

Telkom SA SOC Ltd

Group Interim Results

for the six months ended
30 September 2021



Telkom

Telkom SA SOC Ltd

(Incorporated in the Republic of South Africa)
Registration number 1991/005476/30

JSE share code: TKG

JSE bond code: BITEL

ISIN: ZAE000044897

(Telkom, the Company, or the Group)



www.telkom.co.za

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

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 expenditure (capex); projected costs and anticipated cost savings and financing plans; and 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.

Any forward-looking financial information disclosed in these Group interim results for the period ended 30 September 2021 ("results announcement") has not been reviewed or audited or otherwise reported on by our external joint auditors.

Index

1	Overview of our business	4
2	Operational data	23
3	Financial performance	26
4	Reviewed condensed consolidated interim financial statements	36

The United Nations Sustainable Development Goals



The following four Sustainable Development Goals (SDGs) were identified as presenting the most material opportunities for Telkom to enhance its positive impact and minimise its negative impact:



SDG 4
Quality education



SDG 8
Decent work and economic growth



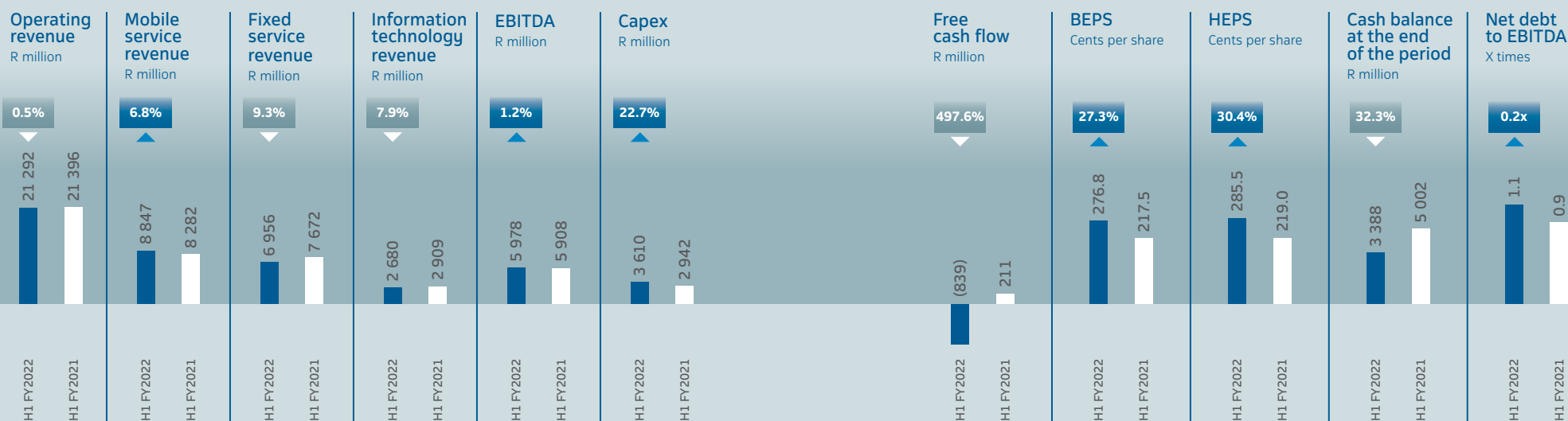
SDG 9
Industry, innovation and infrastructure



SDG 12
Responsible consumption and production

Throughout this report, the relevant SDG icon indicates where related information is discussed.

Key indicators



Telkom's operating structure

Telkom SA SOC Ltd represents Telkom Group (Telkom or the Group), which comprises Telkom Company and its subsidiaries. Telkom Company comprises divisions, namely Openserve and Telkom Consumer. Telkom Group's 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 Small and Medium Business (SMB) is included in this 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.

Segment reporting

Segment reporting is provided on page 49 as part of the notes to the financial statements.

Results from operations

Group profitability continued to grow ahead of revenue, underpinned by our sustainable cost management, which seeks to ensure that cost to serve is optimised and operating expenditure (opex) growth is contained below inflation. Group profit after tax increased by 25.9% to R1 361 million (H1 FY2021: R1 081 million). This is mainly attributable to lower fair value movements, lower finance charges due to the ongoing settlement of maturing debt and currency volatility in the prior period. Headline earnings per share (HEPS) increased by 30.4% to 285.5 cents per share and basic earnings per share (BEPS) increased by 27.3% to 276.8 cents per share.

Overview of our business

1



Telkom announced its Group interim results for the six months ended 30 September 2021 on 9 November 2021 in Centurion, South Africa.



Message from Group Chief Executive Officer

Sipho Maseko

Telkom delivered strong earnings growth despite a challenging trading and economic environment. The first half of the year saw the economy struggle to recover from the consequences of COVID-19, which were compounded by the recent unrest in certain parts of South Africa. Group profitability continued to grow ahead of revenue, underpinned by our sustainable cost management, which seeks to ensure that cost to serve is optimised and operating expenditure (opex) growth is contained below inflation. Telkom remains resolute in executing its strategic goals, with the Value Unlock programme on track. The masts and towers business listing on the JSE is on target for the fourth quarter of the financial year. The effective management transition is in place, with the appointment of the Group Chief Executive Officer (CEO) Designate and the new CEO of Telkom Consumer. As the mobile business continues to grow, Telkom onboarded a second national roaming partner.

Operating environment

The pandemic continues to have an impact on lives, families and communities. Telkom has continued to prioritise the wellbeing of its employees. As the attention of the world moved to vaccines, we developed a proactive COVID-19 vaccination framework that supports an increased focus on mental and physical wellness and a need for greater resilience. Telkom supported the Business for South Africa initiatives to ensure access to vaccines for all South Africans. In July, we entered into an agreement with Dis-Chem that enabled us to prioritise vaccination for all employees who are eligible to get the COVID-19 vaccine, including up to five extended family members. We unveiled our hybrid work policy, which allows most employees to work remotely. We support government's national COVID-19 vaccination programme aimed at achieving population immunity in South Africa and in the workplace.

The pandemic and subsequent lockdowns continue to impact the South African economy. Customers remain under severe financial pressure due to loss of jobs and reduced income. Small and medium enterprises (SMEs) are also under strain, with some SMEs being liquidated as they were the hardest hit by the pandemic. The competitive environment has intensified with increased competitive activities in the first half of the year.

Performance overview

Notwithstanding the challenging operating and economic environment that persisted in the first half of the year, Telkom delivered strong earnings with HEPS and BEPS increasing by 30.4% and 27.3% respectively. This performance was boosted by our lower finance charges and fair value movements compared to the prior period as well as an increase in Group EBITDA. Group earnings before interest, taxation, depreciation and amortisation (EBITDA) grew by 1.2% despite flat revenue and an average Group-wide salary increase of 6% in April.

Telkom Consumer continued to be the driver of growth in the Group with revenue increasing by 2.1% to R12 960 million driven by the mobile business. This was partially offset by the decline in fixed-line business due to continued migration to next-generation technologies such as long-term evolution (LTE) and fibre, and ongoing pressure in the SME segment. Mobile service revenue grew by 6.8% to R8 847 million, supported by 18.8% year on year growth in active customers to 16.3 million. Mobile data revenue grew by 6.1% to R6 374 million, supported by 10.3% growth in mobile broadband customers to 10.6 million, which represents 65.5% of our

active customer base. This performance was delivered against a strong first half of the prior year, which saw a surge in data demand due to the pandemic.

Driving the growth of adjacent revenue streams and opportunities remains a strategic imperative which we are actively investing in. Included in Telkom Consumer revenue is content and financial services revenue of R388 million, which grew 23% year on year. This revenue is expected to continue to grow and will be a solid base from which to grow as we look to diversify revenue.

BCX was the hardest hit by the challenging environment, as it serves all the sectors of the economy. Revenue declined by 6.1% to R7 461 million. We continue to see sluggish investments by corporates as the country battles with the impact of the pandemic and the effects of restrictions on parts of the economy. The information technology (IT) business remains under pressure due to the lingering impact of the lockdown and the global supply chain constraints and shortages of semiconductor chips.

Openserve continued to stabilise with its topline revenue slightly down by 1.8% to R6 720 million, supported by the fibre ecosystem, including fibre to the base stations and fibre to the business. From a fibre to the home (FTTH) perspective, the number of homes passed increased by 54.2% to 707 399, and the number of homes connected with fibre increased by 34.3% to 331 735. The 331 735 number of homes connected with fibre surpassed the number of homes connected with copper of 230 817.

Message from Group Chief Executive Officer

continued

Gyro masts and towers (Swiftnet) continued to commercialise its masts and towers business, with revenue increasing by 7.3% to R674 million, supported by an increase in the productive portfolio tenancy ratio from 1.52x in the prior period to 1.55x. The business is being prepared for listing on the JSE.

Telkom remains resolute in executing its strategic goals

The Value Unlock programme is on track, an effective management transition is in place and a roaming agreement with a second national roaming partner providing Telkom customers access to three networks was concluded.

A separate listing of the masts and towers business (Swiftnet)

Telkom is pursuing a separate listing of its masts and towers business (Swiftnet) on the JSE before the end of the financial year. Significant progress has been made, including, but not limited to, formal engagements with the JSE. Telkom believes that a separate listing of Swiftnet will affirm the valuation of the masts and towers business and its contribution to the overall valuation of the Telkom business, thereby unlocking further value for Telkom.

Effective management transition is in place

The appointment of the Group CEO Designate and CEO of Telkom Consumer effective 1 October 2021 will ensure continued execution of Group strategy. Serame Taukobong was appointed Group CEO Designate and will take over the role of Group CEO on 1 July 2022. His successor in Telkom Consumer, Lunga Siyo, was appointed CEO: Telkom Consumer.

Telkom adds MTN South Africa as a second national roaming partner

Telkom has entered into a roaming agreement with MTN South Africa. MTN South Africa is Telkom's second roaming partner, effective 1 November 2021. The roaming agreement covers 2G, 3G and 4G, which will include seamless handover between Telkom and MTN networks. Telkom currently has a roaming agreement with Vodacom South Africa and has opted for two national roaming partners. Telkom's innovation in mobile network deployment has enabled flexibility to offer customers a better experience and optimise its existing roaming spend.

Sipho Maseko
Group CEO

Financial capital

Financial information summary

	September 2021 Rm	September 2020 Rm	Variance %
Gross operating revenue	21 292	21 396	(0.5)
EBITDA	5 978	5 908	1.2
EBITDA margin (%)	28.1	27.6	0.5
Capex	3 610	2 942	22.7
Free cash flow	(839)	211	(497.6)
BEPS (cents)	276.8	217.5	27.3
HEPS (cents)	285.5	219.0	30.4
Net debt to EBITDA (times)	1.1	0.9	0.2
Interim dividends (cents)	–	–	–

The Group sustained its revenue performance

Group revenue was flat at R21 292 million, driven by the mobile business and the masts and towers business. Mobile revenue increased by 9.7% despite experiencing the COVID-19 bump in the prior period as a result of the stringent lockdown alert level that was implemented. The masts and towers business continued on its growth trajectory, with external revenue increasing by 4.6% as it commercialises its portfolio. The performance was offset by the IT business, which remains under pressure due to the challenging trading environment, and a decline in the fixed-line business as customers migrate to new technologies such as fibre and LTE. Although the fixed-line business declined by 9.5% in the period, we saw a significant slowdown in the rate of decline compared to the 18.2% reported in the prior period. The stability in the fixed-line business is attributable to a slowdown in fixed voice churn and an increase in usage, due to improved economic activity in the period compared to the prior period when South Africa was in lockdown level 5.

Solid EBITDA growth underpinned by sustainable cost management

Group EBITDA grew faster than revenue with an increase of 1.2% to R5 978 million and the EBITDA margin expanding by 0.5 ppts to 28.1%. This was underpinned by our effective sustainable cost management programme, which aims to contain opex growth below inflation and optimise cost to serve. Opex declined by 3.1% year on year despite an average Group-wide salary increase of 6%, which was effective from 1 April 2021. Mobile cost to serve was optimised despite the increase in certain costs associated with the post-paid market such as distribution channel costs following a year of lower distribution costs due to the impact of the strict lockdown. The cost to serve improvement was enabled by optimised roaming costs as we maintain stringent roaming traffic thresholds and migrate traffic to our network, supported by the ongoing network investment.

Financial capital continued

HEPS increase driven by lower finance charges and fair value movements

Reported HEPS increased by 30.4% to 285.5 cents while BEPS increased by 27.3% to 276.8 cents compared to the prior period. This was mainly due to a significant decline in finance charges and fair value movements compared to the prior period as well as the increase in Group EBITDA. Finance charges and fair value movements declined by 34.9% to R659 million. Finance charges reduced due to our funding strategy of ongoing settlement of maturing debt. Finance charges reduced by 25.2% to R541 million. Our funding strategy allowed us to balance our cost of debt ratio to 52:48 floating to fixed. This ensures that the risk to changes in interest rates remains balanced. Fair value movements and foreign exchange losses reduced significantly by 91.9% to R17 million from R209 million due to currency volatility and favourable foreign exchange hedging position.

Capital investment for growth accelerated in the first half of the year

We continued to invest in our key growth areas, fibre and mobile, with a capital investment increase of 22.7% to R3 610 million representing a capex to revenue intensity of 17.0%. The network rollout in the prior period was impacted by the lockdown in the first quarter of the prior year. With the highest FTTH connectivity rate of 46.9% in the market, we started accelerating our fibre rollout following a period of focusing on connectivity rate to improve returns. Going forward, we will focus on expanding our FTTH footprint while simultaneously focusing on connecting premises to ensure that we maintain a high connectivity rate.

	September 2021 Rm	September 2020 Rm	Variance %
Capex			
Fibre	1 010	254	297.6
Mobile	1 453	1 397	4.0
IT solutions	50	98	(49.0)
Network rehabilitation/sustainment	58	213	(72.8)
Service on demand	199	252	(21.0)
Core network	411	443	(7.2)
Digital platforms and innovation	26	8	225.0
Properties (Gyro for Telkom)	26	(7)	(471.4)
Shared services	14	6	133.3
Telkom	3 247	2 664	21.9
BCX	180	189	(4.8)
Gyro	174	62	180.6
Yep!	9	27	(66.7)
Total	3 610	2 942	22.7
Capex to revenue ratio (%)	17.0	13.8	

Balance sheet remains stable with adequate capacity to fund our strategy

Our conservative funding approach enabled us to strengthen our balance sheet by repaying maturing debt of approximately R1.1 billion in the prior financial year, with R900 million repaid in the first half of the prior financial year. In the first half of the current year, we settled a further R100 million of debt in line with our debt maturity profile. We have adequate balance sheet capacity to effect our strategic funding requirements with net debt to EBITDA ratio stable at 1.1x driven by a 32.3% decrease in the cash balances at the end of the period and an increase of additional IFRS 16 lease liabilities to support mobile growth.

	September 2021 Rm	March 2021 Rm	Variance %
Balance sheet			
Bank and cash balances	3 388	5 002	(32.3)
Current borrowings	(3 283)	(1 904)	(72.4)
Non-current borrowings	(12 759)	(13 934)	8.4
Net debt	(12 654)	(10 836)	(16.8)
Net debt to EBITDA (times)	1.1	0.9	0.2

Free cash flow under pressure due to increased capex

In line with management expectations, we generated negative free cash flow (FCF) of R839 million due to an increase of R1.1 billion in capex paid in the period under review. During the period, we executed an off-balance sheet disposal of the handset receivable book amounting to approximately R300 million in line with management's cash release initiatives to improve working capital management.

	September 2021 Rm	September 2020 Rm	Variance %
FCF			
Cash generated from operations excluding VSP, VERP and section 189 costs paid	4 620	6 115	(24.4)
Add back: VSP, VERP and section 189 costs paid	(91)	(1 132)	92.0
Cash generated from operations	4 529	4 983	(9.1)
Add back: Repayment of lease liability	(474)	(431)	(10.0)
Interest received	119	171	(30.4)
Finance charges paid	(577)	(681)	15.3
Taxation paid	(433)	(898)	51.8
Cash generated from operations before dividend paid and received	3 164	3 144	0.6
Cash paid for capex	(4 003)	(2 933)	(36.5)
Total	(839)	211	(497.6)



Productive capital



Openserve continued to invest in the modernisation of its network in line with its strategic objectives. Despite the uncertain operating environment caused by the pandemic, our financial performance was largely resilient, underpinned by our network investment which led to growth in fibre and carrier services. Nevertheless, the impact of the pandemic is still evident in the challenging performance in the enterprise and small and medium businesses, with declining voice and data consumption. To improve our service delivery, we enhanced our customer engagements and accelerated digitisation in the period.

Performance overview

Revenue declined marginally by 1.8% to R6 720 million. This was supported by an increase of 10.8% in the provisioning of carrier services to the mobile operators, as there is demand from customers migrating to wireless technologies such as LTE. There was a decrease in legacy broadband revenue, mainly due to the decline in services with speeds below 10 Mbps.

Despite revenue being under pressure, EBITDA increased by 11.1% to R2 146 million and EBITDA margin expanded by a 3.7 ppts to 31.9%, underpinned by our cost management programme.



Scalable network

Openserve invested capex of R1 716 million in modernising and expanding its network during the period. This enabled a flexible, modular and scalable network architecture that has ensured Openserve delivers high-speed and increased-capacity networks across South Africa. This is reflected through the increased fixed-data consumption of 11.9% across our network.

As we continue to invest in our robust infrastructure network, we aggressively improved our footprint in the first half of the year by increasing the number of homes passed with fibre by 54.2% to 707 399. Furthermore, we upgraded existing fibre nodes, allowing us to use our strategic network investments to provide the ability to connect additional premises to our fibre footprint.

During the July unrest mostly experienced in KwaZulu-Natal and Gauteng, our access network suffered multiple breaks; however, we did not lose any traffic on our core network due to our capability to use auto reroute restoration in case of fibre breaks in the network.



Commercialise the network

Demand for fibre connectivity in the home and high-capacity backhaul from the carrier continued to increase while enterprise market connectivity demand remains subdued.

During the period, we increased the number of homes connected with fibre by 34.3% to more than 331 700 homes connected to our network, with a connectivity rate of 46.9%, as the demand for fibre connectivity continues to increase. The greater adoption of next-generation high-speed broadband resulted in the continued migration of the low-speed digital subscriber line (DSL) customer base to wireless solutions for their minimal data consumption requirements. While this negatively impacted the DSL base, this decline was offset by the increased carrier backhaul provisioning growth of 12.8%, aligning to our drive to commercialise high-speed fixed broadband on our network while providing sufficient capacity to grow all other market segments.

In driving innovative solutions aimed at enabling multiple market segments on the same infrastructure, we launched UniConnect, a cost-efficient connectivity product focused on serving the connectivity requirements of enterprise customers. We further enhanced our broadband product portfolio with the introduction of the 500 Mbps product. The attractiveness of such value propositions enabled the activation of more than 428 300 services, which include broadband and other value-add services like voice over internet protocol, intercom and security.

Transform service delivery

Our digital and innovation team continues to improve the digitising of our applications, processes and customer experience interactions with the Openserve Connect App, putting self-service capability in the hands of the customer. Such platforms enable customers to manage their broadband network and track order and diagnostic requirements, thus driving our customer-centric model.

Our aggressive approach to deploy fibre across areas suffering from repetitive copper theft enabled us to improve our installation time of new-generation broadband by 14.4% with a concomitant improvement of 8.4% on our average time to repair. As the lockdown levels eased, in comparison to the prior period, our activities also increased with a focus on service delivery, resulting in an increase of 6.0% in our assurance visits compared to the same period as we endeavour to provide our customers with a connected service resulting in a marginal increase of 4.3% in kilometres travelled.

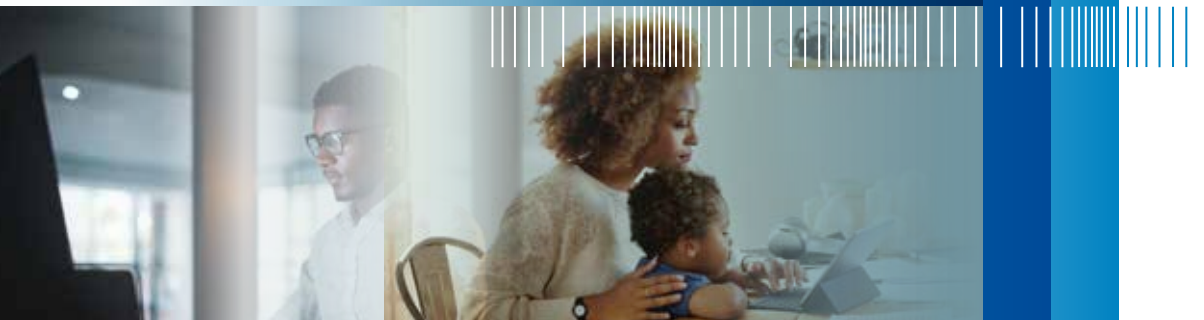
The effectiveness of the restoration capabilities contributed to the improvement of the core and aggregation availability index at 99.99% and 99.78% for the respective network layers.

Our fibre base broadband access shows an improvement to 99.96% availability during these exceptional times. These standards were recognised and subsequently resulted in an improved customer experience.



Productive capital

Telkom Consumer



The performance in the first half of the year contends against a surge in data demand in the first half of the prior period due to the pandemic. Despite not witnessing the COVID-19 bump and increased competition, we continued to grow mobile service revenue, including mobile data revenue. However, retail channels are still in the process of rebuilding following the period of unrest in July and consumers remain under pressure. We continue to witness an ongoing change in consumer behaviour in the post-paid consumer market as customers seek to manage their spend. The pre-paid market continues to drive growth, and our digital and fintech revenue streams are gaining momentum.

Performance overview

The Consumer segment delivered a 2.1% increase in revenue to R12 960 million. This was stimulated by the mobile business. This was partially offset by the consumer fixed-line

business and SMB. The consumer business remains under pressure due to migration from traditional fixed voice to newer technologies such as LTE and fibre. The SMB business continues to be impacted by the liquidation of SMEs and pressure from ongoing lockdown restrictions.

From a mobile perspective, performance in the first half of the year was delivered against a strong first half of the prior year, which saw a surge in data demand due to the pandemic. Despite not witnessing the COVID-19 bump relating to the surge in data demand in the prior period, mobile service revenue from external customers grew by 6.8% to R8 847 million from a strong base.

The National Treasury contract was awarded in April 2021 and is gaining momentum. Over the past few months, we secured mobile deals with government, and we continue to pursue additional contracts in line with the prospect of an all-inclusive connectivity provisioning solution for hardware, software and accessories. We are continuously securing mobile contracts under this award, with most of the onboarding taking place in the second half of the financial year.



Accelerated Mobile growth

Telkom Mobile (Mobile) has entrenched its position as the third largest operator in an increasingly competitive market. The customer base grew by 18.8% to 16.3 million at a blended average revenue per user (ARPU) of R92. This growth was spurred on by the pre-paid customer base, which grew by 23.6% to 13.7 million at an ARPU of R67. Some of our post-paid customers continue to be impacted by financial pressure and elect for a pre-paid or hybrid model as a payment method to manage their spend. We remain prudent with our credit management approach and focus on our customer value management to preserve and grow the average revenue per post-paid customer. Despite the challenging environment, our post-paid customer base was relatively flat compared to the prior period at 2.6 million with post-paid ARPU of R217 increasing by 2.7%.

Mobile EBITDA margin was maintained at 28.8% in line with management guidance of 27% to 30%, benefiting from revenue growth and cost containment. Despite the increase in post-paid associated costs, we continued to demonstrate efficient Mobile growth, with the Mobile cost to serve ratio improving from 30.5% in the prior period to 28.4%. This was enabled by optimised roaming costs as we maintain stringent roaming traffic thresholds and migrate traffic to our network, supported by ongoing investment.



Drive high-speed broadband

We aim to entrench this product by extending our Mobile broadband offering to all market segments. This was further enhanced with the addition of an entry level product in the SmartBroadband pre-paid portfolio. The SmartBroadband Unlimited offerings boast a combination of value enhancements, pricing reductions and unique SmartHome bundles. In line with our data-led strategy, a new pre-paid plan was designed to encourage voice-oriented and cost-conscious customers to consume more data with Telkom. Consequently, we witnessed a 6.1% growth in mobile data revenue to R 6 374 million despite 0.6% growth in mobile data traffic demonstrating good monetisation of traffic. Mobile broadband subscriber base increased by 10.3% to 10.6 million representing 65.5% of our base that is using broadband.

In the fixed segment, we extended the DSL Pure Connect R199 and the fibre R399 promotions. To complement the fixed promotions, we also improved our fixed wireless access prices through revised LTE Unlimited and Business Hours packages.



Expand the mobile network

The comparative period was marked by an atypical surge in data demand mirrored in the current period, with our data traffic at 482 petabytes. Our mobile expansion programme was characterised by a R1 453 million investment, where our footprint was extended by 12.2% to 6 910 sites.

Capacity upgrades, underpinned by the deployment of additional carriers and temporary spectrum, and ongoing spectrum refarming resulted in the upgrade of more than 2 500 sites with temporary spectrum. We deployed the temporary spectrum released under the COVID-19 regulations, with data usage still holding at elevated levels established last year.

The ongoing high levels of theft and vandalism of equipment, with battery theft being the most prevalent, continue. The impact of this is amplified by the increasing instability of the national power grid. During the period, Telkom suffered over 1 300 incidents.

Drive digital and financial services revenue

We are investing in adjacent revenue streams to diversify away from connectivity revenue. To date, our performance includes non-connectivity revenue of R388 million, which increased by 23%. This revenue includes airtime lending, content, value-added services, gaming and financial services. We advanced R1 304 million in airtime lending (22% of total recharges) via our Airtime Advance platform to 3.8 million customers.

We continued to enhance the capabilities of the Telkom Digital Wallet. Users can now make a payment or transfer funds to any bank account in South Africa. Our popular Mo'Nice product can be purchased via the Digital Wallet. We expanded cash out points to include Cash Express ATMs. We took the strategic decision to broaden the channels available to users of the Digital Wallet and will deploy a Wallet App to add to the two existing channels, namely WhatsApp and Unstructured Supplementary Service Data. This suite of investment products will be launched in the second half of the year through the Wallet App, with the WhatsApp channel supporting some of the trading features.



Productive capital

BCX



Our performance remains under pressure. The period was marked by sluggish economic growth, financial uncertainties, global chip shortage, supply chain constraints and pressure resulting from the pandemic and resultant national lockdowns. In addition, the riots recently experienced in KwaZulu-Natal and parts of Gauteng added to the already constrained economy and negatively impacted enterprise customer spend.

Performance review

Revenue for the period declined by 6.1% to R7 461 million, mainly impacted by the IT segment, which continues to be under pressure while the converged communication business is starting to stabilise.

IT business revenue declined by 7.9% to R3 868 million, mainly attributable to delayed projects due to a slower than expected economic recovery, backlogs resulting from global supply chain constraints and shortages of chips, together with uncertainties resulting from the effects of the recent riots.

Converged communication revenue declined by 4.2% to R3 593 million, primarily owing to declines in data consumption, as employees continue to work from home, and hardware delivery backlogs as a result of the global chip shortage. However, performance was slightly cushioned by the tempering decline in fixed voice.

Despite cost management, which resulted in direct costs and opex declining by 13.1% and 3.5% respectively, EBITDA declined by 9.0% to R1 037 million, as the savings were not sufficient to offset the decline in revenue.

Drive organisational sustainability

BCX embarked on a transformation process over the past three years. The key objectives of this initiative were to integrate various entities to build one BCX, dispose of non-core assets, reduce the cost to serve and pivot to a customer-focused, industry-led organisation. We are at the tail-end of this initiative. In addition, BCX is also investing in systems and processes to strengthen the control environment.

The operating environment is changing. Traditional ICT products and services are commoditising rapidly. Our transformation initiatives have assisted us in addressing resultant challenges. These initiatives helped industrialise our operations and assisted in reducing our cost to serve, keeping our margins in line with our medium to long-term plans.

Enterprise customers are shifting their investments to digital transformation initiatives. We are responding to this by investing in new skills and capabilities. We increased our investment in next-generation ICT skills and leadership capability. We also focused our capex investments in modernising our industry-specific applications to meet new customer needs, and in new technologies like cloud, software-defined networks, data analytics, artificial intelligence and cybersecurity. This has enabled us to launch new products in line with customer requirements.

BCX continues to focus on providing end-to-end cloud and digital solutions, including infrastructure and security solutions. This is underpinned by our strong partnerships, secure scalable solutions and seamless integration with connectivity solutions over an extensive geographical footprint. The cloud platform solutions business has seen an increase in the consumption of digital workspace, cloud infrastructure and cybersecurity. This is attributable to the shift in businesses adopting a hybrid workplace model and the escalation of cyberattacks on enterprise businesses.

We also assisted in the rebuilding of technical infrastructure and the provisioning of hardware to our customers impacted by the July riots experienced mostly in KwaZulu-Natal and parts of Gauteng.



Productive capital

Gyro

Gyro delivered solid performance in line with our strategic initiatives underpinned by Swiftnet's improved tenancy and Tower Build programme. Swiftnet continues to secure strategic sites that are deemed attractive for network rollout for all mobile network operators and that drive the Inbuilding Coverage Solutions (IBS) programme. Gyro properties continue to explore development partnership opportunities with experienced property investors while ensuring that we support the transformation of the property sector through investment and development activity opportunities. There is continued monitoring of the impact of COVID-19 on our operations, ensuring minimal impact on service delivery.

Performance overview

Gyro revenue increased by 14.4% to R843 million, mainly driven by improved performance from the masts and towers business (Swiftnet). Total EBITDA for Gyro increased by 25.1% to R688 million.

Gyro properties

Commercialise the property portfolio

The property portfolio segmentation process advanced further, resulting in the refinement and allocation of core and non-core properties and advanced development planning to commercialise the portfolio. We also identified additional potential sites to increase our development pipeline.

The selected property development opportunities are in various stages of development planning, and many are nearing the investment decision and construction phase. We have made progress in engaging prospective investment partners and developers to consider investment partnerships in the various identified opportunities and we have also engaged with various financial institutions.

Our development projects are based on the best use of land approach as informed by the demand and supply dynamics of the particular market. We continue to review the planned development schemes and to adapt per site and with regard to relevant market conditions.



Enhance building costs and operational efficiencies

As part of our property cost optimisation programme, we continue to decommission assets to dispose those that are not suitable for re-purposing or no longer required for operational purposes and development. As at the end of the first half of the year, 13 properties valued at R5.8 million were transferred to new buyers while an additional 14 properties amounting to R10.1 million remain in the transfer process. We plan to dispose of an additional 45 properties during the remainder of the financial year.

Although lockdown restrictions eased during the first half of the financial year, we continued to work remotely, further contributing to the reduction in property operating costs. Progress has been made on the spatial analysis of the Telkom Group workforce and overlaying that with the real estate portfolio suited for office use. This process includes a COVID-19 compliance audit of the selected buildings and modifying access control and facilities management protocols. The process is expected to be finalised by the end of the financial year.



Swiftnet

Optimise and grow masts and towers portfolio

Masts and towers revenue increased by 7.3% to R674 million while EBITDA grew by 9.9% to R532 million, with the EBITDA margin expanding by 1.8 ppts to 78.9%. Our growth is underpinned by increasing tenancy in our current portfolio, build of new towers, rollout of new products and continuous preparation for 5G.

We remain resolute in the execution of our growth strategy on the masts and towers portfolio. Through our open-access model, we are a critical partner to all of our customers as they deliver connectivity services to their consumers. We have increased the productive portfolio tenancy ratio from 1.52x in the prior period to 1.55x. This was largely driven by additional take up and network modernisation.

We constructed new towers and in-building solutions at the end of the first half of the year. Our proactive permitting activity continues as we identify and secure strategic sites that we deem attractive for network rollout for all mobile network operators in support of their market expansion strategies. Our IBS programme is

well under way, with eight sites completed in the second quarter of the period, resulting in nine IBS sites in total in our portfolio. We have a pipeline of over 40 prominent sites nationally for the development of IBS. The construction thereof continues in earnest; however, we are engaging property owners and our mobile network operator clients to grow the pipeline to ensure continuous, steady state construction of new sites.

Our preparation for 5G is also picking up momentum, and we are in the final stages of negotiating with prominent property owners to provide access to thousands of sites for 5G rollout on an open-access basis to our mobile network operator clients.

¹ Adjustment to tenancy ratio reported in HY1 FY2021 due to refinement of portfolio data. Adjustment from 1.32x to 1.52x



Human capital

Telkom continued to prioritise the wellbeing of its employees. As the attention of the world moved to vaccines, we developed a proactive COVID-19 vaccination framework that supports an increased focus on mental and physical wellness and a need for greater resilience. Telkom also officially unveiled its hybrid work policy, which allows most employees to work remotely, reducing the need for office interaction. We remain committed to maintaining a safe working environment for our employees.

Telkom recognises that employee wellbeing is intrinsically connected to the Group's wider sustainability strategy and purpose. Our future focus will be on ensuring our employee wellbeing strategy is aligned not only with good people governance but also with future sustainability and value creation.

Our focus remains on supporting Telkom employees during the pandemic. To this end, we developed a proactive COVID-19 vaccination framework that supports an increased focus on mental and physical wellness. We continue to provide counselling support and educate employees on how to take care of themselves physically and mentally while under lockdown and working from home.

Telkom, in partnership with Dis-Chem, embarked on a vaccination drive, which saw 1 299 Gauteng-based employees and their family members receive vaccines. Three sessions were held during July and August. The Group rolled out extensive internal communication campaigns to educate employees about the vaccines and their benefits to try and mitigate vaccine hesitancy and misinformation.

During the period, Telkom unveiled its hybrid work policy. The definition of workplace has evolved to include both company premises and employees' residences, and thus enabled the creation of new ways of work that are flexible, encourage digital collaboration and productivity, and provide a safe working environment. A key element of this approach was the categorisation of each employee's role to identify telecommuting employees so they could be equipped to successfully operate from home. Telecommuters are defined as employees whose work allows them to work primarily from home but may be required to present themselves for face-to-face engagements from time to time. Office-bound employees are those whose jobs are fully customer facing and/or cannot be done remotely.

A Telkom grant was made available for telecommuters to purchase, from an online mall, the home office equipment required for productive work. Employees can choose from desks, ergonomic chairs and a range of alternative power supply products.



Intellectual capital

In a rapidly evolving telecommunications industry, technological transformation is required to alter how we provide value to customers. Telkom is focused on enabling multiple digital channels, leading to new value propositions and revenue streams as we continue to enable a digitalised workplace and streamlined processes.

Our governance of technology and information is based on the King IV Report on Corporate Governance™ for South Africa, 2016¹, Control Objectives for Information and Related Technology 2019 and ISO/IEC² 38 500. In complying with these, the Board assumes ultimate responsibility for policy and direction over matters pertaining to technology and information.

The IT governance structures are integrated with corporate governance to align IT governance objectives with corporate governance ambitions. The IT policies, standards and risks are revised regularly to align with the changing business and threat landscape. We continue to improve the maturity in line with regulatory requirements, leading practice guidelines and industry benchmarks.

The digitalisation of enterprises, necessitated by a remote workforce, presents an increase in cyberthreats. These threats are becoming more organised and are employing sophisticated methods designed to evade detection. In response to the ever-changing threat landscape, Telkom pursues a proactive and risk-based approach to cybersecurity. This is evidenced by the awarding of the ISO/IEC 27001:2013 certification for information security management, for the effectiveness and adequacy of our information security management programme. At the centre of our information security approach, is the ongoing training and awareness of our users.

Telkom continues to enable remote work during the pandemic through digital channels for customers and employees such as mobile apps and collaboration platforms. Analytics and business intelligence capabilities are being continuously enhanced to drive actionable insights.

¹ Copyright and trademarks are owned by the Institute of Directors in South Africa NPC and all of its rights are reserved.

² International Organization for Standardization and International Electrotechnical Commission.



Social and relationship capital

Telkom continues to future proof South Africa and our business through investing in the supply and demand of digital skills, enabling income-earning opportunities in the digital economy. Our partnerships with WeThinkCode and the Explore Data Science Academy (EDSA) have unlocked considerable value. Telkom Foundation continues to support learners to improve their performance in science, mathematics and literacy.



The investment in science, mathematics and literacy will enable learners to access post schooling and future economic opportunities. Telkom Foundation offers supplementary tuition in these subjects, coupled with psychosocial support, which includes counselling services to learners and their families and digital skills such as coding and robotics. During the pandemic, the Foundation introduced a blended learning approach, allowing learners to learn remotely and where possible face to face while adhering to COVID-19 protocols.

About 9 148 learners across the country are using the Telkom Lightbulb online education platform. The programme supports a total of 3 200 learners with its blended approach. The Telkom Foundation also enabled 3 687 learners with devices and connectivity covering grades 11 and 12. The high school digital skills programme is on year three supporting 300 learners towards a three-year certificated training programme, with an additional 105 learners in a one-year pilot training programme on design thinking and applied technologies. The Telkom Foundation has an allocation of R54.4 million for the current year and invested R28.7 million across education, digital skills and psychosocial support programmes.



FutureMakers directly supported 256 enterprises, which collectively had 731 direct and 26 543 indirect jobs. It spent R7 million on incubation, connectivity and business support to small, medium and micro-enterprises (SMMEs).

In the first half of the year, Telkom procured R80 million from 33 Independent Field Technicians. This is an increase of R10 million from the prior period due to demand in homes for fibre connection. Currently, the BCX SMME Subcontractor programme has 164 fully registered SMME partners with an understanding of their core services and certifications. Since April 2021 to date, we have linked 10 enterprises with subcontracting opportunities of R472 million on several ICT solutions required by end-users.

Our partnerships with WeThinkCode and EDSA have unlocked considerable value. At EDSA, 30 fully online students in provinces outside of the major metros coped remarkably well learning from home, with an average test score performance of 90.5% compared to 87% in the hybrid model. Students add value to the Telkom Group through annual business projects, 80% of which enable improved Telkom insights and customer experience, and 20% add value for corporate customers.

WeThinkCode achieved gender parity for the first time (50% female) for the current recruitment round, and 94% of the 2019 cohort that has just graduated (this is a two-year programme) are now employed full time. Gender parity is a major achievement, as attracting young women to a coding career has been challenging. The 2020 cohort has been hosted for internships in 38 businesses, 47% of which are SMMEs. This is testimony to the growth of tech start-ups, which are crucial engines of economic growth.



Natural capital

Environmental risks are identified, quantified and captured in the environmental aspect and impact register. Environmental controls are in place to mitigate environmental impacts, and environmental management procedures are in place to monitor and manage environmental aspects. The most significant environmental impacts of our operations are e-waste, energy use and the related carbon emissions in our network.

Telkom considers national and international regulatory and technical developments continuously and responds to these appropriately.



We have seen a 23% increase in our carbon emissions from Scope 1: 18 594.1 CO₂e in the prior period to 22 587 CO₂e in the period attributable to increased diesel usage during load shedding in the first half of the financial year and increased refrigerant gas usage to repair cooling plant equipment nearing end of life. Scope 2 emissions saw a 39% increase from 305 817 CO₂e in the prior period to 500 914 CO₂e in the period attributable to electricity rebilling from the municipalities for the previous financial year and improved accuracy in electricity consumption calculation methodology.

Telkom continues to monitor and track water consumption on high-consumption sites by installing smart water metres for optimal monitoring. The rolling out of low-flow regulators on taps across high-water-consuming sites is in progress. With 80% of our employees still working from home, our water consumption reduced by 6% from 519 929 kl to 484 141 kl.

Telkom appointed an external energy advisor to provide advice on energy and water saving initiatives with a view to developing a holistic water and energy management strategy and road map. A 10-year energy and water management strategy was developed (journey to net zero carbon and water use). The key strategic driver of the strategy is to improve water and energy efficiency. In addition, the strategy also intends to enhance the benefits of going green as part of Telkom's adopted environmental SDGs. This will be achieved through investing in renewable energy that will reduce dependency on the grid and improve our carbon emissions. The solar photovoltaic expansion project within Telkom will further assist in utilising renewable energy, thus reducing our Scope 2 emissions and reducing environmental damage attributable to Telkom operations.

Other initiatives aimed at optimising property operating costs are progressing well with various interventions implemented to minimise costs. These include electricity accounts being updated with new tariffs for high-consuming sites and the implementation of technical initiatives that impact the capex programme under way by the end of the financial year. These initiatives include light-emitting diode lighting, power factor correction and solar photovoltaic technology for various high-consuming sites. Audits are also under way at radio access network sites for identification of initiatives to further reduce costs.

Outlook statement

Given the challenges in the first half of the year, management will focus on growing the topline revenue and profitability in the second half of the year. Discipline in capital expenditure will continue to be exercised and we will focus on initiatives to improve cash generated from operations. Management expects FCF to normalise in the second half of the year and return to positive territory similar to the past two years. As the growth in the mobile business normalises and the fixed-line business is starting to stabilise following periods of decline subsequent to execution of a migration strategy, management will now focus on its IT business which has been under pressure due to various reasons. To this end, the Board is investigating a strategic intervention in the business which could include but not limited to introducing a strategic partnership in the business. This is aimed at addressing capacity and capabilities in BCX and ensure sustainable growth going forward.

The Board remains committed to the value unlock strategy, which is premised on Telkom's market capitalisation not representing its intrinsic value. Telkom has different classes of infrastructure assets such as data centres, a wholesale network business and masts and tower

business, which are globally valued at higher multiples for separate individual businesses than telecommunications. Telkom has made progress in consolidating the data centres into Gyro, with the intention of building a carrier neutral data centre infrastructure business, while the legal separation of Openserve is on track. Significant progress has been made in respect of a separate listing of its masts and towers business (Swiftnet), including, but not limited to, formal engagements with the JSE. The listing is expected to be concluded before the end of the financial year subject to market and other conditions. The Board believes that a separate listing of Swiftnet will affirm the valuation of the masts and towers business and its contribution to the overall valuation of Telkom. The proceeds of the value unlock are expected to rebase the balance sheet and/or reinvest in the business and/or shareholder rewards.

Returning cash to shareholders remains a key element of our capital allocation framework. The Board remains committed to reinstate the dividend policy by the end of the current financial year. Given the advanced stage of the separate listing of Swiftnet which is expected to be concluded by end of the financial year and the management transition, the Board will be better placed to take a holistic view of the capital allocation and make an announcement on the dividend policy at the end of the financial year. The Board will deliberate on the dividend declaration at that stage.

Operational data

2



Operational data

	September 2021 Rm	September 2020 Rm	Variance %
Subscribers			
Broadband subscribers			
Fixed broadband subscribers ¹	562 552	637 884	(11.8)
Mobile broadband subscribers	10 642 005	9 643 969	10.3
Fixed subscribers			
Closer subscribers	239 313	343 738	(30.4)
Internet all-access subscribers ²	317 337	362 700	(12.5)
Fixed access lines ('000) ³	1 118	1 432	(21.9)
Revenue per fixed access line (rand)	2 400	2 199	9.1
Fixed voice ARPU	315.31	342.08	(7.8)
Fixed broadband ARPU	272.21	242.38	12.3
Managed data network sites	37 067	36 412	1.8
Mobile subscribers			
Active mobile subscribers ⁴	16 258 857	13 686 689	18.8
Pre-paid	13 696 236	11 077 104	23.6
Post-paid	2 562 621	2 609 585	(1.8)
ARPU (rand)	92.40	112.55	(17.9)
Pre-paid	67.21	83.55	(19.6)
Post-paid	216.84	211.19	2.7

¹ Includes x DSL and FTTH lines of which 2 619 (H1 FY2021: 3 761) are internal lines.

² Includes Telkom internet asymmetrical DSL, integrated services digital network (ISDN) and WiMAX subscribers.

³ Includes copper voice and broadband, ISDN and fixed look-a-like. Excludes Telkom internal lines.

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

	September 2021 Rm	September 2020 Rm	Variance %
Subscribers			
Volumes			
Fixed broadband (petabytes)	809	723	11.9
Mobile broadband (petabytes)	482	479	0.6
Total fixed-line traffic (millions of minutes)	3 158	3 352	(5.8)
Network			
Ports activated via MSAN access	1 443 846	1 477 259	(2.3)
Fibre to the home	707 399	458 791	54.2
Fibre to the cabinet	2 084 932	2 411 661	(13.5)
Fibre homes passed and connected	331 735	247 019	34.3
Enterprise business services	39 758	40 113	(0.9)
Carrier services	18 794	16 657	12.8
Fibre to base station connections	8 560	8 175	4.7
Mobile sites integrated	6 910	6 159	12.2
Active fibre connectivity rate (%)	46.9	53.8	(6.9)
Group employees	11 853	12 677	(6.5)
Telkom Company employees	7 074	7 234	(2.2)
Consumer	936	907	3.2
Openserve	5 619	5 878	(4.4)
Corporate Centre	322	335	(3.9)
SMB (known as Yep!)	197	114	72.8
BCX group employees	4 585	5 232	(12.4)
Yellow Pages employees	95	112	(15.2)
Gyro employees	99	99	–

Financial
performance

3



Financial performance

Operating revenue

	September 2021 Rm	September 2020 Rm	Variance %
Fixed	7 701	8 513	(9.5)
Voice and subscriptions	2 684	3 149	(14.8)
Usage	1 069	1 088	(1.8)
Subscriptions	1 615	2 061	(21.6)
Interconnection	166	199	(16.6)
Fixed-line domestic	91	106	(14.2)
Fixed-line international	75	93	(19.4)
Data	4 106	4 324	(5.0)
Data connectivity	2 996	3 032	(1.2)
Internet access and related services	754	800	(5.8)
Managed data network services	360	475	(24.2)
Multimedia services	(4)	17	(123.5)
Customer premises equipment sales and rentals	635	709	(10.4)
Sales	281	276	1.8
Rentals	354	433	(18.2)
Other revenue	110	132	(16.7)
Mobile	10 366	9 453	9.7
Mobile voice and subscriptions	2 236	2 021	10.6
Mobile interconnection	237	251	(5.6)
Mobile data	6 374	6 010	6.1
Mobile handset and equipment sales	1 396	1 043	33.8
Significant financing component revenue	123	128	(3.9)
Information technology	2 680	2 909	(7.9)
IT service solutions	1 594	1 556	2.4
Application solutions	485	621	(21.9)
IT hardware and software	539	654	(17.6)
Industrial technologies	50	64	(21.9)
Significant financing component revenue	12	15	(20.0)
Other	545	521	4.6
Trudon	171	165	3.6
Gyro	374	356	5.1
Total	21 292	21 396	(0.5)

Mobile statement of profit and loss

	September 2021 Rm	September 2020 Rm	September 2019 Rm
Operating revenue	10 659	9 708	7 169
Payments to other operators	1 393	1 507	1 220
Cost of handsets, equipment and directories	1 456	1 091	1 685
Sales commission, incentive and logistical costs	1 117	1 016	816
Other income	112	81	69
Operating expenses	3 739	3 275	2 319
Employee expenses	215	204	120
Selling, general and administrative	3 328	2 788	1 972
Service fees	244	221	158
Operating leases	(48)	62	69
EBITDA	3 066	2 900	1 198

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

Masts and towers statement of profit and loss

	September 2021 Rm	September 2020 Rm	September 2019 Rm
Operating revenue	674	628	583
Operating expenses	142	144	202
Other operating expenses	107	101	162
Impairment of receivables and contract assets	–	15	12
Service fees	34	23	15
Operating leases	1	5	13
EBITDA	532	484	381

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

Condensed consolidated interim statement of profit or loss

	September 2021 Rm	September 2020 Rm	Variance %	Notes
Revenue from contracts with customers	21 292	21 396	(0.5)	
Payments to other operators	1 822	1 994	8.6	
Cost of handsets, equipment and directories	2 453	2 228	(10.1)	Cost of handset, equipment and directories increased by 10.1% to R2 453 million, mainly due to higher mobile handset sales recorded in the current period due to the slowdown in handset and equipment sales during the national lockdown in the first half of FY2021.
Sales commission, incentive and logistical costs	1 269	1 203	(5.5)	
Other income	277	273	1.5	
Insurance service result	(8)	22	(136.4)	
Operating expenses	10 039	10 358	3.1	Other operating expenses increased by 11.3% to R1 271 million mainly attributable to higher losses and license fees.
Employee expenses	4 371	4 588	4.7	
Other operating expenses	1 271	1 142	(11.3)	
Maintenance	1 924	1 962	1.9	Lease expenses decreased by 76.4% to R57 million due to an increase in IFRS 16 capitalisations.
Marketing	330	277	(19.1)	
Impairment of receivables and contract assets	475	486	2.3	
Service fees	1 611	1 661	3.0	
Lease expenses	57	242	76.4	Investment income decreased by 18.8% due to the lower cash balances during the period.
EBITDA	5 978	5 908	1.2	
Depreciation, amortisation, impairment and write-offs	3 488	3 356	(3.9)	Finance charges and fair value movements declined by 34.9% to R659 million. Finance charges reduced due to our funding strategy of ongoing settlement of maturing debt. Finance charges reduced by 25.2% to R541 million. Our funding strategy allowed us to balance our cost of debt ratio to 52:48 floating to fixed. This ensures that the risk to changes in interest rates remains balanced. Fair value movements and foreign exchange losses reduced significantly by 91.9% to R17 million from R209 million due to currency volatility and favourable foreign exchange hedging position.
Operating profit	2 490	2 552	(2.4)	
Investment income	95	117	(18.8)	
Net finance charges, hedging costs and fair value movements	659	1 012	34.9	Taxation decreased by 1.9% to R565 million mainly due to a reduction in the Group's effective tax rate to 29.3% from 34.8%. This reduction is attributable to a reduction in non-deductible permanent differences and prior year adjustments.
Net finance charges on lease liabilities	224	223	(0.4)	
Net finance charges	317	500	36.6	
Cost of hedging	101	80	(26.3)	
Foreign exchange and fair value movements	17	209	91.9	
Profit before taxation	1 926	1 657	16.2	
Taxation	565	576	1.9	
Profit for the period	1 361	1 081	25.9	

Condensed consolidated interim statement of financial position

	September 2021 Rm	March 2021 Rm	Variance %
Assets			
Non-current assets	48 951	47 901	2.2
Property, plant and equipment	37 119	36 271	2.3
Right-of-use assets	4 783	4 519	5.8
Intangible assets	4 463	4 605	(3.1)
Other investments	139	115	20.9
Employee benefits	1 404	1 317	6.6
Other financial assets	81	81	-
Finance lease receivables	219	270	(18.9)
Deferred taxation	743	723	2.8
Current assets	14 442	15 930	(9.3)
Inventories	1 193	1 026	16.3
Income tax receivable	111	91	22.0
Finance lease receivables	215	228	(5.7)
Trade and other receivables	7 007	7 227	(3.0)
Contract asset	1 834	1 747	5.0
Other current assets	469	459	2.2
Current portion of other financial assets	173	88	96.6
Investment in insurance cell captive	50	61	(18.0)
Cash and cash equivalents	3 390	5 003	(32.2)
Asset of disposal group classified as held for sale	-	-	
Total assets	63 393	63 831	(0.7)
Equity and liabilities			
Equity attributable to owners of the parent	32 634	31 366	4.0
Share capital	5 050	5 050	-
Share-based compensation reserve	1 142	1 036	10.2
Non-distributable reserves	975	1 361	(28.4)
Retained earnings	25 467	23 919	6.5
Non-controlling interest	(27)	(25)	8.0
Total equity	32 607	31 341	4.0
Non-current liabilities	13 875	15 121	(8.2)
Interest-bearing debt	8 464	10 173	(16.8)
Lease liability	4 295	3 761	14.2
Provisions	381	619	(38.4)
Other financial liabilities	86	107	(19.6)
Deferred revenue	195	235	(17.0)
Deferred taxation	454	226	100.9
Current liabilities	16 911	17 369	(2.6)
Trade and other payables	10 464	11 493	(8.9)
Shareholders for dividend	31	31	-
Interest-bearing debt	2 411	693	247.9
Lease liabilities	872	1 211	(28.0)
Provisions	952	1 613	(41.0)
Deferred revenue	1 621	1 696	(4.4)
Income tax payable	24	9	166.7
Other financial liabilities	534	622	(14.1)
Credit facilities utilised	2	1	100.0
Total liabilities	30 786	32 490	(5.2)
Total equity and liabilities	63 393	63 831	(0.7)

Notes

Financial assets and liabilities increased by 50.3% to R254 million and decreased by 15.0% to R620 million, respectively, attributable to the South African rand appreciation against foreign currencies. This resulted in losses in the fair value of forward exchange contracts and corresponding gains in the firm commitments. The losses in the interest rate swaps are 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. 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.

Provisions decreased by 40.2% to R1 334 million due to the settlement of the FY2021 employee performance recognition provision in the current financial year.

The decrease in the **deferred tax asset** is attributable to the deferred tax movement in other comprehensive income and the deferred tax movement due to the reversal of timing differences, set off by the increase in tax losses recognised in profit or loss.

Condensed consolidated interim statement of cash flows

	September 2021 Rm	Restated September 2020 Rm	Variance %	Notes
Cash flows from operating activities	3 598	3 412	5.5	
Cash receipts from customers	21 229	21 249	(0.1)	
Cash paid to suppliers and employees	(16 700)	(16 266)	2.7	Cash generated from operations decreased by 9.1%, mainly due to an increase in the repayment of trade payables and inventory increases.
Cash generated from operations	4 529	4 983	(9.1)	
Interest received	119	171	(30.4)	Interest received decreased by 30.4% driven by lower cash balances.
Dividend received	22	-	100.0	
Finance charges paid	(577)	(681)	15.3	
Taxation paid	(433)	(898)	51.8	
Repayment of derivatives	(67)	(7)	(857.1)	
Proceeds from derivatives	7	101	93.1	
Cash generated from operations before dividend paid	3 600	3 669	(1.9)	
Dividend paid	(2)	(257)	(99.2)	Taxation paid decreased by 51.8% primarily due to the payment of settlements in respect of prior period tax disputes to the South African Revenue Service.
Cash flows from investing activities	(4 193)	(2 612)	(60.5)	
Proceeds on disposal of property, plant and equipment and intangible assets	10	19	(47.4)	
Additions to assets for capital expansion	(4 003)	(2 933)	(36.5)	Additions to assets for capital expansion increased by 36.5% driven by accelerated build programmes since Q4 FY2021 to support our strategic growth programmes as well as the slowdown in capex in the prior period as a result of the impact of the national lockdown.
Repayment of derivatives	(200)	(22)	(809.1)	
Proceeds from derivatives	22	335	93.4	
Investments made by FutureMakers	(22)	(11)	(100.0)	
Cash flows from financing activities	(1 019)	(1 621)	(37.1)	
Loans repaid	(100)	(900)	88.9	
Purchase of shares for the Telkom share plan and subsidiaries' long-term incentive share scheme	(393)	(285)	(37.9)	
Repayment of lease liability	(474)	(431)	(10.0)	
Repayment of derivatives	(69)	(43)	(60.5)	
Proceeds from settlements of derivatives	17	38	(55.3)	
Net decrease in cash and cash equivalents	(1 614)	(821)	(96.6)	
Net cash and cash equivalents at the beginning of the period	5 002	4 726	5.8	
Net cash and cash equivalents at the end of the period	3 388	3 905	(13.2)	

Group interim results

Reviewed six months ended
30 September 2021

4



Board approval

These condensed consolidated interim financial statements were authorised for issue on 5 November 2021 by the Telkom SA SOC Ltd Board of Directors and published on 9 November 2021.

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, Dirk Reyneke CA(SA).

Independent auditors' review report on the condensed consolidated interim financial statements	38
Condensed consolidated interim statement of profit or loss and other comprehensive income	40
Condensed consolidated interim statement of financial position	42
Condensed consolidated interim statement of changes in equity	44
Condensed consolidated interim statement of cash flows	45
Notes to the condensed consolidated interim financial statements	46
1. Independent review	46
2. Corporate information	46
3. Basis of preparation, significant accounting judgements, estimates, assumptions and significant accounting policies	46
4. Significant changes in the current reporting period	48
5. Segment information	49
6. Expenses	55
7. Earnings and dividend per share	56
8. Capital additions and disposals	58
9. Other financial assets and liabilities	58
10. Employee benefits	60
11. Inventories	62
12. Net cash and cash equivalents	63
13. Taxation and deferred taxation	64
14. Fair value measurement	66
15. Interest-bearing debt	69
16. Provisions	70
17. Commitments	71
18. Trade and other receivables and contract assets	71
19. Other current assets	73
20. Contingencies	74
21. Related parties	75
22. Reconciliation of profit before tax to cash generated from operations	77
23. Significant events and transactions	78
24. Events after the reporting date	78
Abbreviations	79

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

for the six months ended 30 September 2021



To the Shareholders of Telkom SA SOC Limited

We have reviewed the condensed consolidated interim financial statements of Telkom SA SOC Limited, contained in the accompanying interim report, which comprise the condensed consolidated interim statement of financial position as at 30 September 2021 and the related condensed consolidated interim statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-months then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Interim Financial Statements

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

Auditor's Responsibility

Our responsibility is to express a conclusion on these 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 performed 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 2021 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.,
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.za.com

Victor Sekese (Chief Executive).

A comprehensive list of all Directors is available
at the Company offices or registered office.
SizweNtsalubaGobodo Incorporated.

Registration Number: M2005/034639/21

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: KJ Dikana
Registered Auditor
Johannesburg

05 November 2021

Sizwe Ntsaluba Gobodo Grant Thornton Inc.

SizweNtsalubaGobodo Grant Thornton Inc.

Director: GM Hafiz
Registered Auditor
Johannesburg

05 November 2021

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

for the period ended 30 September 2021

	Notes	Reviewed six months ended 30 September 2021 Rm	Reviewed six months ended 30 September 2020 Rm
Revenue	5	21 292	21 396
Operating revenue		21 157	21 254
Interest revenue		135	142
Other income		277	273
Insurance service result		(8)	22
Payments to other operators	6.1	(1 822)	(1 994)
Cost of handsets, equipment, software and directories	6.2	(2 453)	(2 228)
Sales commission, incentives and logistical costs	6.3	(1 269)	(1 203)
Employee expenses	6.4	(4 371)	(4 588)
Other expenses	6.5	(1 271)	(1 142)
Maintenance		(1 924)	(1 962)
Marketing		(330)	(277)
Impairment of receivables and contract assets		(475)	(486)
Service fees		(1 611)	(1 661)
Lease-related expenses	6.6	(57)	(242)
EBITDA		5 978	5 908
Depreciation of property, plant and equipment		(2 406)	(2 500)
Depreciation of right-of-use assets		(584)	(466)
Amortisation of intangible assets		(423)	(371)
Write-offs, impairments and losses of property, plant and equipment and intangible assets		(75)	(19)
Operating profit		2 490	2 552
Investment income		95	117
Net finance charges, hedging costs and fair value movements ¹		(659)	(1 012)
Finance charges on lease liabilities		(224)	(223)
Net finance charges – other		(317)	(500)
Cost of hedging		(101)	(80)
Foreign exchange and fair value movement		(17)	(209)
Profit before taxation		1 926	1 657
Taxation	13.1	(565)	(576)
Profit for the period		1 361	1 081

	Notes	Reviewed six months ended 30 September 2021 Rm	Reviewed six months ended 30 September 2020 Rm
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange gains/(losses) on translating foreign operations ²		11	(13)
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gains/(losses)	10	258	(1 040)
Income tax relating to other comprehensive income		(72)	292
Other comprehensive income for the period, net of taxation		197	(761)
Total comprehensive income for the period		1 558	320
Profit attributable to:			
Owners of Telkom		1 360	1 079
Non-controlling interests		1	2
Profit for the period		1 361	1 081
Total comprehensive income attributable to:			
Owners of Telkom		1 557	318
Non-controlling interests		1	2
Total comprehensive income for the period		1 558	320
Basic earnings per share (cents)	7	276.8	217.5
Diluted earnings per share (cents)	7	269.6	216.8

¹ Foreign exchange and fair value movements decreased due to the currency volatility that resulted in weaker spot currency levels compared to hedging exposures. Net finance charges decreased as a result of debt repayments and lower interest rates.

² This component of other comprehensive income does not attract any tax.

Condensed consolidated interim statement of financial position

at 30 September 2021

	Notes	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Assets			
Non-current assets		48 951	47 901
Property, plant and equipment	8	37 119	36 271
Right-of-use assets		4 783	4 519
Intangible assets	8	4 463	4 605
Other investments		139	115
Employee benefits	10	1 404	1 317
Other financial assets	9.1	81	81
Finance lease receivables		219	270
Deferred taxation	13.3	743	723
Current assets		14 442	15 930
Inventories	11	1 193	1 026
Income tax receivable	13.4	111	91
Finance lease receivables		215	228
Trade and other receivables	18.1	7 007	7 227
Contract assets	18.2	1 834	1 747
Other current assets	19	469	459
Other financial assets	9.1	173	88
Investment in insurance cell captive		50	61
Cash and cash equivalents	12	3 390	5 003
Total assets		63 393	63 831

	Notes	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Equity and liabilities			
Equity attributable to owners of the parent		32 634	31 366
Share capital		5 050	5 050
Share-based compensation reserve		1 142	1 036
Non-distributable reserves		975	1 361
Retained earnings		25 467	23 919
Non-controlling interests		(27)	(25)
Total equity		32 607	31 341
Non-current liabilities		13 875	15 121
Interest-bearing debt	15	8 464	10 173
Lease liabilities		4 295	3 761
Provisions	16	381	619
Other financial liabilities	9.2	86	107
Deferred revenue		195	235
Deferred taxation	13.3	454	226
Current liabilities		16 911	17 369
Trade and other payables ¹		10 464	11 493
Shareholders for dividend		31	31
Interest-bearing debt	15	2 411	693
Lease liabilities		872	1 211
Provisions	16	952	1 613
Deferred revenue		1 621	1 696
Income tax payable	13.4	24	9
Other financial liabilities	9.2	534	622
Credit facilities utilised	12	2	1
Total liabilities		30 786	32 490
Total equity and liabilities		63 393	63 831

¹ Trade and other payables decreased mainly driven by higher capex spend in quarter four of FY2021, which was paid in quarter one of the current financial period.

Condensed consolidated interim statement of changes in equity

for the period ended 30 September 2021

	Reviewed six months ended 30 September 2021 Rm	Reviewed six months ended 30 September 2020 Rm
Balance at 1 April (as previously reported)	31 341	29 475
Attributable to owners of Telkom	31 366	29 504
Non-controlling interests	(25)	(29)
Restatement of third party service costs	–	(114)
Restated balance at 1 April	31 341	29 361
Correction of prior period error during 2020	–	(44)
Total comprehensive income for the period	1 558	320
Profit for the period	1 361	1 081
Other comprehensive income	197	(761)
Exchange gains/(losses) on translating foreign operations	11	(13)
Net defined benefit plan remeasurements	186	(748)
Dividend declared*	(2)	(257)
Increase in share-based compensation reserve	105	123
Escrow shares realised for settlement to employees	–	14
Increase in treasury shares	(203)	(285)
Increase in treasury shares from BCX**	(184)	–
Increase in treasury shares from Gyro**	(8)	–
Balance at 30 September	32 607	29 232
Attributable to owners of Telkom	32 634	29 260
Non-controlling interests	(27)	(28)

* Dividend declared includes dividends to the non-controlling interests of the BCX Group.

** Telkom repurchased shares on behalf of BCX and Gyro for their respective share plans during the current financial period.

Condensed consolidated interim statement of cash flows

for the period ended 30 September 2021

	Notes	Reviewed six months ended 30 September 2021 Rm	Restated six months ended 30 September 2020* Rm
Cash flows from operating activities		3 598	3 412
Cash receipts from customers		21 229	21 249
Cash paid to suppliers and employees		(16 700)	(16 266)
Cash generated from operations	22	4 529	4 983
Interest received		119	171
Dividend received		22	–
Finance charges paid		(577)	(681)
Taxation paid	13.2	(433)	(898)
Repayment of derivatives		(67)	(7)
Proceeds from derivatives		7	101
Cash generated from operations before dividend paid		3 600	3 669
Dividend paid		(2)	(257)
Cash flows utilised for investing activities		(4 193)	(2 612)
Proceeds on disposal of property, plant and equipment and intangible assets		10	19
Additions to assets for capital expansion		(4 003)	(2 933)
Investments made by FutureMakers		(22)	(11)
Repayment of derivatives		(200)	(22)
Proceeds from derivatives		22	335
Cash flows from financing activities		(1 019)	(1 621)
Loans repaid	15	(100)	(900)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		(393)	(285)
Repayment of lease liability		(474)	(431)
Repayment of derivatives		(69)	(43)
Proceeds from derivatives		17	38
Net decrease in cash and cash equivalents		(1 614)	(821)
Net cash and cash equivalents at 1 April		5 002	4 726
Net cash and cash equivalents at the end of the period	12	3 388	3 905

* The Group restated the statement of cash flows to correctly classify proceeds of R101 million and repayments of R7 million in respect of FECs relating to inventory purchases and R335 million of proceeds and R22 million of repayments in respect of the FECs relating to capital expenditure from financing activities to operating activities and investing activities, respectively. The change in classification of the cash flows did not impact the net cash and cash equivalents balance at the end of the reporting period.

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2021

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 2021 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 Ltd (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 2021, 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 2021. Refer to note 3.2.1 for the change in estimate with regards to the useful lives assessment.

3.2.1 Significant judgements and estimates – change in useful lives of property, plant and equipment

The useful lives of assets are based on management's estimation. Management considers the impact of changes in technology, customer service requirements and availability of capital funding to determine the optimum useful life expected for each of the individual categories of property, plant and equipment. Due to the rapid technological advancement in the telecommunications industry, the estimation of useful lives could differ significantly on an annual basis due to unexpected changes in the rollout strategy. The measurement of residual values of assets is also based on management's judgement whether the assets will be sold or used at the end of their economic lives and the estimation of what their condition will be like at that time. Changes in the useful lives and/or residual values are accounted for as a change in accounting estimate. During the period, the Group reassessed the useful lives on property, plant and equipment. The reassessment relates to the extension of the useful lives of the copper assets still in use, which decreased the depreciation expense by R172 million.

3.3 New accounting pronouncements

3.3.1 Other standards, amendments to standards and interpretations

The standards and amendments listed in the 31 March 2021 annual financial statements will be effective in future reporting periods. It is expected that the Group will adopt the pronouncements on their respective effective dates. There have been no changes to the expected impact of adopting the standards and amendments since 31 March 2021.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

4. Significant changes in the current reporting period

4.1 Civil unrest

During the month of July 2021, civil unrest and widespread protest action occurred in KwaZulu-Natal and Gauteng resulting in damages to Telkom stores, warehouses, vehicles and vandalism of the Telkom exchanges. Blocked routes resulted in the suspension of the dispatch of technicians to attend to faults in affected areas, resulting in service disruption and loss of revenue. 40 outlets (TDS, Express stores, kiosks and containers) in the Gauteng and KwaZulu-Natal provinces were looted, resulting in the loss of inventory, damage to computers, printer and network infrastructure and electronics. Some of the Telkom stores had to be closed during the period of unrest, resulting in a loss of revenue. The losses incurred did not have a material impact on the Telkom Group.

4.2 Assessment of COVID-19

The first half of the year saw the emergence of the third wave of the COVID-19 infections, resulting in a continuation of the restrictive lockdowns that the country experienced in the first and second waves.

The Group continues to experience varied impacts as a consequence of COVID-19, largely due to the diverse nature of its operations, the impact of which is included in the actual results over the past six months.

The Group experienced a significant increase in growth across its carrier and broadband market segments since the advent of the COVID-19 pandemic, pushed by significant demand for internet connectivity.

The decline in the traditional fixed-line business continues and is heightened by the impact of businesses downsizing or introducing remote working policies for employees. This decline has been countered by an increase in the demand across the Group's next-generation services, which are powered by fibre.

As more companies and people adopt hybrid forms of work, the home has become the new hub of communication, fueling tremendous growth across fixed fibre and backhaul requirements for mobile operators.

5. 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 Telkom provides communications products and services via its customer-facing units: Consumer, Openserve and Telkom Small and Medium Business (SMB), as well as its subsidiaries, Gyro and BCX. The customer-facing units are supported by the Corporate Centre.

The reportable segments have been determined as Openserve, Consumer, BCX, Gyro and "Other". The SMB segment is 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 who 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 makes use of the Telkom Direct Stores channels which is the same channel as that of the Consumer customers.

EBITDA is defined as earnings before investment income and finance cost (which includes gains and losses on foreign exchange transactions), tax, depreciation, amortisation and write-offs, impairments and losses of property, plant and equipment and intangible assets, 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 2021

5. Segment information continued

September 2021

	Open-serve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Elimina- tions Rm	IFRS 16 reversal Rm	Consoli- dated Rm
Revenue from external customers ¹	1 851	12 799	6 268	374	–	–	–	21 292
Revenue from contracts with customers recognised over time	1 804	11 191	5 489	–	–	–	–	18 484
Voice	–	3 374	1 551	–	–	–	–	4 925
Interconnection	166	237	–	–	–	–	–	403
Data	1 577	7 405	1 492	–	–	–	–	10 474
Information technology services	–	–	2 129	–	–	–	–	2 129
Customer premises equipment related services	–	52	302	–	–	–	–	354
Interest revenue	–	123	12	–	–	–	–	135
Sundry revenue	61	–	3	–	–	–	–	64
Revenue from contracts with customers recognised at a point in time	–	1 608	779	–	–	–	–	2 387
Customer premises equipment	–	1 437	240	–	–	–	–	1 677
Information technology hardware	–	–	539	–	–	–	–	539
Sundry revenue	–	171	–	–	–	–	–	171
Lease revenue	47	–	–	374	–	–	–	421
Intersegmental operating revenue	4 869	161	1 193	469	509	(6 831)	(370)	–
Other income	190	234	27	–	100	(274)	–	277
Insurance service result	–	(8)	–	–	–	–	–	(8)
Total expenses	(4 764)	(10 756)	(6 451)	(155)	(562)	7 105	–	(15 583)
Cost of handsets, equipment, software and directories	–	(1 568)	(964)	–	–	79	–	(2 453)
Sales commission, incentives and logistical costs	–	(1 174)	(95)	–	–	–	–	(1 269)
Payments to other operators	(400)	(1 396)	(214)	–	–	188	–	(1 822)
Employee expenses	(1 477)	(505)	(1 975)	(64)	(350)	–	–	(4 371)
Selling, general and administrative expenses	(1 771)	(5 810)	(2 949)	(22)	(185)	6 737	–	(4 000)
Service fees	(1 017)	(339)	(224)	(67)	(53)	89	–	(1 611)
Lease-related expenses	(99)	36	(30)	(2)	26	12	–	(57)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	2 146	2 430	1 037	688	47	–	(370)	5 978
Depreciation, amortisation, impairments and write-offs								(3 488)
Operating profit								2 490
Investment income								95
Net finance charges, hedging costs and fair value movements								(659)
Profit before taxation								1 926
Other segment information								
Capital expenditure of property, plant and equipment and intangible assets	1 716	1 498	180	174	42	–	–	3 610

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.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

5. Segment information continued

September 2020

	Open-serve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Elimina- tions Rm	IFRS 16 reversal Rm	Consoli- dated Rm
Revenue from external customers ¹	1 841	12 545	6 654	356	–	–	–	21 396
Revenue from contracts with customers recognised over time	1 771	11 293	5 970	–	–	–	–	19 034
Voice	–	3 586	1 584	–	–	–	–	5 170
Interconnection	199	251	–	–	–	–	–	450
Data	1 535	7 253	1 546	–	–	–	–	10 334
Information technology services ²	–	–	2 460	–	–	–	–	2 460
Customer premises equipment related services ²	–	71	344	–	–	–	–	415
Interest revenue	–	128	15	–	–	–	–	143
Sundry revenue	37	4	21	–	–	–	–	62
Revenue from contracts with customers recognised at a point in time	–	1 252	684	–	–	–	–	1 936
Customer premises equipment	–	1 087	250	–	–	–	–	1 337
Information technology hardware	–	–	434	–	–	–	–	434
Sundry revenue	–	165	–	–	–	–	–	165
Lease revenue ³	70	–	–	356	–	–	–	426
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-related 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
Depreciation, amortisation, impairments/(reversals) and write-offs								(3 356)
Operating profit								2 552
Investment income								117
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

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 Certain information technology hardware and software items and customer premises equipment related services were incorrectly reflected as revenue from contracts with customers at a point in time and has now been moved to revenue over time. The comparatives have been re-presented.

³ In March 2021, it was identified that lease revenue was incorrectly included in sundry revenue and has now been moved to a separate line item, "lease revenue". The comparatives have been re-presented.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

5. 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.

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.

6. Expenses

	Reviewed six months ended 30 September 2021 Rm	Reviewed six months ended 30 September 2020 Rm
6.1 Payments to other operators	(1 822)	(1 994)
Payments to other operators decreased mainly due to lower mobile roaming and interconnect traffic.		
6.2 Cost of handsets, equipment, software and directories	(2 453)	(2 228)
Cost of handsets, equipment, software and directories increased as a result of higher post-paid and LTE sales. This is more normalised in comparison to the prior period, as the prior period was lower due to the impact of COVID-19.		
6.3 Sales commission, incentives and logistical costs	(1 269)	(1 203)
Sales commission, incentives and logistical costs increased slightly as a result of higher commissions due to the growth in the commissionable base.		
6.4 Employee expenses	(4 371)	(4 588)
Employee expenses decreased mainly due to restructuring that occurred in the prior period.		
6.5 Other expenses	(1 271)	(1 142)
Other expenses increased mainly due to higher losses as a result of theft, licence fees and third party access costs.		
6.6 Lease-related expenses	(57)	(242)
In the second half of FY2021, lease renewals were fast tracked resulting in leases, that were previously expensed as month-to-month, being renewed for a fixed period. These leases have been capitalised to right-of-use assets and lease liabilities and are no longer accounted for as month-to-month, resulting in the decrease in lease-related expenses. This resulted in an increase in the right-of-use asset and lease liability.		

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

7. Earnings and dividend per share

	Reviewed six months ended 30 September 2021	Reviewed six months ended 30 September 2020
Total operations		
Basic earnings per share (cents)	276.8	217.5
Diluted earnings per share (cents)	269.6	216.8
Headline earnings per share (cents)*	285.5	219.0
Diluted headline earnings per share (cents)*	278.2	218.2

	Number of shares	Number of shares
Reconciliation of weighted average number of ordinary shares:		
Weighted ordinary shares in issue	511 140 239	511 140 239
Weighted average number of treasury shares	(19 745 319)	(15 146 901)
Weighted average number of shares outstanding	491 394 920	495 993 338

Reconciliation of diluted weighted average number of ordinary shares:		
Weighted average number of shares outstanding	491 394 920	495 993 338
Expected future vesting of shares related to Group share scheme incentive plans	12 965 469	1 666 616
Diluted weighted average number of shares outstanding	504 360 389	497 659 954

* The disclosure of headline earnings is a requirement of the JSE Listings Requirements. It has been calculated in accordance with the South African Institute of Chartered Accountants' circular 1/2021 issued in this regard as well as the relevant requirements of IAS 33.

Treasury shares

Treasury shares of 23 248 692 (30 September 2020: 17 367 457) are held by the Group.

	Reviewed 30 September 2021		Reviewed 30 September 2020	
	Gross Rm	Net** Rm	Gross Rm	Net** Rm
Total operations				
Reconciliation between earnings and headline earnings:				
Profit for the period		1 361		1 081
Non-controlling interests		(1)		(2)
Profit attributable to owners of Telkom		1 360		1 079
Profit on disposal of property, plant and equipment and intangible assets	(9)	(9)	(2)	(2)
Loss on disposal of subsidiaries	3	3	–	–
Write-offs, impairments and losses of property, plant and equipment and intangible assets	75	49	19	9
Headline earnings		1 403		1 086
Dividend per share (cents)		–		50.08

The prior year dividend per share is based on a dividend of 50.08 cents per share declared on 19 June 2020. A total of 511 140 239 ordinary shares were outstanding on the date of the dividend declaration. No dividends were declared in the current financial period. Refer to the statement of changes in equity.

**The taxation impact consists of a R26 million increase (30 September 2020: R9.8 million) in tax expense related to recoupment and scrapping of disposals on write-offs of property, plant and equipment and intangible assets.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

8. Capital additions and disposals

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Property, plant and equipment		
Additions	3 352	7 692
Disposals	(2)	(7)
	3 350	7 685
Intangible assets		
Additions	258	756
	258	756

Finance charges of R48 million (31 March 2021: R31 million) were capitalised to property, plant and equipment and intangible assets in the current financial period.

The increase in the PPE balance from March 2021 to September 2021 can be attributed to the increase in additions on network equipment in the Mobile business.

9. Other financial assets and liabilities

9.1 Other financial assets

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Non-current other financial assets	81	81
Other financial assets at amortised cost		
Asset finance receivables	81	81
Current other financial assets	173	88
Other financial assets at fair value through profit or loss		
Derivative instruments used for hedging	173	88
Forward exchange contracts	159	-
Firm commitments	14	88

9.2 Other financial liabilities

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Non-current other financial liabilities	(86)	(107)
Other financial liabilities at amortised cost		
Asset finance payables	(86)	(107)
Current other financial liabilities	(534)	(622)
Other financial liabilities at amortised cost	(197)	(200)
Asset finance payables	(91)	(86)
Vendor financing	(106)	(114)
Other financial liabilities at fair value through profit or loss	(337)	(422)
Derivative instruments used for hedging	(315)	(400)
Forward exchange contracts	(21)	(179)
Firm commitments	(149)	(19)
Interest rate swaps	(145)	(202)
Financial guarantees	(22)	(22)

The South African rand appreciated year-on-year against the USD. This resulted in gains in the fair value of forward exchange contracts and corresponding losses in the firm commitments.

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.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

10. Employee benefits

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Non-current assets	1 404	1 317
Telkom Pension Fund asset	16	17
Post-retirement medical aid recognition of net plan asset	1 388	1 300

	Reviewed six months ended 30 September 2021 Rm	Reviewed six months ended 30 September 2020 Rm
Defined benefit plan actuarial gains/(losses)	258	(1 040)
Telkom Pension Fund net actuarial (loss)/gain	(2)	1
Telkom Retirement Fund net actuarial gain/(loss)	255	(1 084)
Medical aid net actuarial gain	14	74
Telephone rebate net actuarial loss	(8)	(29)
Long service award net actuarial loss	(1)	(2)

The increase in employee benefits is largely due to the actuarial gain. The actuarial gain is due to the change in the discount rate and inflation rate. The discount rate is driven purely by market movements in yields. The rate is the bond yield at appropriate duration. The inflation rate is the difference in the real and nominal yields allowing for a 0.5% inflation risk premium.

Share scheme

On 1 June 2021, Telkom Group granted shares to a certain group of employees in terms of a Long Term Incentive Plan (LTIP) and the Employee Share Ownership Plan (ESOP). The shares are equity-settled and the number of shares to vest will depend on the extent to which the performance conditions are met at the end of the applicable performance period. The shares granted are as follows:

	No. of shares granted 2021
Telkom	
LTIP	2 291 673
ESOP	3 799 573
BCX	
LTIP	979 884
ESOP	3 378 199
Yellow Pages	
ESOP	59 051
Gyro	
LTIP	167 846
ESOP	111 855

The vesting dates for the shares granted to Telkom Company, BCX and Gyro are as follows, if the performance conditions have been met and if the employee is still in the employment of the Telkom Group:

ESOP grant:

30 June 2024: 100%

LTIP grant:

30 June 2024: 50%

30 June 2025: 30%

30 June 2026: 20%

The vesting dates for the shares granted to Yellow Pages are as follows, if the performance conditions have been met and if the employee is still in the employment of the Telkom Group:

ESOP grant:

30 June 2024: 100%

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

10. Employee benefits continued

The financial assumptions used for the valuation of these grants are as follows:

	Telkom Group 2021 ESOP	Telkom Group 2021 LTIP
Market share price (R)	48.11	48.11
Share price volatility (%)	40	40
Future risk-free interest rate (%)		
- 30 June 2024	4.98	4.98
- 30 June 2025	N/A	5.51
- 30 June 2026	N/A	6.01

11. Inventories

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Inventories	1 193	1 026
Gross inventories	1 359	1 180
Write-down of inventories to net realisable value	(166)	(154)

The Group's inventory increased in the current financial period due to the accelerated fibre strategy.

12. Net cash and cash equivalents

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Cash disclosed as current assets	3 390	5 003
Cash and bank balances	2 970	3 637
Short-term deposits	420	1 366
Credit facilities utilised	(2)	(1)
Net cash and cash equivalents	3 388	5 002
Undrawn borrowing facilities	6 553	6 578

Net cash and cash equivalents decreased mainly due to the higher capex spend in quarter four of FY2021.

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 2021, R6.2 billion (31 March 2021: R5.5 billion) of these undrawn facilities were committed.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

13. Taxation and deferred taxation

13.1 Taxation

	Reviewed six months ended 30 September 2021 Rm	Reviewed six months ended 30 September 2020 Rm
Taxation	(565)	(576)

The taxation expense decreased mainly due to a reduction in the Group's effective tax rate (ETR) to 29.3% from 34.8%. This reduction is attributable to a reduction in non-deductible permanent differences and prior year adjustments.

13.2 Taxation paid

	Reviewed six months ended 30 September 2021 Rm	Reviewed six months ended 30 September 2020 Rm
Taxation paid	(433)	(898)

Taxation paid in the current financial period is lower than in the comparative period, as the September 2020 tax paid amount included payments in respect of prior period tax disputes that were settled.

13.3 Deferred taxation

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Deferred taxation balance is made up as follows:	289	497
Deferred taxation assets	743	723
Deferred taxation liabilities	(454)	(226)

The decrease in the deferred tax asset (DTA) is attributable to the movement in other comprehensive income (OCI) and the reversal of timing differences, set off by the increase in tax losses recognised in profit or loss. The movement in OCI includes actuarial gains recognised on the post-employment benefit plans.

13.4 Net income tax receivable

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
The income tax receivable is made up as follows:	87	82
Income tax receivable	111	91
Income tax payable	(24)	(9)

The net income tax receivable is due to the overpayments of provisional tax.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

14. 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.

14.1 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 2021 Rm	Valuation technique	Significant inputs
Derivative assets	173	Discounted cash flows	Yield curves Market interest rates
Derivative liabilities	(315)		
Financial guarantees	(22)	Discounted cash flows	Market exchange rate and probability of default
Investment in FutureMakers entities	129	Discounted cash flows	Cash flow forecasts and market related discount rates
Interest-bearing debt	(10 964)	Discounted cash flows and quoted bond prices	Market interest rates

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 R177 million (31 March 2021: R460 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 financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. The fair value of cash and short-term deposits, trade and other receivables, 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 at the reporting date.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

14. Fair value measurement continued

14.2 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 2021 Rm	31 March 2021 Rm
Assets measured at fair value			
Derivative assets			
Forward exchange contracts	Level 2	159	–
Firm commitments	Level 2	14	88
Investment made by FutureMakers	Level 3	129	107
Liabilities measured at fair value			
Derivative liabilities			
Forward exchange contracts	Level 2	(21)	(179)
Interest rate swaps	Level 2	(145)	(202)
Firm commitments	Level 2	(149)	(19)
Financial guarantees	Level 3	(22)	(22)
Liabilities measured at amortised cost			
Interest-bearing debt consisting of:			
Listed debt	Level 2	(10 964)	(11 078)

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

15. Interest-bearing debt

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Non-current interest-bearing debt	8 464	10 173
Local debt	7 482	9 135
Foreign debt	982	1 038
Current portion of interest-bearing debt	2 411	693
Local debt	2 411	693

The current portion of interest-bearing debt of R2 411 million (31 March 2021: R693 million) at 30 September 2021 is expected to be repaid from available cash, operational cash flow or the issue of new debt instruments.

During the period under review, R100 million (30 September 2020: R900 million) debt was repaid. Rnil debt was raised.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

16. Provisions

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Non-current provisions	381	619
Non-current employee related provisions	366	606
Subsidiary defined benefit plans	27	27
Telephone rebates	340	325
Telkom Retirement Fund	(1)	254
Non-current non-employee related provisions		
Other	15	13
Current provisions	952	1 613
Current portion of employee related provisions	806	1 480
Annual leave	509	473
Telephone rebates	39	39
Bonus, termination packages and other benefits	258	968
Current portion of non-employee related provisions		
Other	146	133

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 2021: 15 – 30 days), which must be taken within a 6 – 19 month (31 March 2021: 6 – 19 month) leave cycle. The leave cycle is reviewed annually and is in accordance with legislation.

Bonus

The bonus scheme consists of performance bonuses, which are dependent on the achievement of certain financial and non-financial targets. The bonus is payable annually to all qualifying employees after the Group's results have been made public. A 14th cheque is payable to a certain group of employees. Refer to note 6.4.

Telkom Retirement Fund

The decrease in the Telkom Retirement Fund obligation is primarily driven by experience adjustments. Refer to note 10.

17. Commitments

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Capital commitments authorised	6 238	12 303
Commitments against authorised capital expenditure	3 612	2 007
Authorised capital expenditure not yet contracted	2 626	10 296

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.

18. Trade and other receivables and contract assets

18.1 Trade and other receivables

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Trade and other receivables	7 007	7 227
Trade receivables	4 739	5 077
Gross trade receivables	7 121	7 395
Impairment of receivables	(2 382)	(2 318)
Prepayments and other receivables	2 268	2 150
Allowance account for credit losses – trade receivables	2 382	2 318
Opening balance	2 318	1 877
Charged to statement of profit or loss and other comprehensive income	327	1 008
Receivables written off	(263)	(567)

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. The repayment terms of trade receivables vary between 21 days and 90 days from date of invoice. Interest charged on overdue accounts varies between the prime rate and a rate of 18%, depending on the contract terms.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

18. Trade and other receivables and contract assets continued

18.2 Contract assets

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Contract assets	1 834	1 747
Gross contract assets	2 307	2 157
Impairment of contract assets	(473)	(410)
Allowance account for credit losses – contract assets	473	410
Opening balance	410	432
Charged to statement of profit or loss and other comprehensive income	148	31
Contract assets written off	(85)	(53)

Disposal of contract assets

Telkom entered into a factoring arrangement in relation to the handset receivable book, amounting to a nominal amount of R305 million in August 2021. Telkom recognised a derecognition gain of R43 million within other income in the statement of profit or loss and other comprehensive income. Telkom will continue to explore similar initiatives to ensure further cash flow.

19. Other current assets

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm
Other current assets	469	459
Contract costs capitalised	263	261
Ongoing commission capitalised assets	206	198
Contract costs capitalised	263	261
Opening balance	261	299
Contract costs capitalised during the period	148	265
Contracts cancelled during the period	(13)	(26)
Amortisation recognised as cost of providing services during the period	(133)	(277)

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.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

20. 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 2021 financial statements.

High court

Radio Surveillance Security Services (RSSS)

On 27 August 2020, RSSS served a new summons on Telkom. In terms of the summons, RSSS claims that certain information came to light during the initial trial against Telkom in 2017. RSSS is now claiming the return of 444 alarm systems, alternatively payment of R210 million and a payment of R319 million for alleged outstanding rentals for the alarms. The Plaintiff made certain amendments to its summons, and Telkom has filed its plea to the amended summons. Pleadings have closed and the parties are currently in the discovery phase. Discovery is a process during which each party discloses all relevant documents, reports and other evidence relevant to the matter, in preparation for the trial. Telkom is, however, applying for a liquidation of RSSS due to non-payment of legal costs owing to Telkom to date. The liquidation hearing has been set down to be heard in August 2022.

Class action against Telkom and Mutual and Federal Risk Financing Limited

During June 2021, Telkom received a High Court application to certify a class action against it. The application arises from minor billing discrepancies on device insurance premiums. Mutual and Federal Risk Financing Limited acts as underwriter for the device insurance and has also been cited in the court proceedings. Telkom is currently taking steps to oppose the application for certification of the class action. Telkom is not in a position to quantify the potential impact.

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.

21. Related parties

	Reviewed six months ended 30 September 2021 Rm	Restated 31 March 2021* Rm	Restated six months ended 30 September 2020* Rm
Details of material transactions and balances with related parties not disclosed separately in the condensed consolidated interim financial statements were as follows:			
With shareholders:			
Government of South Africa			
<i>Related party balances</i>			
Finance lease receivables	176	240	255
Trade receivables	926	991	748
Impairment of trade receivables	(251)	(216)	(172)
<i>Related party transactions</i>			
Revenue	(2 116)	(4 385)	(2 043)
At 30 September 2021, the Government of South Africa held 40.5% (30 September 2020: 40.5%) of Telkom's shares, and had the ability to exercise significant influence, and the Public Investment Corporation held 13.39% (30 September 2020: 14.97%) of Telkom's shares.			
With entities under common control:			
Major public entities			
<i>Related party balances</i>			
Finance lease receivables	70	88	94
Trade receivables	218	240	106
Impairment of trade receivables	(56)	(49)	(9)
Trade payables	–	(1)	–
<i>Related party transactions</i>			
Revenue (excluding lease income)	(354)	(668)	(353)
Operating expenses (excluding lease expense)	153	277	130
Lease income	(16)	(32)	(13)
Lease expense	24	42	16

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

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

21. Related parties continued

	Reviewed six months ended 30 September 2021 Rm	Audited 31 March 2021 Rm	Reviewed six months ended 30 September 2020 Rm
Key management personnel compensation: (including Directors and prescribed officers' remuneration)			
<i>Related party transactions</i>			
Short-term employee benefits	87	272	91
Post-employment benefits	8	15	7
Termination benefits	–	6	1
Equity compensation benefits	34	77	37

Terms and conditions of transactions with related parties

Except as indicated above, outstanding balances at 30 September 2021 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 2021, the Group has not impaired any of the amounts owed by the related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates.

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

	Reviewed six months ended 30 September 2021 Rm	Reviewed six months ended 30 September 2020 Rm
Cash generated from operations	4 529	4 983
Profit before tax	1 926	1 657
Finance charges and fair value movements	659	1 012
Investment income and income from associates	(95)	(117)
Interest received from trade receivables	(56)	(70)
Non-cash items	3 259	3 089
Depreciation, amortisation, impairment and write-offs	3 488	3 356
Increase in expected credit loss provision	128	221
Bad debts written off	347	265
Decrease in provisions	(726)	(715)
Insurance service result*	8	(22)
Profit from disposal of property, plant and equipment	(9)	(2)
Foreign exchange movements	33	(49)
Share-based payment expenses	106	122
Movement in deferred revenue	(116)	(87)
Movement in working capital	(1 164)	(588)
Movement in inventories	(163)	(138)
Increase in trade receivables, contract assets, finance lease receivables and other receivables	(159)	(283)
Decrease in trade and other payables and prepayments	(842)	(167)

* The insurance service result line item is included in the reconciliation in the current financial period. This was previously included in the foreign exchange movements line item. The September 2020 reconciliation has been updated for comparability purposes.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2021

23. Significant events and transactions

Results of the Telkom annual general meeting regarding Directors reappointments

On 25 August 2021, the following Board Members were elected or re-elected as per the annual general meeting ordinary resolutions:

- N Kapila
- O Ighodaro
- EG Matenge-Sebesho
- H Singh
- KW Mzondeki
- F Petersen-Cook
- SP Sibisi
- RG Tomlinson

Vesting of shares

In terms of the Telkom Share Plan, 198 279 shares vested to Mr Sipho Maseko and 21 674 shares vested to Mr Dirk Reyneke in June 2021.

Resignation and appointment of Group Chief Executive Officer (GCEO)

Telkom announced on 23 July 2021 that Mr Sipho Maseko will step down as GCEO and Executive Director of the Telkom Group on 30 June 2022. Telkom announced that the Board has appointed Serame Taukobong as GCEO designate with effect from 1 October 2021. He will assume the role of the GCEO from 1 July 2022.

Resignation of Non-executive Directors

Telkom announced on 1 July 2021 that Mr Alphonzo Samuels, a Non-executive Director, resigned from the Telkom Board with effect from 1 July 2021.

Appointment of Non-executive Directors

Telkom announced on 1 July 2021 that Mses Olufunke Ighodaro and Ethel Matenge-Sebesho had been appointed to the Board of Directors as independent Non-executive Directors with effect from 1 July 2021.

24. Events after the reporting date

Other matters

The Directors are not aware of any other matter or circumstance since the financial period ended 30 September 2021 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.

Abbreviations

BCX	Business Connexion (Pty) Ltd
Capex	Capital expenditure
CODM	Chief operating decision maker
DTA	Deferred tax asset
EBITDA	Earnings before investment income and finance cost, tax, depreciation, amortisation and write-offs, impairments and losses
ESOP	Employee share ownership plan
ETR	Effective tax rate
Exco	Executive Committee
FEC	Forward exchange contract
GCEO	Group Chief Executive Officer
IA	Intangible assets
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
ISRE	International Standard on Review Engagements
IT	Information Technology
JSE	Johannesburg Stock Exchange
LTIP	Long-term incentive plan
OCI	Other comprehensive income
PPE	Property, plant and equipment
ROU	Right-of-use
SMB	Small and Medium Business
TDS	Telkom Direct Stores
TKG	The Telkom Group's JSE share code
TRF	Telkom Retirement Fund
USD	United States Dollar

BCX

Gyro

Telkom
Consumer

open serve

yep!