287 shares to a certain group of employees in terms of a Talent Share Award (TSA). The TSA scheme provides for the granting of a fixed number of shares to eligible participating employees at the vesting date.

The vesting date is 30 June 2023 at which point the award vests 100% if the performance condition related to the total shareholder return has been met and if the employee is still in the employment of the Telkom Group.

The financial assumptions used for the valuation of this grant are as follows:	Telkom 2020 TSA
Market share price (R)	31.57
Share price volatility (%)	40
Future risk free interest rate (%)	4.1

10. Inventories

	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Inventories	849	972
Gross inventories	1 014	1 130
Write-down of inventories to net realisable value	(165)	(158)

The Group's inventory decreased in the current financial period largely due to working capital optimisation.

11. Net cash and cash equivalents

	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Cash disclosed as current assets	3 925	4 728
Cash and bank balances	2 835	2 208
Short-term deposits	1 090	2 520
Credit facilities utilised	(20)	(2)
Net cash and cash equivalents	3 905	4 726
Undrawn borrowing facilities	6 627	6 634

The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 30 September 2020, R5.5 billion (31 March 2020: R5.5 billion) of these undrawn facilities was committed.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

12. Taxation and deferred taxation

12.1 Taxation

	Reviewed six months ended 30 September 2020 Rm	Reviewed six months ended 30 September 2019 Rm
Taxation	**(576)**	(358)

Taxation increased to R576 million due to an increase in the deferred tax expense and the impact of the increase in the effective tax rate. The increase in deferred tax is attributable to a reduction in assessed losses in the Group, prior year over/under provisions and movements in temporary differences.

12.2 Deferred taxation

	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Deferred taxation		
Deferred taxation balance is made up as follows:	**790**	675
Deferred taxation assets	**1 063**	828
Deferred taxation liabilities	**(273)**	(153)

The increase in the deferred taxation balance in the current period is primarily attributable to a R292 million additional asset (30 September 2019: R165 million additional liability) raised in Telkom SA SOC Limited relating to the movement in other comprehensive income, including actuarial gains recognised on the post-employment benefit plans. This movement was accounted for in other comprehensive income (31 March 2020: deferred tax balance reduced by an additional liability of R297 million). This increase is offset by the reduction in the deferred tax balance as a result of prior year over/under provisions and movements in temporary differences.

12.3 Income tax payable

	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Income tax payable	**829**	1 240

Income tax payable decreased mainly due to the payment of R350 million made to SARS in relation to the tax matter.

Tax matter

As noted in the prior year consolidated annual financial statements, Telkom recognised a liability for the amount payable to the South African Revenue Services (SARS), but had applied to the Constitutional Court for leave to appeal against the Supreme Court of Appeal's judgement which was handed down on 25 March 2020 against Telkom. The judgement was in relation to the dispute between Telkom and SARS relating to the tax treatment of the loss that arose in the 2012 financial year on the sale of a foreign subsidiary. On 25 June 2020, the Constitutional Court denied Telkom's application for leave to appeal after concluding that the application did not engage the Court's jurisdiction. Telkom has entered into an instalment payment agreement with SARS to settle the liability by 31 March 2021.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

13. 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.

13.1 Fair value of financial instruments

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

Type of financial instrument	Fair value at 30 September 2020 Rm	Valuation technique	Significant inputs
Derivative assets*	63	Discounted cash flows	Yield curves
Derivative liabilities*	(726)		Market interest rates
Investment in Absa sinking fund*	163	Quoted market prices adjusted for counterparty credit risk	Market prices
Investment in FutureMakers entities*	66	Discounted cash flows	Cash flow forecasts and market related discount rates
Interest-bearing debt**	(11 373)	Discounted cash flows and quoted bond prices	Market interest rates

* *The carrying values of these financial instruments approximate their fair value.*
** *The carrying value of interest-bearing debt as at 30 September 2020 is R11 110 million.*

Derivatives

Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or economic hedges that do not meet the hedge accounting requirements.

Derivatives that do not meet the hedge accounting requirements:

The Group uses forward exchange contracts and interest rate swaps to economically hedge its foreign exchange and interest rate exposures. These derivative instruments are measured at fair value through profit or loss.

Derivatives that meet the hedge accounting requirements:

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

Fair value hedges

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

A decrease in fair value of the forward exchange contracts, designated as fair value hedges, of R100 million (31 March 2020: decrease of R619 million) has been recognised in finance charges and fair value movements and offset with a similar gain on the hedged items (property, plant and equipment and inventory).

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

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

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

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

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

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

13. Fair value measurement continued

13.2 Fair value hierarchy

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

The different levels have been defined as follows:

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

	Hierarchy levels*	30 September 2020 Rm	31 March 2020 Rm
Assets measured at fair value			
Investment in Absa sinking fund	Level 2	**163**	161
Investment made by FutureMakers	Level 3	**66**	51
Forward exchange contracts	Level 2	**44**	533
Firm commitments	Level 2	**19**	–
Liabilities measured at fair value			
Forward exchange contracts	Level 2	**(214)**	–
Interest rate swaps	Level 2	**(296)**	(143)
Firm commitments	Level 2	**(216)**	(530)
Liabilities measured at amortised cost			
Interest-bearing debt consisting of:			
Listed debt	Level 2	**(11 373)**	(12 097)

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

The appreciation and the volatility of the South African Rand resulted in gains and losses in the fair value of firm commitments and forward exchange contracts, respectively.

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

14. Interest-bearing debt

	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Non-current interest-bearing debt	**10 010**	10 105
Local debt	**9 088**	9 184
Foreign debt	**922**	921
Current portion of interest-bearing debt	**1 100**	1 900
Local debt	**1 100**	1 900

The current portion of interest-bearing debt of R1 100 million (31 March 2020: R1 900 million) at 30 September 2020 is expected to be repaid from operational cash flows.

During the period under review, R900 million debt was repaid. Rnil (31 March 2020: R6 950 million) debt was raised.

Finance charges on local and foreign debt decreased from R681 million in September 2019 to R500 million in September 2020 due to reduced interest rates as a result of the COVID-19 pandemic. Included in finance charges, as at 30 September 2020, is an amount of R66 million relating to interest on the SARS liability.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

15. Provisions

	Reviewed six months ended 30 September 2020 Rm	Restated 31 March 2020 Rm
Non-current provisions	**1 437**	343
Non-current employee related provisions	**1 434**	338
Subsidiary defined benefit plans	**23**	22
Telephone rebates	**345**	316
Telkom Retirement Fund	**1 066**	–
Non-current non-employee related provisions		
Other	**3**	5
Current provisions	**1 299**	2 006
Current portion of employee related provisions	**1 058**	1 752
Annual leave	**603**	479
Telephone rebates	**39**	39
Bonus, termination packages and other benefits	**416**	1 234
Current portion of non-employee related provisions		
Other	**241**	254

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 2020: 15-30 days), which must be taken within a 6-24 month (31 March 2020: 12-18 month) leave cycle. Leave not taken within the leave cycle is forfeited. 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. A 14th cheque is payable to a certain group of employees.

Non-employee related provisions
Other provisions relate to restoration provisions and provisions for legal matters.

Telkom Retirement Fund
The increase in the Telkom Retirement Fund obligation is primarily driven by the decrease in the discount rate from 12.1% to 10.7% and the benefits, to the amount of R1 038 million, that were paid from the plan assets in the current financial period. Refer to note 9.

16. Commitments

	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Capital commitments authorised	**6 397**	9 292
Commitments against authorised capital expenditure	**3 635**	2 648
Authorised capital expenditure not yet contracted	**2 762**	6 644

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

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

17. Trade and other receivables and contract assets

17.1 Trade and other receivables

	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Trade and other receivables	**7 826**	7 019
Trade receivables	**5 214**	4 867
Gross trade receivables	**7 334**	6 744
Impairment of receivables	**(2 120)**	(1 877)
Prepayments and other receivables	**2 612**	2 152
Allowance account for credit losses – trade receivables	**2 120**	1 877
Opening balance as previously reported	**1 877**	1 207
Charged to statement of profit or loss and other comprehensive income*	**400**	795
Receivables written off	**(157)**	(125)

The repayment terms of trade receivables vary between 21 days and 90 days from date of invoice. Interest charged on overdue accounts varies between a rate of prime and a rate of 18% per annum, depending on the contract terms.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

17. Trade and other receivables and contract assets continued

17.1 Trade and other receivables continued

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

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

At 31 March 2020, management included an overlay to consider the expected impact of the current COVID-19 stress. The changes in percentage movements in the default rates within the credit ratings were analysed at reporting date at a customer profile level and these changes were then applied to existing ECL ratios. This overlay increased the ECL for trade receivables by R419 million.

At 30 September 2020, this forward-looking COVID-19 ECL overlay was reassessed and it was determined that the overlay should be increased slightly. The forward-looking COVID-19 ECL overlay on the ECL for trade receivables has increased by R7 million under the provision matrix method, resulting in a recognised COVID-19 ECL of R426 million.

The impact of COVID-19 on Telkom's segments are disclosed in the table below:

Segments	Recognised COVID-19 impact 30 September 2020 R'000	Recognised COVID-19 impact 31 March 2020 R'000
Consumer	**114 349**	108 349
Openserve	**116**	116
Gyro	**12 721**	1 2 721
BCX	**288 120**	288 120
Other	**10 506**	9 506
	425 812	**418 812**

17.2 Contract assets

	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Contract assets	**1 798**	1 979
Gross contract assets	**2 208**	2 411
Impairment of contract assets	**(410)**	(432)
Allowance account for credit losses – contract assets	**410**	432
Opening balance as previously reported	**432**	170
Charged to statement of profit or loss and other comprehensive income*	**86**	345
Contract assets written off	**(108)**	(83)

COVID-19 impact on contract assets

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

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

At 31 March 2020, management included an overlay to consider the expected impact of the current COVID-19 stress. The methodology for this overlay was aligned to the approach used for trade receivables, which used the 2008 crisis for calibration purposes.

The Group adjusted the loss rates used to calculate the ECL on contract assets. Based on this approach, the ECL increased by R207 million in March 2020.

At 30 September 2020, this forward-looking COVID-19 ECL overlay was reassessed and it was determined that a portion of the overlay should be reversed based on the facts and circumstances available as at this date. The forward-looking COVID-19 ECL overlay on the ECL for contract assets has therefore decreased by R71 million under the provision matrix method, resulting in a recognised COVID-19 ECL of R136 million.

* *The increase in the impairment of trade and other receivables and contract assets charged through the statement of profit or loss and other comprehensive income, from R269 million in September 2019 to R486 million in September 2020, is mainly attributable to the COVID-19 adjustment to the expected credit loss which was processed at 31 March 2020.*

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

18. Other current assets

	Reviewed six months ended 30 September 2020 Rm	Audited 31 March 2020 Rm
Other current assets	**476**	536
Contract costs capitalised	**260**	299
Ongoing commission capitalised assets	**216**	237
Contract costs capitalised	**260**	299
Opening balance	**299**	226
Contract costs capitalised during the period	**115**	323
Amortisation recognised as cost of providing services during the period	**(154)**	(250)

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

19. 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 2020 financial statements.

Financial guarantees

At 30 September 2020, the total exposure on the financial guarantee relating to BCX Nigeria amounts to R42 million (31 March 2020: R46 million). An amount of R12.7 million (31 March 2020: R13 million) has been accounted for in other financial liabilities based on an expected credit loss valuation that was performed to quantify the potential exposure. The total exposure of the financial guarantee will be triggerred if BCX Nigeria is unable to meet its obligations in terms of the repayment agreement. Due to COVID-19, a 3-month payment holiday was awarded in the current period. To date, no default event (regarding the repayment agreement) has taken place. No other material contingent liabilities relating to financial guarantees have been identified for the 6 months ended 30 September 2020.

High Court

Phutuma Networks (Pty) Ltd (Phutuma)

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

Phutuma is the plaintiff in this matter and is responsible for enrolling the matter. It has not done so to date, despite the extended period of time that has elapsed since the appeal in 2016.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

20. Related parties

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

	Reviewed six months ended 30 September 2020 Rm	Restated six months ended 30 September 2019* Rm	Restated year ended 31 March 2020* Rm
With shareholders:			
Government of South Africa			
Related party balances			
Finance lease receivables	**255**	182	157
Trade receivables	**748**	1 143	796
Impairment of trade receivables	**(172)**	(160)	(152)
Related party transactions			
Revenue	**(2 043)**	(1 379)	(4 568)

At 30 September 2020, the Government of South Africa held 40.5% (30 September 2019: 40.5%) of Telkom's shares, and had the ability to exercise significant influence, and the Public Investment Corporation held 14.97% (30 September 2019: 10.5%) of Telkom's shares.

	Reviewed six months ended 30 September 2020 Rm	Restated six months ended 30 September 2019* Rm	Restated year ended 31 March 2020* Rm
With entities under common control:			
Major public entities			
Related party balances			
Finance lease receivables	**94**	–	–
Trade receivables	**106**	36	64
Impairment of trade receivables	**(9)**	(2)	(7)
Trade payables	**–**	(1)	(1)
Related party transactions			
Revenue (excluding lease income)	**(363)**	(177)	(315)
Operating expenses (excluding lease expense)	**130**	143	257
Lease income	**(13)**	(14)	(20)
Lease expense	**16**	17	36
Key management personnel compensation: (Including directors and prescribed officers' remuneration)			
Related party transactions			
Short-term employee benefits	**91**	102	190
Post-employment benefits	**7**	9	17
Termination benefits	**1**	3	23
Equity compensation benefits	**37**	14	62

* *The comparatives related to major public entities have been restated due to changes in the major public entities listing in the current financial period.*

Terms and conditions of transactions with related parties

Except as indicated above, outstanding balances at 30 September 2020 are unsecured, include interest and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Except as indicated above, for the period ended 30 September 2020, the Group has not impaired any of the amounts owed by the related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

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

	Reviewed six months ended 30 September 2020 Rm	Restated six months ended 30 September 2019* Rm
Cash generated from operations	**4 983**	4 446
Profit before tax	**1 657**	1 199
Finance charges and fair value movements	**1 012**	1 002
Investment income and income from associates	**(117)**	(53)
Interest received from trade receivables	**(70)**	(71)
Non-cash items	**3 089**	3 744
Depreciation, amortisation, impairment and write-offs	**3 356**	3 412
Increase/(decrease) in expected credit loss provision	**221**	(109)
Bad debts written off**	**265**	378
Decrease in provisions	**(715)**	(500)
Profit from disposal of property, plant and equipment	**(2)**	(12)
Foreign exchange movements	**(71)**	(18)
Share-based payment expenses	**122**	98
Movement in deferred revenue	**(87)**	495
Movement in working capital	**(588)**	(1 375)
Movement in inventories	**(137)**	(76)
Decrease in trade receivables, contract assets, finance lease receivables and other receivables	**(283)**	(1 415)
(Decrease)/increase in trade and other payables and prepayments	**(168)**	116

* *Restated. Refer to note 3.3.1.2.*

** *The bad debts line item was included in the reconciliation in the current period. The September 2019 reconciliation has been updated for comparability purposes.*

22. Net debt reconciliation

	Reviewed six months ended 30 September 2020 Rm	Reviewed six months ended 30 September 2019* Rm
Total interest-bearing debt (including lease liabilities) at reporting date	**15 836**	16 815
Total interest-bearing debt (including lease liabilities) at the beginning of the year	**16 780**	10 241
Loans raised	**–**	5 550
Loans repaid	**(900)**	(3 155)
Finance leases repaid/reclassified to lease liabilities	**–**	(42)
Repayment of lease liability	**(585)**	(572)
Lease liabilities net movement	**313**	4 462
IFRS 16 interest capitalised	**223**	183
Foreign exchange revaluation on loans	**1**	2
Finance charges capitalised to interest-bearing debt	**4**	146

* *Lease liabilities have been included in the net debt reconciliation in the current period. The September 2019 reconciliation has been updated for comparability purposes.*

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

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

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2020

23 . Significant events and transactions

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

On 10 September 2020, the following board members were elected or re-elected as per the Annual General Meeting ordinary resolutions:

- PCS Luthuli
- DD Mokgatle
- MS Moloko
- LL von Zeuner
- N Kapila

Dividends

The Telkom Board declared an ordinary dividend of 50.08 cents per share on 19 June 2020, paid on 13 July 2020 to shareholders registered at the close of business on 10 July 2020.

Vesting of shares

In terms of the Telkom Share Plan, 192 005 shares vested to Mr Sipho Maseko and 82 569 shares vested to Ms Tsholofelo Molefe in June 2020.

Launch of Yep!

In June 2020, Telkom announced the launch of Yep!, an online marketplace to buy from small, trusted businesses. Through the app, users would be able to locate businesses or services they require in their area, request quotes, directly book appointments from the app, view the store online and review its ratings. Currently, the application is still being developed and only a portion of the app has been capitalised to date, however this is not material to the interim financial statements.

Introduction of financial services

In August 2020, Telkom announced the venture into financial services. To this end, Telkom has partnered with Guardrisk to create a life insurance first party cell and third party cell.

Resignation of non-executive directors

Telkom announced on 9 September 2020 that Mses Santie Botha and Khanyisile Kweyama, both independent non-executive directors, resigned from the Telkom Board with effect from 25 September 2020 and 31 December 2020, respectively.

Appointment of non-executive directors

Telkom announced on 9 September 2020 that Messrs Alphonzo Samuels and Hemmanth (Herman) Singh had been appointed to the board of directors as a non-executive director and independent non-executive director with effect from 1 January 2021 and 25 September 2020, respectively.

Impact of COVID-19

On 11 March 2020, the World Health Organization (WHO) declared the novel coronavirus (COVID-19) outbreak a global pandemic, which subsequently resulted in the President of South Africa declaring a national state of disaster on 15 March 2020, with many measures implemented by the government, such as travel restrictions.

The Group has assessed the potential impact, including the impact of the pandemic on Telkom's performance and liquidity in the short to medium term. The going concern assumption, as adopted in the preparation of the annual financial statements, remains applicable.

The Group will continue to monitor its position as more data becomes available and as circumstances change.

24. Events after the reporting date

Disposal of handset receivables

Telkom entered into a factoring arrangement in relation to the handset receivable book, amounting to a nominal amount of R168 million, in October 2020. Telkom will be exploring similar initiatives to unlock cash flow during the second half of the 2021 financial year.

BCX section 189 process

On 15 October 2020, BCX announced that it had served unions and the CCMA with a notice in terms of section 189 of the Labour Relations Act.

Other matters

The directors are not aware of any other matter or circumstance since the financial period ended 30 September 2020 and the date of this report, or otherwise dealt with in the interim financial statements, which significantly affects the financial position of the Group and the results of its operations.

www.telkom.co.za