Telkom SA SOC Ltd

Group Interim Results

for the six months ended 30 September 2022

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

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Many statements in this document, and verbal statements that may be made by Telkom or 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 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 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 available at www.telkom.co.za/ir.

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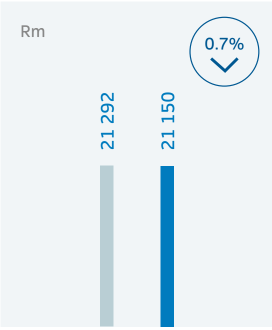
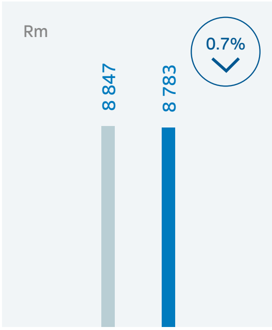
Key indicators

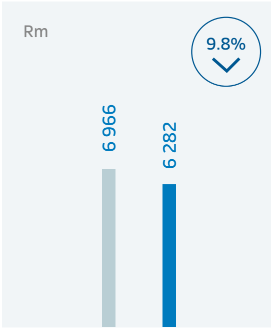
H1 FY2022 H1 FY2023



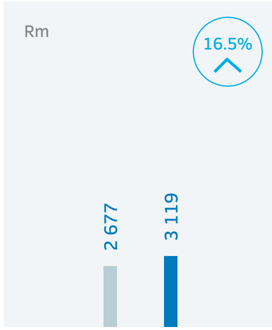
Operating revenue



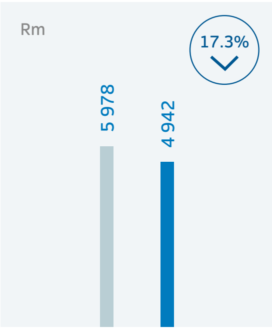
Mobile service revenue



Fixed service revenue

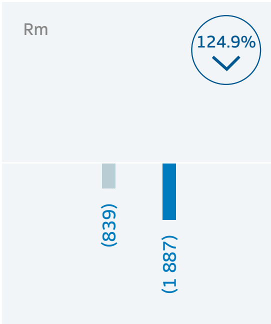


Information technology revenue

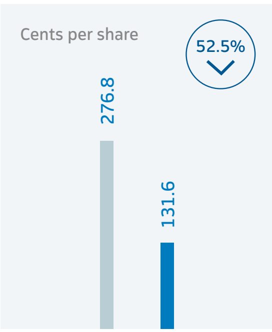


EBITDA

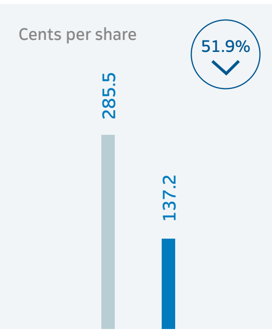
Capex



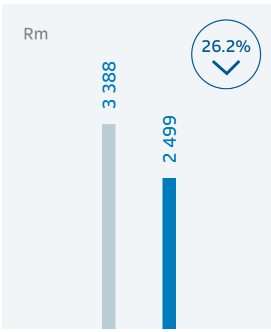
Free cash flow



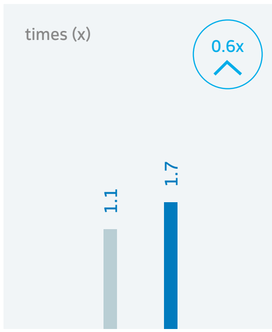
Basic earnings per share (BEPS)



Headline earnings per share (HEPS)



Cash balance at the end of the period



Net debt to EBITDA ratio

The United Nations Sustainable Development Goals

SUSTAINABLE DEVELOPMENT GOALS

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

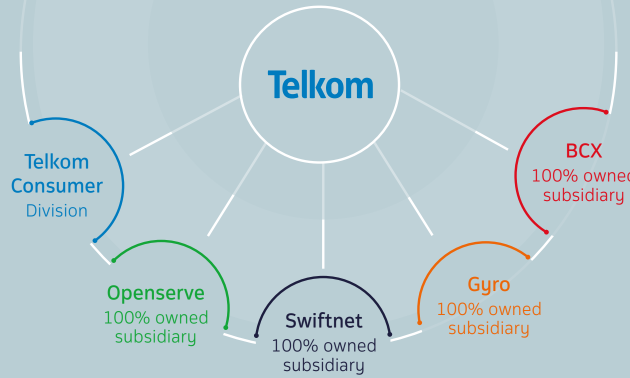
- **SGD 4** Quality education
- **SGD 8** Decent work and economic growth
- **SGD 9** Industry, innovation and infrastructure
- **SGD 12** Responsible consumption and production

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

Telkom operating structure

Telkom SA SOC Ltd represents Telkom Group (Telkom or the Group), which comprises Telkom Company and its subsidiaries. Telkom Company comprises a division, namely Telkom Consumer. Telkom Group operating subsidiaries are Openserve, BCX, Swiftnet and Gyro.

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



- **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.
- **Openserve** is South Africa's leading wholesale infrastructure connectivity provider with the largest open-access network across South Africa.
- **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.
- **Swiftnet** manages and commercialises the masts and towers portfolio.
- **Gyro** manages Telkom's properties and data centres.

Segment reporting

Segment reporting is provided on page 32 to 35 as part of the notes to the financial statements.

Results from operations

Group profit after tax decreased by 52.9% to R641 million (H1 FY2022: R1 361 million). This is mainly attributable to higher end-user device costs and operational expenses, partially offset by lower foreign exchange and fair value movements and tax expenses. HEPS decreased by 51.9% to 137.2 cents and BEPS by 52.5% to 131.6 cents.

Overview of our business

1

Telkom announced its Group interim results for the six months ended 30 September 2022 on 23 November 2022 in Centurion, South Africa.

Message from Group Chief Executive Officer, Serame Taukobong

The period was characterised by strained economic conditions placing consumers under pressure and an intensely competitive landscape. Group performance suffered under a sluggish economy, the increasing electricity and fuel prices, rising interest rates cycle, and high unemployment, which constrained and impacted levels of consumer spending.

As competition intensified in the mobile sector, we continued to innovate to protect Telkom's value proposition in the market. We saw good growth in our mobile subscriber base, sustained the growth trajectory in the fibre market, and corporates revived spending on their Information Technology (IT) infrastructure. However, growth was impacted by customer recharges returning to pre-COVID-19 levels.

We continued to pursue our migration strategy and continued to manage the transition from old to new technologies. However, this migration impacted our revenue growth and overall profitability.

Performance overview

Notwithstanding the challenging operating environment that persisted during the period, revenue was stable at R21 150 million driven by good traffic growth, which largely offset the impact of legacy product migration. Group EBITDA decreased by 17.3% to R4 942 million, with the EBITDA margin contracting by 4.7 percentage points (ppts) to 23.4%. This was due to limited top-line performance resulting from legacy revenue declines and pressures on our cost base. Direct costs increased, driven by materially higher handset and equipment costs. While the rest of the operating costs were well managed, energy costs increased significantly due to the sustained load shedding during the period. This resulted in an increased cost base. Performance was boosted by lower foreign exchange and fair value movements and tax expenses compared to the prior period. Earnings were negatively impacted, resulting in HEPS and BEPS decreasing by 51.9% and 52.5%, respectively.

Openserve's stabilisation path continued as customers migrated from legacy to next-generation technologies. In the period under review, revenue declined by 4.3% despite a pleasing 10.8% growth from next-generation revenue. This was underpinned by growth in high-capacity links for carriers, an increase in demand for fibre services and growth in enterprise connectivity. Today, more than 65% of revenue is derived from next-generation products and services. However, a pricing and margin gap remains between the new business and legacy businesses. The accelerated decline in legacy fixed business during the period limited overall performance. Openserve continued with its growth trajectory in the fibre market, increasing homes passed with fibre by 35.8% and homes connected with fibre by 33.7%. This aligns with the strategy to accelerate the fibre to the home (FTTH) footprint while simultaneously focusing on connecting homes. The current homes connected ratio is 46.2%.

The Mobile business continues to drive growth in **Telkom Consumer**. Total Mobile revenue grew marginally by 0.5% as the product mix evolved towards longer post-paid contracts. This was achieved against the backdrop of intensely competitive markets in a challenging economic environment. As the overall macro-economic constraints materialise, the pre-paid surge has slowed as the share of wallet has reduced. We grew our pre-paid subscriber base by 10.7% to 15.2 million. In the post-paid market, the post-paid base increased by 11.7% to 2.9 million while the average revenue per user (ARPU) reduced to R206. The legacy fixed-line business remains under pressure due to migration from traditional fixed voice to newer technologies.

We refreshed our post-paid wireless broadband portfolio to significantly improve our value offering in the capped and unlimited plans. We were rewarded as our mobile broadband subscriber base increased by 3.7% to 11.0 million customers.

We remain encouraged by the continuing growth in our non-connectivity/application services, which saw double-digit growth in the period under review.

BCX saw a recovery in the period under review as it combated and managed global supply chain constraints. BCX's efforts resulted in 13.7% revenue growth in the IT business for hardware and software solutions as corporates began investing in IT again, following a muted two-and-a-half-year period since the beginning of the pandemic. With rising activity in the market, there are renewed cross-selling opportunities for integrated solutions. The Converged Communications business was challenged with ongoing legacy to next-generation migrations. Overall revenue grew marginally by 0.8%, mainly boosted by the IT segment. This improvement in performance signals a positive outlook for the remainder of the financial year.

Swiftnet, our masts and towers business, recorded a 2.1% decrease in revenue to R660 million, driven by the impact of continued focus on modernisation from our mobile network operator (MNO) customers. We expect modernisation to continue over the next year, coupled with the deployment of new base station sites as the MNOs deploy their respective newly acquired permanent spectrum allocations. In the current year, the number of productive sites increased by 3.0% to 3 945. Swiftnet's profitability was impacted by once-off costs and the change in direct property cost allocation methodology.

Value unlock journey and strategy update

The Board remains committed to the value unlock strategy, which is premised on Telkom's market capitalisation not representing its intrinsic value. Our strategic approach is to affirm the valuation of these businesses and their contribution to the valuation of Telkom while ensuring long-term sustainable growth for the Group.

Progress was made in this regard in three areas:

1

The Board gave an in-principle approval to affirm and realise the value of its investment in Swiftnet partially or in full. Management is exploring various options of realising the value of the mast and towers business and will update the market in due course.

2

Openserve is now a legally separated 100% subsidiary of Telkom, effective 1 September 2022. This presents the Group with opportunities to unlock value through aligned partnerships.

3

In line with the Group's drive to invest in future growth, BCX entered into a strategic partnership with Alibaba Cloud to drive digitalisation locally and provide a wide range of cloud computing products and services to the continent on an exclusive basis. We expect this business to start contributing to revenue in FY2024 and ramp up in the medium term as it enhances its IT business offering.

We are fully committed to executing our broadband-led strategy as it is the backbone of our Group strategy. Telkom is investing in 5G infrastructure assets. We currently have more than 136 active 5G sites in Gauteng, Western Cape, Eastern Cape and KwaZulu-Natal. Our Mobile business officially launched its 5G network, followed by its first 5G fixed wireless propositions to consumers. This next-generation network will open new opportunities for smart cities, healthcare, manufacturing and various other industries. Mobile propositions will become available as the 5G device ecosystem matures. Swiftnet successfully launched its first 5G outdoor Distribution Antenna System (oDAS) small cell sites. This will be the basis for future site deployments in support of our customers' 5G rollout plans.

Our infrastructure businesses, Openserve and Swiftnet, are well positioned to capture these opportunities in rolling out infrastructure as the industry requires masts, towers and fibre backhaul to connect to base stations for this new technology.

In some of our businesses, we want to strengthen scale and capability to drive growth. Here, we are exploring local and international partnerships.

Regulatory developments

ICASA published its findings on its review on call termination rates. ICASA has concluded that only new entrants qualify for asymmetric mobile termination rates and that the 20% threshold to qualify for termination asymmetry be removed. Telkom has filed a court application to review and set aside the determinations in ICASA's findings document arguing that the conditions upon which asymmetry was conceived persist, that the findings are irrational and that they do not promote competition. ICASA and MTN are opposing Telkom's application.

Outlook

A solid financial framework is vital to support the Group strategy and deliver sustainable shareholder returns. In line with our financial framework, we prioritised investing in working capital across our business units to serve the growing customer base, evolving product demand trends and securing sales despite ongoing global supply chain constraints. We also continued to invest capital in growth areas.

The Mobile business has shown good and continued subscriber growth as it enhanced its broadband offering, entrenching its market position. We expect this momentum to continue for the rest of the financial year along with a focus on extending selling channels, optimising the mix between pre- and postpaid customers and expanding its RAN network to reduce roaming costs. Openserve will focus on monetising new products and actively manage costs to improve margins – decommissioning legacy assets plus extend its energy initiatives to reduce the impact of load shedding. BCX continues to gain traction in its IT business but remains challenged by increased competition in its Converged Communications. It will continue managing its costs closely to maintain its margin for the year. The Gyro group will benefit from Swiftnet's continued build of towers to increase its productive portfolio. This, coupled with expected lease renewals and incremental tenancies will maintain Swiftnet's healthy margins for the remainder of the year.

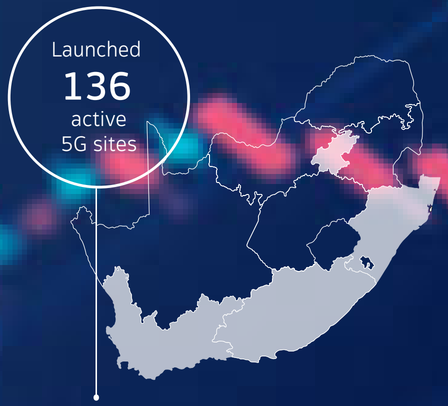
We expect to continue investing in the business with a capex to revenue ratio of between 16% to 18% (excluding spectrum) for the year. The net debt to EBITDA ratio of 1.7x is impacted by investments in this working capital cycle.

Given the material increases in the cost of sales for Telkom Mobile, the accelerated decline of the legacy business at Openserve, BCX and Consumer, plus the impact of load shedding, we are revising our guidance to the market. In the medium-term, we expect revenue and EBITDA to grow at low to mid single digit percentages.*

Returning cash to shareholders remains a key element of our capital allocation framework. Telkom is in the final year of the three-year dividend policy suspension period. The Board remains committed to reinstating the dividend policy at the end of FY2023 and is reviewing the policy.

Telkom aims to continue to create value and generate sustainable positive free cash flow to reward shareholders in the medium term once our working capital cycle stabilises in line with new demand patterns and evolving customer requirements.

Serame Taukobong
Group Chief Executive Officer



in Gauteng, Western Cape, Eastern Cape and KwaZulu-Natal

The guidance in this outlook has not been reviewed or reported on by Telkom's joint independent external auditors.

Financial capital

Financial information summary

Financial performance	Reviewed September 2022 Rm	Reviewed September 2021 Rm	Variance %
Gross operating revenue	**21 150**	21 292	(0.7)
EBITDA	**4 942**	5 978	(17.3)
EBITDA margin (%)	**23.4**	28.1	(4.7)
Capex	**3 689**	3 610	2.2
Free cash flow (FCF)	**(1 887)**	(839)	(124.9)
BEPS (cents)	**131.6**	276.8	(52.5)
HEPS (cents)	**137.2**	285.5	(51.9)
Net debt to EBITDA (times)	**1.7**	1.1	0.6

Group service revenue under pressure

Group revenue declined marginally by 0.7% to R21 150 million, driven by a decrease in fixed, mobile and IT service revenue due to strained economic conditions and the decline in the legacy fixed business as customers migrate to new technologies such as fibre and LTE. This was offset by an increase in mobile handset and IT hardware and software sales. These sales are at lower margins and in line with the mobile strategy to drive post-paid annuity revenue.

EBITDA impacted by higher handset costs and operational expenses

Group EBITDA is lower at R4 942 million, and the EBITDA margin contracted by 4.7 ppts to 23.4%. This was attributable to a 31.4% increase in our cost of handsets, equipment, software and directories, following higher mobile handset sales of 19.7% and the increase of 73.1% in IT hardware and software revenue.

Opex increased by 5.0% year on year despite an average Group-wide salary increase of 6.0%, which was effective from 1 April 2022, and is lower than CPI of 7.8%.

Service fees increased 21.0% driven by a significant increase in diesel expenses, resulting from increased load shedding and higher advisory fees incurred, mainly attributable to mergers and acquisition-related transactions and key strategic projects.

Mobile cost to serve, such as the distribution channel cost was optimised despite the increase in costs, associated with targeting the post-paid market. Optimised roaming costs further contributed to an improved cost to serve as we maintain stringent roaming traffic thresholds and migrate traffic to our own network, enabled by the ongoing network investment.

HEPS impacted by lower EBITDA

HEPS decreased by 51.9% to 137.2 cents while BEPS decreased by 52.5% to 131.6 cents compared to the prior period. This was due to a 17.3% decline in EBITDA, partially offset by lower finance charges and fair value movement and tax expenses compared to the prior period.

Finance charges and fair value movements decreased by 16.1% to R553 million, driven by gains in the valuation of forward exchange contracts (FECs) and interest rate swaps, due to a weaker rand and aggressive interest rate increases partially offset by higher finance charges due to increased debt.

Capital allocation in favour of growth areas

We continued to invest in our key growth areas namely fibre and mobile. Capital investment increased by 2.2% to R3 689 million representing a capex to revenue ratio of 17.4%. This was primarily due to the 31.4% investment increase in the Mobile business, attributable to the spectrum capitalisation. Mobile also expanded its footprint by 6.9% to 7 384 integrated sites. FTTH connectivity rate of 46.2% was maintained while we continued to accelerate our fibre rollout increasing homes passed by 35.8%, and homes connected by 33.7% year-on-year. We will continue to focus on expanding our FTTH footprint while simultaneously connecting premises to ensure that we maintain a high connectivity rate.

The disclosure of capital expenditure has been amended to include the subsidiary expenditure in the relevant investment categories.

Capex	September 2022 Rm	September 2021 Rm	Variance %
Fibre	**967**	1 209	(20.0)
Mobile	**1 909**	1 453	31.4
IT solutions	**188**	166	13.3
Network rehabilitation/sustainment	**63**	58	8.6
Core network	**301**	411	(26.8)
Masts and towers	**89**	150	(40.7)
Digital platforms and innovation	**27**	34	(20.6)
Property development and optimisation	**47**	42	11.9
Shared services and other	**98**	87	12.6
Total	**3 689**	3 610	2.2
Capex to revenue ratio (%)	**17.4**	17.0	

Balance sheet

Bank and cash balances decreased 22.8% to R2 499 million and net debt, increased 16.1% as we raised R1 139 million in new debt to fund our strategic capital requirements. Lower operational profits further contributed to the decline in the net debt to EBITDA ratio of 1.7 times. We are however confident that together with unutilised facilities of R2 283 million we have adequate headroom to fund future growth.

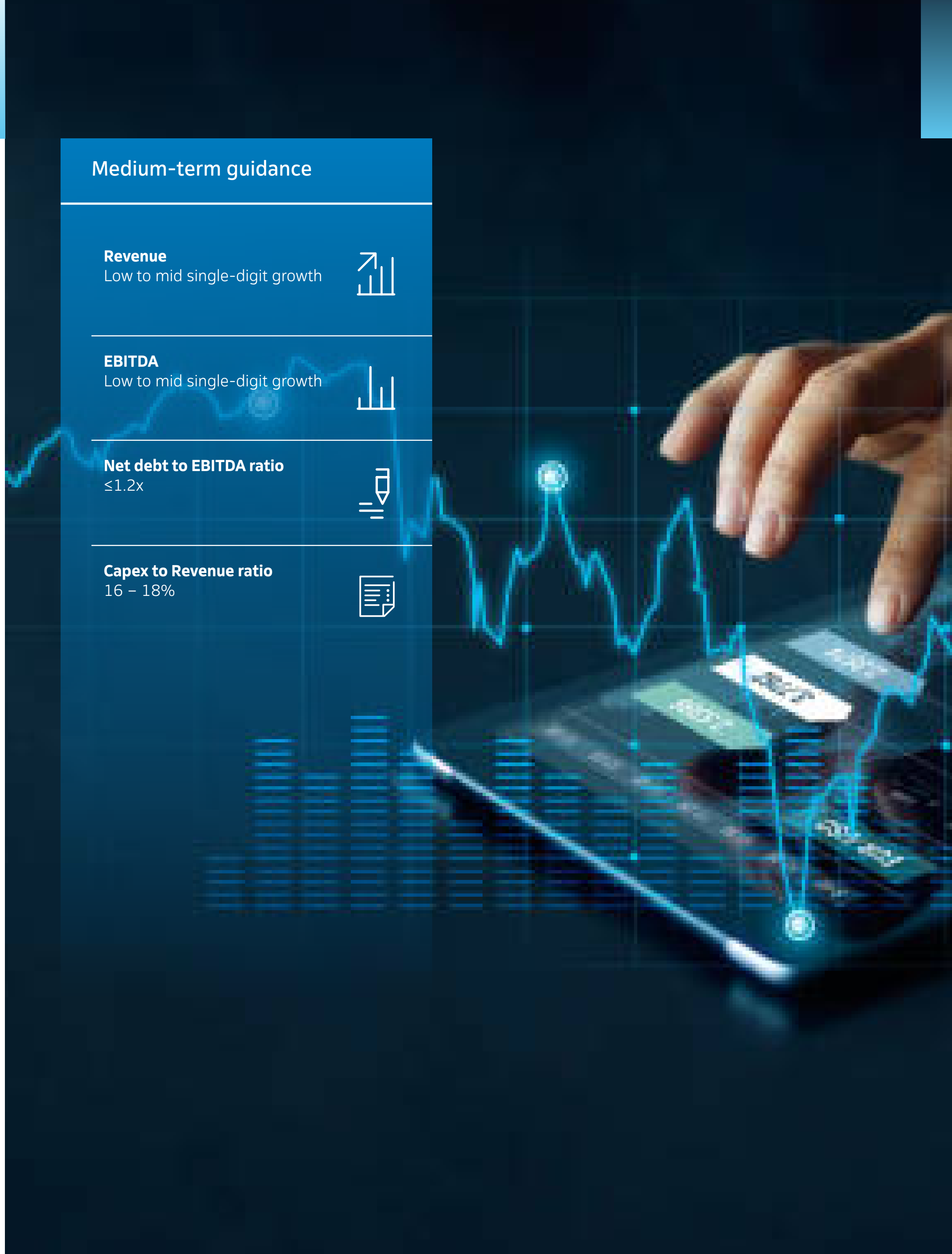
Balance sheet	September 2022 Rm	March 2022 Rm	Variance %
Bank and cash balances	**2 499**	3 239	(22.8)
Current borrowings	**(6 138)**	(4 745)	(29.4)
Non-current borrowings	**(12 687)**	(12 561)	(1.0)
Net debt	**(16 326)**	(14 067)	(16.1)
Net debt to EBITDA ratio (times)	**1.7**	1.2	0.5

FCF under pressure mainly due to the impact of handset sales on working capital

We generated negative FCF of R1 887 million, 124.9% lower than the comparative period.

Cash generated from operations decreased by R1 682 million compared to H1 FY2022, primarily due to the R1 031 million decline in profit before taxation and the R860 million deterioration in cash collections. The deterioration in cash is driven by the increase in trade receivables and contract debtors due to higher post-paid mobile handset sales. The collections derived from mobile handset sales are deferred over a 24- or 36-month contract while the cost of sale is recorded immediately. This was partially offset by a 16.1% decrease in cash paid for capex.

FCF	September 2022 Rm	September 2021 Rm	Variance %
Cash generated from operations	**2 847**	4 529	(37.1)
Add back: Repayment of lease liability	**(523)**	(474)	(10.3)
Interest received	**102**	119	(14.3)
Finance charges paid	**(654)**	(577)	(13.3)
Taxation paid	**(301)**	(433)	30.5
Cash generated from operations before dividend paid and received	**1 471**	3 164	(53.5)
Cash paid for capex	**(3 358)**	(4 003)	16.1
Total	**(1 887)**	(839)	(124.9)



Medium-term guidance

Revenue
Low to mid single-digit growth

EBITDA
Low to mid single-digit growth

Net debt to EBITDA ratio
≤1.2x

Capex to Revenue ratio
16 – 18%

Productive capital

Openserve

As part of the value unlock strategy, Openserve became a separate legal entity, effective 1st September 2022. Underpinning this strategy, Openserve continued to evolve its overall revenue mix to next-generation-led products and services, now representing more than 65% of its revenue base. While Openserve saw growth across all its next-generation data-led products, the decline in legacy-based services is still visible in the transformation journey undertaken by Openserve. We continue to focus on enabling future areas of growth by strengthening our customer engagements, building new and long-lasting partnerships and accelerating Openserve's digital transformation to provide the best experience in every interaction.

6.3% increase in fixed-data revenue

5.5% revenue growth from external channels

accelerating its digital transformation journey

committed to strengthening its customer engagements

67% revenue from next-generation products and services

13.6% increase in broadband traffic to 919 petabytes

46.2% FTTH connectivity rate

10.8% next-generation revenue growth

Performance overview

Total fixed-data revenue increased by 6.3%, underpinned by next-generation growth in all segments as carrier services (9.8%), high-speed fibre broadband connectivity (23.8%), and enterprise connectivity (10.2%) leveraged Openserve's scalable fibre infrastructure. This yielded a year-on-year growth of 10.8% in next-generation revenue as Openserve transitions through the change in technology, revenue and channel mix.

As a newly established standalone subsidiary of Telkom, Openserve continued its journey of broadening its client base while focusing on its segments, resulting of enabling the digital ecosystem through its innovative connectivity solutions and creating a high-speed, scalable, and cost-efficient network across South Africa while providing the best customer experience in every interaction. The diversification of its client base, increased demand for high speed and stable connectivity, coupled with Openserve's drive to continuously improve the experience on its network, resulted in an increase in revenue of 5.5% from external channels.

While Openserve lays the building blocks for future growth, the ongoing economic pressures continued to impact both the SMB and Enterprise segments resulting in a revenue decline of 22.1% and 13.1%, respectively. This decline was aggravated by a steep reduction in fixed voice revenue by R515 million year on year, driven mainly by a reduction of R423 million in subscription revenue. This resulted in an overall revenue decline of 4.3% to R6 434 million.

This tough macro environment was further challenged by the ongoing load shedding, negatively impacting Openserve's costs with a significant increase of R126 million in diesel spend. The impact of load shedding, IT insourcing restatement of R103 million, and the continued legacy voice decline contracted the EBITDA margin to 29.3%. While Openserve undergoes the transformation of its revenue from legacy to next-generation, it is confident that it will execute on its strategic objectives of improving its fixed costs through innovative solutions while driving customer experience.

Scalable network

Openserve invested capex of R1 419 million to modernise and expand its network by leveraging its flexible, modular and scalable network architecture during this period. By investing in innovative planning and engineering methodologies, Openserve has been able to provide high-speed and increased capacity networks across South Africa, including connectivity to both rural and suburban clients.

As Openserve continues to invest in its robust infrastructure network, it aggressively increased the number of homes passed with fibre by 35.8% to 960 801 while continuing to upgrade its existing fibre nodes, allowing it to provide network coverage to ~3 million premises including residential, enterprises and carrier base stations.

As part of its partnership with Google in South Africa, Openserve facilitated the landing of the Equiano undersea cable at its landing station in the Western Cape. Openserve's cable facility will be used as a distribution node to enhance its terrestrial services, connecting the station to carrier-neutral data centres across South Africa. This strategic partnership gives Openserve access to 12 Tbps of capacity, increasing its ability to provide diversity and redundancy as it utilises the new submarine cable to connect South Africa to Europe and to the rest of the world.

Productive capital Continued

Openserve

Commercialise the network

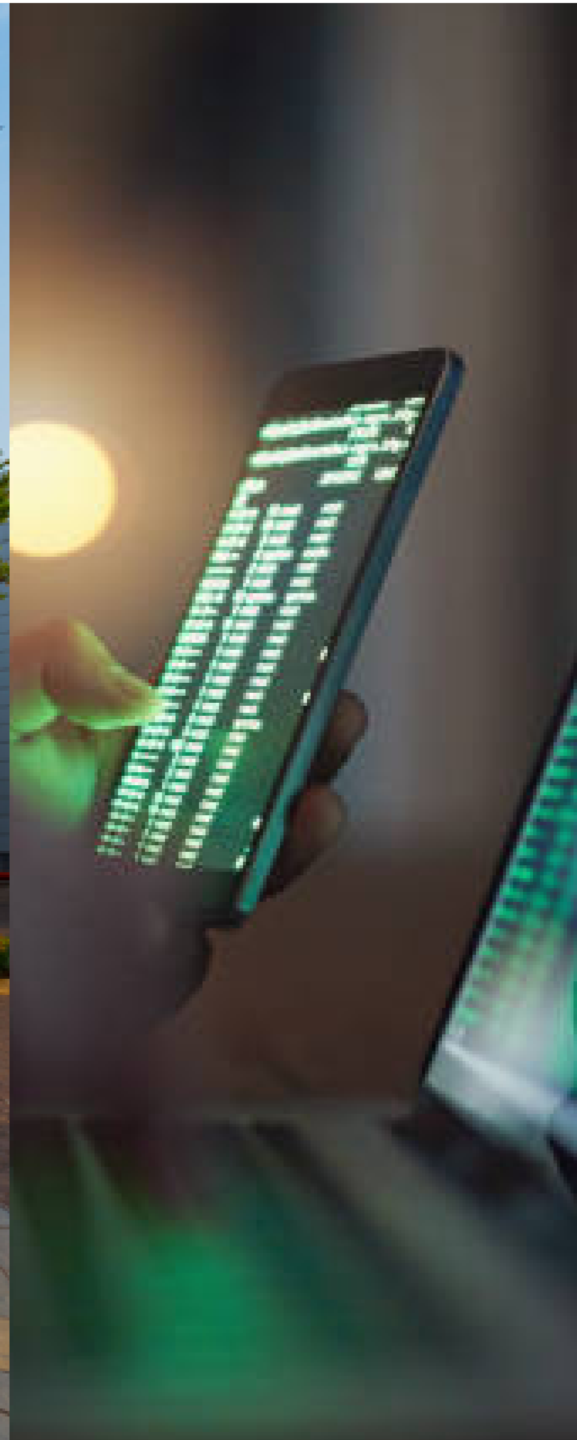
While the enterprise segment saw a continued decline in legacy technology-based products, demand for next-generation-led fibre connectivity services a small but important growth of 2.8%. This increased demand for next-generation fibre services could also be seen in the carrier segment with a growth of 6.1% in high-capacity links. This trend is even more prominent across broadband, which saw a significant growth of 38.2% in fibre services underpinned by the increase in the number of homes connected on Openserve's fibre network by 33.7% to 443 469 during the period. Openserve's connect led strategy and its focus on providing the best customer experience has seen it retain the highest connectivity rate of 46.2% and has resulted in a significant turnaround in the broadband portfolio as it contributed to an overall year-on-year broadband growth of 3.2%.

Openserve launched Office Connect, an SLA-driven premium connectivity solution with voice capabilities aimed at SMB and Enterprise customers, respectively. As we continue to focus on providing innovative solutions aimed at enabling multi-use of our fibre infrastructure, further improvements such as speed upgrades, pricing enhancements and the introduction of asymmetrical speed solutions resulted in activation of more than 527 000 services, including broadband and other value-added services such as voice over internet protocol, intercom, and security.

Transform service delivery

Openserve, driven by its digitally led customer-first strategy, was internationally recognised by TM (TeleManagement) Forum for the significant strides made in enabling customers with self-service capabilities and improving their experience on Openserve's network. The Openserve Connect App, a first of its kind, wholesale digital solution, won TM Forum's Excellence Award in the Customer Experience and Trust category recognising its innovative achievements in digital transformation, business, and customer centricity.

Leveraging such innovations, Openserve continued to aggressively roll out fibre to improve the experience of its customers across its network, focusing on areas impacted by repeated copper theft and improving its fibre network installation times of new-generation broadband by 32% to an average of 2.2 days. This focus of improving the experience on its network saw Openserve sustain its high standards of network reliability and availability indices of 99.93%, 99.62% and 99.99% across its access, aggregation and core network layers, respectively.



Productive capital

Service revenue in the Consumer business remained flat in the first half of the year after clawing back from a negative growth in the first quarter. This was supported by continued growth in mobile subscribers, spurred on with an improved share of mobile broadband customers. In addition, our efforts in growing our FTTH base continues to bear fruit.

Total Mobile revenue was R10 713 million, growing slightly by 0.5% as the second quarter of the financial year saw an increased top-line performance, with revenue from handsets recording double-digit growth. Our traditional copper-based voice declined by 30.2% as we continue to de-risk ourselves from copper-based services. Growth was also seen in fibre, with a 29.6% growth in the subscriber base and a 28.7% increase in revenue. Notwithstanding this, revenue for Consumer decreased by 1.9% to R12 717 million due to reduced blended ARPUs and the accelerated migration of legacy to next-generation technologies.Our copper-based services now account for 6.2% of total operating revenue.

Mobile customer base grew by 10.9% to 18.0 million

post-paid customer base grew by 11.7% to 2.8 million

14.1% growth in data traffic

28.7% fibre revenue growth

Telkom Consumer

0.7% marginal decrease in Mobile service revenue

1.0% marginal decrease in Mobile data revenue

Accelerated Mobile growth

Mobile service revenue decreased marginally by 0.7% to   as the product mix evolved towards more value-enhancing product sets.

The Mobile customer base grew by 10.9% to 18.0 million at a blended ARPU of R88. The post-paid customer base grew by 11.7% to 2.9 million with an ARPU of R206, down R11 from the same period in the last financial year, influenced by value-enhanced mobile and wireless broadband offerings to customers. In addition, post-paid contract options now include a 36-month contract period, which comprises the majority of new post-paid customers, consequently extending the timing of revenue recognition by an additional 12-months. Our mobile pre-paid base continues to grow strongly at 10.7% to 15.2 million with an ARPU of R64.

Telkom Mobile is still pursuing the Mobile communication services transversal contract to partner with government in reducing technology expenditure, while affording them solutions that enable as many citizens and students as possible to access connectivity and technology at a value-compelling proposition. Key deals were secured under this contract with two institutions during the period.

The Mobile business ended the first half of the year on an EBITDA margin decline of 6.3 ppts to 22.5%. EBITDA of R2 412 million decreased by 21.3% from the comparative period, emanating from higher handset and equipment costs (R498 million), additional operating costs from an increased network footprint (R175 million), increased marketing costs (R74 million), and the adverse impact of sustained load shedding during the current period (R30 million). The increase in handset and equipment costs has been offset partially by higher device sales (R195 million net of device sales). This upsurge was propelled by material price increases, In addition, an amplified demand from customers for high-end devices and longer contract periods for post-paid customers, which led to a higher cost of sales for the period. At the same time, the associated revenue is recognised over longer contract periods.

Drive high-speed broadband

Telkom continued to innovate in the wireless broadband portfolio, providing pre-paid customers with access to unlimited bundles that cater for both peak and off-peak market demand. Telkom also refreshed its entire post-paid wireless broadband portfolio, offering customers significantly more value in the capped and unlimited plans. As the wireless broadband market continues to remain under heavy competitive threat, Telkom remains focused on leading the market in terms of customer value. Our mobile data revenue decreased marginally by 0.9% to R6 317 million. The mobile broadband subscriber base increased by 3.7% to 11.0 million, representing 61.2% of our total mobile base now using wireless broadband.

In respect of value-added services, Telkom Plus and Ringa music continue to derive solid growth every month, with more customers actively engaging without content propositions. These services have been expanded to include Monate Instant Wins, which promotes ongoing customer engagement.

Productive capital continued

Telkom Consumer

Expand mobile network

Persistent data demand increased our data traffic by 14.1% to 550 petabytes. We continued to strengthen our mobile network by investing in our mobile programme, which was supported by a R1 909 million investment, of which R1.1 billion is related to the spectrum payment. Consequently, our footprint was extended by 6.9% from 6 910 to 7 384 integrated sites.

In total, 55% of data traffic is on 4.5G which is primarily used for fixed wireless access while 40.3% is on 4G which is used for mobile data. The remaining traffic is on 3G and this traffic decreases year on year as it moves to LTE in line with our data-led strategy. We successfully migrated the frequency reallocation of our existing 28 MHz of 3 500 MHz to align with the newly acquired 22 MHz in this band. This is crucial to allow Telkom to deploy a contiguous spectrum of 50 Mhz for 5G. This enables us to obtain the highest spectral efficiency and subsequently high data speed throughput. On 27 October 2022, we switched on our 5G network at 136 active 5G sites across four provinces. The activation of 5G will enable faster connectivity, ease congestion in high-traffic zones and enhance the overall customer experience on our network.

We also successfully migrated all sites that were using temporary spectrum to the newly assigned spectrum. We are deploying the low band spectrum (800 MHz) to improve our LTE coverage. The low band site footprint is now 34% of the total site base enabling us to improve data mobility and increase VoLTE penetration. At 33%, Telkom has one of the highest VoLTE penetrations in the country.

Drive digital and financial services revenue

Telkom continues to actively drive the uptake and adoption of airtime lending, which now equates to marginally below 30% of monthly pre-paid recharges. We currently have 2.5 million customers using this service and have expanded the portfolio to include auto top-up for customers who opt in for the service. Telkom and our airtime lending partner proactively identify qualifying customers based on several predetermined and agreed criteria. Customers are then offered a loan amount based on their risk profile and the management of any outstanding unpaid loans is done in conjunction with our partner who ultimately stands liable for any bad debt as and if, the customer churns with an outstanding loan amount.

Non-connectivity revenue grew by double digits, with a 19.0% increase in our mobile financial and micro-content services to R608 million.

Our digital and fintech revenue streams are continuing to gain momentum. Financial services products and channels provide avenues to de-risk our core business, extend sales channels and offer new revenue. With data at the core, we will maintain a value-driven pricing strategy and offer segmented value propositions.

The Mobile business continues to grow the customer base where top-line revenue remains flat, with EBITDA being under pressure in the short term as we invest in further growing our customer base. We will continue to strengthen the network to deal with the effects of load shedding to improve the experience of our customers. Our strategy to invest in growing the post-paid customer base and fibre-to-the-home connections is starting to bear fruit, while putting pressure on EBITDA levels in the short term, and will contribute to further profitable revenue uplift in the long run. As we continue to de-risk the business from legacy and drive non-connectivity offerings to expand margins and create stickiness, the outlook for the business looks promising, driven by mobile and fibre investments that will spur our next growth phase in the long run.

Productive capital

BCX delivered solid results in the first half of the FY2023 financial year, despite challenging macro-economic conditions and capital spend by enterprise clients not yet being at anticipated levels. Encouragingly, the growth in hardware and software solutions points to growth in IT investments by clients. There are positive signs of growth in the IT business and continued challenges in the Converged Communications business due to anticipated declines in fixed voice revenues and increasing competition.

Geo-political challenges have put pressure on disposable incomes of retail customers, thus perpetuating tough trading conditions for enterprise clients. Supply chain constraints specific to hardware and software solutions in the IT business and associated increased costs remained during the period. However, BCX combated this by strategically buying stock upfront and changing product builds to parts that are not under constraint.

0.6%
marginal increase in EBITDA

Performance overview

Revenue was flat at R6 996 million, marginally growing by 0.8%, largely attributable to double-digit growth in the IT business and was partially offset by a reduction in the Converged Communications business. Increased investment in IT infrastructure and software solutions by enterprise clients was the growth driver in our IT business. Converged Communications continued to see reductions in sales largely due to declines in legacy products revenue and stiff competition in the next-generation telecommunications product market.

IT business revenue grew by 13.7% to R3 801 million, largely due to growth in hardware and software solutions, which indicates growth in IT investments by corporates, albeit enterprise clients' capital spend is not yet at the expected levels owing to ongoing market challenges. The hardware and software market remained competitive and delivered once-off, low margin revenues that facilitated cross-selling opportunities of integrated solutions by BCX.

Converged Communications revenue declined by 11.2% to R3 195 million, primarily due to lower fixed voice revenue and lower data revenue. The declines in fixed voice revenues are mainly due to the migration from legacy to next-generation products. The migration comes at a lower average revenue per client, however, revenue is declining at a lower rate than previously observed, as business is nearing the bottom end of the migrations.

EBITDA is marginally up by 0.6% from R837 million to R842 million, mainly due to a change in sales mix, in favour of low-margin hardware sales in the IT business. Operating costs were well managed and resulted in a stable 12.0% EBITDA margin for the period.

Converged Communications decline with ongoing migration to next-generation technologies

The Converged Communications business continued to operate in a difficult and unpredictable market as competition increased and clients consolidated their voice and data estates to reduce communication spend.

The legacy fixed voice revenue declines continued, albeit at a much slower pace than legacy data revenue, as clients continue to migrate to more cost-effective next-generation Unified Communication as a Service (UCaaS) solutions. The focus of the Converged Communications business continues to be on capturing new-generation data revenue from unified collaboration, software defined networking, and global connectivity. Our operating model is being refreshed, with projects for operating model re-engineering, single service aggregation and reskilling resources to new-generation products infused by process automation.

The wireless business has remained flat year on year with a 2.6% decline, driven by technology migrations from legacy to next-generation technology. The business, however, continues to focus on next-generation revenue growth.

The access market continues to see a decline with revenue decreasing by 4.8% compared to the prior period, also due to the impact of migrations from legacy to next-generation technologies.

Productive capital continued

BCX

The IT business benefited from the resumption of investments in IT and internal initiatives to mitigate global supply chain constraints

The IT business for BCX is comprised of two key revenue pillars: the Cloud Platform Solutions (CPS), which is the ICT infrastructure and infrastructure services component of BCX, and the Digital Platform Solutions (DPS), which is the digital component of BCX.

Digital Platform Solutions

The DPS business recorded a solid year-on-year growth on the back of strong growth in the Internet of Things (IoT) business (25.8%), enterprise application solutions offerings such as SAP (17.8%) and SOLAR (7%), and Artificial Intelligence for IT Operations (AIOPs), where investments continue to yield results, achieving year-on-year growth of 9.8%.

Growth in the IoT business is reflective of the role played by DPS in assisting clients to achieve digital transformation, whereas growth in enterprise application offerings is indicative of a robust capability restructuring and continuous modernisation, which drove the growth achieved in these businesses.

Modernisation of our IP businesses is an ongoing effort to meet market demands. DPS remains well positioned for growth and resilience, underpinned by expected growth in IoT and AIOPs as we continue to partner with our clients on their digital transformation journeys.

Cloud Platform Solutions

Due to relatively high fixed costs, the CPS business remains dependent on scale to maintain profitability and is negatively impacted by the low economic growth noted in the country.

Despite the tough economic conditions and supply chain constraints that resulted in hardware delays, the CPS business saw strong year-on-year hardware and software sales growth of 53.2%, as BCX's strategies to combat supply chain challenges yielded results. The service business also demonstrated resilience in maintaining its revenue performance in the face of significant market pressures. Cybersecurity grew 3.8%, while the Cloud business was flat, amid tough trading conditions.

The Cybersecurity business continues to show growth, as BCX remains focused on assisting clients to respond to the ever-increasing risk of cybersecurity and building awareness for its security products.

Strategic partnership with Alibaba Cloud to boost IT business in future

Strategic partnerships are BCX's strategic pillar for growth. During the period, BCX entered into a strategic partnership with Alibaba Cloud, which provides a wide range of cloud computing products and services to drive digitalisation locally. The two parties signed an exclusive distribution contract, which grants BCX exclusive right and authority to distribute Alibaba Cloud's products and services in South Africa. This is complementary to BCX's offering as a vendor-agnostic systems integrator that develops solutions for its clients based on their exact use case across a wide range of technology spheres and vertical sectors.

Productive capital

Swiftnet continues to commercialise the masts and towers portfolio in line with its strategic objectives of commercialising the portfolio and preparing for the implementation of 5G by our clients. Swiftnet's performance was impacted by termination of sites and modernisation by Mobile Network Operators (MNOs), and the change in the direct property operating cost allocation methodology. We expect a continuation of modernisation by MNOs, coupled with the deployment of new base station sites as MNOs deploy their respective newly acquired permanent spectrum allocations.

expect continuation of modernisation by MNOs

commercialising and growing the productive portfolio

69.5%
EBITDA margin

portfolio increased by
26
towers and 5 IBS sites

swiftnet

7.6%
satisfactory revenue growth from continuing customers

pipeline of permitting of over 2 000 sites

Optimise and grow masts and towers portfolio

Swiftnet remained on course during the first half of the year in commercialising and growing the productive portfolio, increasing the portfolio to 3 945 towers. This included 26 towers and five In Building Solutions (IBS) sites that were constructed.

Swiftnet's total reported revenue decreased by 2.1% to R660 million while achieving a satisfactory revenue growth from continuing customers of 7.6% to R467 million. The revenue growth from continuing customers was driven by, among others, lease escalations, new tenancies and equipment upgrades on existing sites, as the customers continue to modify their networks. The impact of terminations by one of our MNO customers and Openserve's decommissioning of legacy-based technologies resulted in a 19.6% reduction in revenue from the prior comparative period.

We continued our proactive site acquisition and permitting initiatives. We have a pipeline of permitting over 2 000 sites, which includes building plan approvals ready to be executed when triggered by anchor tenancy, significantly reducing the time between demand confirmation and revenue realisation. We also successfully launched our first 5G outdoor Distribution Antenna System (oDAS) small cell sites. This will be the basis for future site deployments in support of our customers' 5G rollout plans.

On a reported basis, Swiftnet achieved an EBITDA of R459 million at a 69.5% EBITDA margin. The decline by 9.4 ppts in EBITDA margin compared to the reported prior period is attributable to the impact of transaction advisory expenses incurred (R28 million) and the impact of the implementation of the refined property operating cost allocation methodology during the second half of the prior financial year. The revised property operating cost methodology was not effective during the first half of the prior financial year. On a normalised basis, by including the impact of the new property operating cost methodology in the first half of the previous financial year and excluding the transaction advisory expenses during the first half of the current financial year, normalised EBITDA margin improved from 70.5% (normalised H1 FY2022) to 73.7% (normalised H1 FY2023).

Productive capital

Gyro continues to unlock value and optimise the property portfolios in Gyro Properties and Telkom. Gyro focused on progressing development planning activity for selected development projects and engaging with prospective development investment partners for the execution of the development projects. There was a concerted effort to rationalise the property portfolio through the continued decommissioning of assets that are no longer required for core operational purposes. This resulted in the termination of the related facilities, utilities and security service property operating costs. There was success in disposing of excess non-core properties and realising proceeds from previous property sale transactions. Gyro also continued its rollout of environmental technical interventions as part of the broader Telkom Group ESG strategy.

unlock value and optimise the property portfolios

success in disposing of excess non-core properties

27 property sale transactions

38 accepted sale offers on properties

Gyro

Performance overview

Total revenue of R819 million reduced by 2.8% largely due to growth in the masts and towers business, which was offset by terminations by one of our MNO clients and Openserve decommissioning on the masts and towers and properties. Total EBITDA for Gyro was also impacted by transaction costs related to the Swiftnet listing and the amended property operating cost allocation methodology. Therefore, EBITDA decreased by 19.7% to R553 million.

Commercialise the property portfolio

During the first half of FY2023, the development work continued to focus on advancing development planning for the selected property development projects. The development pipeline attracted interest from seasoned development project investors, resulting in investment partnership discussions that are at advanced stages for some of the projects. The partnership approach will ensure that Gyro minimises investment capital injection for the projects by contributing to the property and development planning work in exchange for shareholding in the development project. Partnerships under discussion are at the individual property project level or a cluster of similar property projects.

Enhance building costs and operational efficiencies

Gyro continued to reduce property operating costs by terminating property services for properties that are no longer utilised for operational purposes and disposing of the assets that are unsuitable for repurposing or development opportunities. In the current year, we realised sales proceeds of R45 million out of 27 property sale transactions. There are a further 19 properties that are in the property transfer process. We executed two property auctions this year and accepted sale offers on 38 properties. We plan to dispose of further unsold and newly vacated properties during the financial year to continue to reduce property operating costs and generate additional cash inflows for the Group.

During the first half of the year, we continued to implement energy and water efficiency projects towards attaining the ESG targets set in the Telkom ESG strategy.

Human capital

A high-performing culture is the outcome of having several key factors in place, i.e. performance management, effective communication and collaboration, autonomy and accountability, strong leadership capabilities, training and development, and a customer-centric strategy. Customer centricity is only possible when all employees across the organisation embody customer centricity. This is achieved when employees know, understand and are empowered to drive customer satisfaction, and when it is the responsibility of everyone in the organisation. The activities and interventions driving this culture are premised on an agile mindset, continuously learning, assessing and recalibrating our actions.

A pulse survey diagnostic served as a baseline methodology to assess and evaluate the as-is culture related to the high-performance model. Just under half of our employee base (44%) participated in the survey which measured employee engagement, culture, communication, relationships and the work environment. The overall results were pleasingly positive with employees rating the Telkom Group and their current environments (service organisations and teams) as a good place to work, and our collective products and services as great.

More than 80% of employees indicated regularly receiving constructive performance feedback within their business environments, which suggests that our continued focus on and investment in developing our performance management capability and understanding of the processes is bearing fruit.

Received constructive feedback regularly → **80%** of employees

The pulse survey reflects that we need to continue to ramp up our focus on driving a high-performance culture, reviewing the Telkom Group recognition framework, and introducing and promoting expanded development opportunities.

The start of September 2022 saw the implementation of a significant step in the evolution of our journey to a hybrid work model, with employees being requested to come into the office for three days each week. The journey has been purposefully planned and focuses on meeting the changing requirements of our key stakeholders, including employees, customers, and the business.

We commenced new learning programmes focused on developing skills in innovation, digitisation and leadership across the organisation. The online e-learning platform provides curated learning pathways or tracks for managers and non-managers. The pathways focus on building the soft skills required for navigating the hybrid world of work, growing an innovation mindset, enhancing customer service, and creating an understanding and awareness of emotional intelligence. In total, 4 623 employees have made use of the self-directed e-learning platform while more than 219 000 content items have been completed.

We are committed to building a pipeline of female leaders in the business to support our ESG strategy to improve leadership diversity.

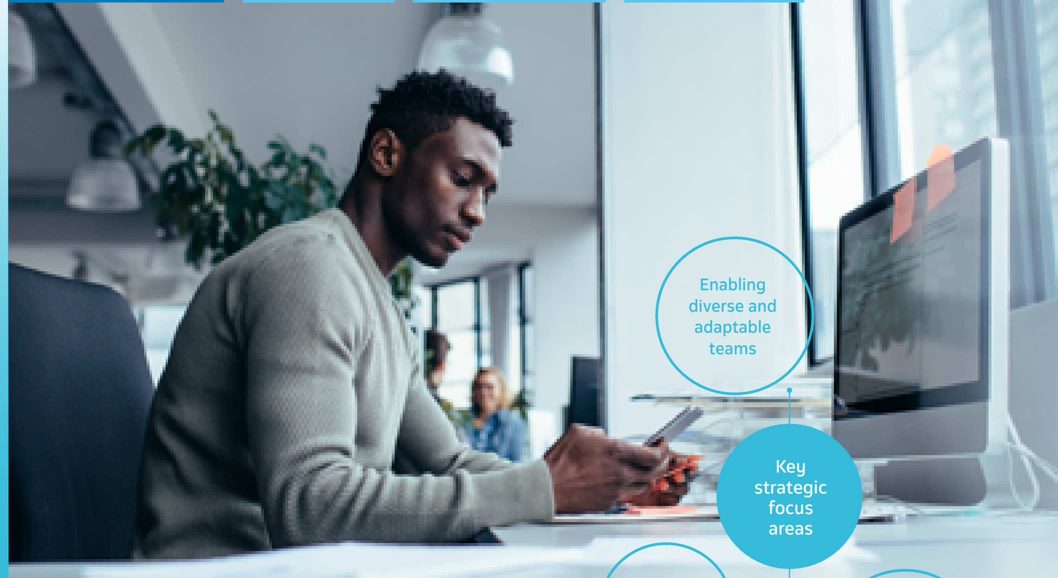
Substantive wage negotiations process between Telkom SA SOC Ltd and the Alliance of CWU and SACU:

In line with the substantive wage negotiations Procedure, the parties agreed to commence the FY2022/23 wage negotiations process in March 2022. In preparation for the said wage negotiations, the Alliance of CWU and SACU provided Telkom SA SOC Ltd with the Alliance's consolidated wage demand list for Telkom SA SOC Ltd to procure a mandate from its principals.

The wage negotiation rounds were as follows:

- First round convened 23 and 24 March 2022
- Second round convened 4 and 5 April 2022
- Wage settlement round convened 26 April 2022

The FY2022/23 Substantive Wage Settlement agreement was signed at the signing ceremony convened on 29 April 2022, and the said settlement agreement expires on 31 March 2023.



Key strategic focus areas

- Enabling diverse and adaptable teams
- Transforming our culture
- Building a sustainability mindset
- Developing next-generation future leaders

KPIs and key measures

- Employee voluntary turnover
- Training and development spend
- Number of graduates and learners supported
- Number of learnerships and internships
- Employee diversity statistics
- Total recordable injury frequency rate
- Number of women in leadership in business

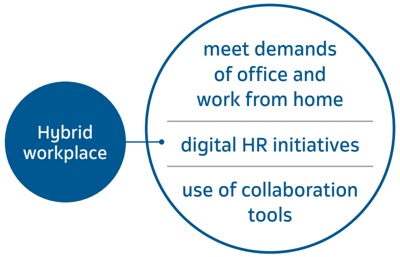
Intellectual capital

Over the reporting period, the focal areas were a continuation of the OSS/BSS* transformation programmes. This involves the technical optimisation of network and customer-facing processes. The Enterprise Resource Planning (ERP) projects underway improve the efficiency of the back office in support of the business operations.

Information security

As we continue to expand our networks to enable the increased need for connectivity and technology, we have expanded our focus on monitoring external threats and enhancing our cybersecurity technologies, techniques and capabilities. Over the reporting period, we extended our coverage to include our partners through a comprehensive third-party risk framework. This has been built around four key areas which include:

- Increased promotion of good security behaviour using training and cybersecurity campaigns across an internal and partner ecosystems
- A state of preparedness which allows for faster discovery and response against cyber security threats
- Attracting the right talent which focuses on the-end-to end cybersecurity management process
- Continual investment in cybersecurity tools and applications that drive the protection, detection, and resolution of any incidents that impact Telkom Group and its customers



Effective governance and risk

Our governance of the technology and information framework is based on King IV and is in line with the JSE Listings Requirements. In addition, ISO 38500 and COBIT 2019 were factored in from an IT control perspective.

By complying with these standards and guidelines, the Board assumes responsibility for policy and direction over matters relating to technology and information.

IT governance structures are integrated with corporate governance to align IT governance objectives with corporate governance ambitions. We continued to review and align the Telkom IT policies, standards and risks with the changing business and threat landscape. There was a heightened drive for data governance, necessitated by the Protection of Personal Information Act. We emphasised defining risk and governance metrics to manage risks and non-compliance proactively.

Innovation

Telkom is strengthening the research and development portfolio within the Telkom Group to ensure that it creates value for the business. This investment in innovation is supported by driving new partnerships and cultivating closer industry-academic collaboration while building upon the foundation of its multi-decade investment in the research Centres of Excellence (CoE) programme.

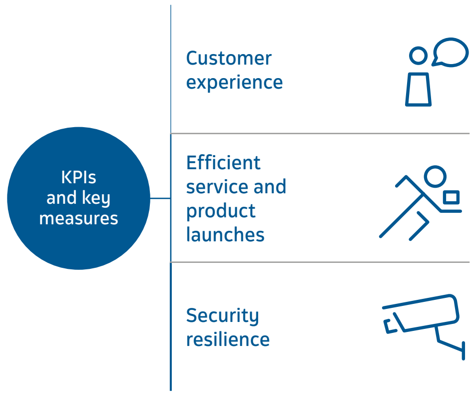
*OSS – Operational Support System
BSS – Business Support System

This programme supports and enables scientific and engineering research innovation across South Africa's institutions of higher learning. Telkom currently supports CoEs focused on areas such as Natural Language Processing and Speech Technologies for under-resourced African languages and Innovations and Applications of Next-Generation Networks.

Telkom also hosts the annual Southern African Telecommunication Networks and Applications Conference (SATNAC) supported by various partners. SATNAC is one of the main research and innovation conferences in South Africa, and this year's conference showcased the research excellence produced both at Telkom CoEs and across all of South Africa's academia and industrial sectors.

Moreover, Telkom continues to strengthen the izwe.ai platform, which is the multi-lingual transcription and translation platform provided to customers in partnership with Enabler.

Through Telkom's FutureMakers programme, the Company hosts hackathons to solve some of its innovation challenges as a business. The recent events were in partnership with start-ups focusing on cybersecurity and in collaboration with township-based technology entrepreneurs, specifically focused on leveraging technology to solve education-related challenges.



Social and relationship capital

Supporting the Group's ESG strategy, the Telkom Foundation continued to deliver on its digital literacy, skills and education, with a focus on supporting learners to improve their performance in STEM subjects as gateway subjects to ICT-related careers. Over 15 000 learners are assisted through online and face-to-face support programmes.

These learners also receive psycho-social support, training in basic digital skills and career management support. Teachers and school leaders are supported through development programmes to enrich teaching practice and improve instructional leadership.

The Foundation also continued its investment in reskilling unemployed youth through MICTSETA accredited training to enable them to access employment and entrepreneurial opportunities in the ICT sector. This programme currently supports over 550 youth.

We continue to support young people in improving their performance in science technology, engineering and mathematics (STEM) subjects, enabling them to access post-schooling and future economic opportunities.

The Foundation has also concluded its strategy review going into FY2024, which will set the agenda for the next five years with the key focus on enhancing its reach and impact within South Africa by incorporating lessons learned over the last five years.

FutureMakers currently has 286 SMMEs (H1 FY2022: 256) registered on various programmes, including 177 SMMEs (H1 FY2022: 164) registered on the BCX Subcontractor programme.

Our current portfolio of SMMEs has 27 318 jobs, of which 815 are direct and 26 503 are indirect. This is a growth of 44 jobs from H1 FY2022 (total: 27 274; direct: 731; and indirect: 26 543). It is the Group's ESG aspiration to impact 100 000 lives through our spend on SMMEs by 2025, both via FutureMakers and our supply chain.

We spent R11 million (H1 FY2022: R7 million) in operational expenditure in our various supplier development programmes and innovation and incubation.

In our supply chain programmes, we supported our Independent Field Technicians programme with material to the value of R2 million. We also launched our Supplier Development Mentorship programme which aims to address specific growth gaps for SMMEs on our supply chain.

In our innovation programmes, we hosted two hackathons with the objective of partnering with SMMEs in the technology sector to help some of Telkom's key innovation challenges. We hosted a township tech hackathon to solve education challenges and make quality education widely accessible through technology. We also hosted a hackathon in cybersecurity working with university students to solve key challenges in fraud management in the ICT sector.

The first cohort of our Township Innovation Incubator graduated in Soweto. The key successes of the graduating cohort are the 11 enterprises creating 40 indirect jobs and having secured piloting opportunities with various government departments.

FutureMakers contributed to the ESG strategy through new jobs created from the beginning of the financial year with a multiplier effect of 3.3 to account for the lives impacted through SMME development and spend. FutureMakers contributed to 656 lives impacted through SMME spend and development in the investing with purpose strategic pillar of the ESG strategy.

SMMEs have 27 318 jobs

Indirect jobs **26 503**

Direct jobs **815**

Key strategic focus areas

Diversify our supply chain and sales value chain (such as dealers) and accelerate innovation in the technology sector, focusing on SMMEs. This is a mitigating factor in managing supply chain risks

Digital skills development and digital literacy

Holistic school development and integrating ICT in schools

KPIs and key measures

- Number of SMMEs impacted or supported
- Number of jobs created (direct and indirect)
- R'million invested in digital skills programmes
- R'million invested in the Telkom Foundation
- Number of learners and teachers impacted
- B-BBEE ratings
- Employment equity plan targets
- Diversification of procurement spend

Natural capital

Telkom, through its ESG strategy, has set itself an ambition to be carbon neutral by 2035 and net zero by 2040,.

Managing our e-waste

Telkom's business activities, products and services produce high volumes of e-waste across items like batteries, copper, cabling, mobile phones, electrical equipment, etc. It is also our most environmentally impactful waste stream, internally and across our value chain.

We are focused on reducing e-waste by implementing practices for the reuse, resale or recycling of our network waste and other waste generated. We have recorded an increase in e-waste recycling in FY2023 from 800 tonnes in H1 FY2022 to 1 760 tonnes in H1 FY2023. In an effort to reduce paper waste, we are implementing a paperless proof of delivery in some areas and will continue deploying this technology in other regions.

We sell our cabling to a leading e-waste recycling organisation, which processes the cabling by using environmentally and socially responsible techniques that do not use chemicals or burning.

For H1 FY2023 installed

147 smart meters

Solar photovoltaic (PV) energy plant commissioning in Telkom Park and Bellville Complex

Managing our Scope 1 and 2 emissions

In line with our ESG strategy, we have set a target for the Group to be carbon neutral for Scope 1 and 2 emissions by 2035. We are in the process of developing a baseline for Scope 3 emissions, as a key step in our journey towards net zero by 2040. Our ESG targets are in line with the guidance of the Global System for Mobile Communication (GSMA), the Science Based Targets Initiative (SBTi) and the material issues set out by the Sustainability Accounting Standards Board (SASB) for the sectors in which we operate.

The Group's Scope 1 emissions increased by 47% in H1 FY2023 compared to the previous period due to sustained load shedding. The Group's diesel consumption for standby generators increased by 154%[1] over the period. We continue to investigate innovative solutions to mitigate our reliance on diesel, such as the use of lithium ion batteries.

We have several energy optimisation initiatives aimed at improving our energy consumption. Energy efficiency and renewable energy initiatives aimed at reducing our energy consumption and reliance on the grid include LED lights/sensors, legacy equipment decommissioning, HVAC optimisation and solar photovoltaics and smart metering.

Compliance and regulations

There were no environmental notices of violation or directives issued against Telkom in the reporting period. Environmental regulators did not conduct any compliance inspections. We monitor our compliance with environmental statutes and by-laws through site inspections, audits, and regular reviews of our procedures and operations. We are finalising the process of obtaining an Energy Performance Certificate before the 8 December 2022 deadline set by the regulator.

Telkom sources energy from:

- **85%** national grid
- **15%** fossil fuels

Key strategic focus areas

- Energy-efficiency initiatives
- Power factor correction
- Tariff optimisation
- Renewable energy
- Smart meters
- E-waste recycling

KPIs and key measures

- Scope 1 and 2 emissions
- Water consumption

E Environment **S** Social **G** Governance

Telkom continues to find ways to unlock social, economic and environmental opportunities through its value chain to support our ESG ambitions.

[1] *Diesel consumption increased from 2 254 915 litres in H1 FY2022 to 5 731 393 litres during H1 FY2023.*

Operational data

2

Operational data

Subscribers	September 2022	September 2021	Variance %
Broadband subscribers			
Fixed broadband subscribers[1]	**562 080**	562 552	(0.1)
Mobile broadband subscribers	**11 034 809**	10 642 005	3.7
Fixed subscribers			
Internet all–access subscribers[2]	**274 206**	317 337	(13.6)
Fixed access lines ('000)[3]	**882**	1 118	(21.1)
Revenue per fixed access line (rand)	**2 431**	2 400	1.3
Fixed voice ARPU	**306.98**	315.31	(2.6)
Fixed broadband ARPU	**287.62**	272.21	5.7
Managed data network sites	**31 726**	37 067	(14.4)
Mobile subscribers			
Active mobile subscribers[4]	**18 023 524**	16 258 857	10.9
Pre-paid	**15 161 977**	13 696 236	10.7
Post-paid	**2 861 547**	2 562 621	11.7
ARPU (rand)	**87.87**	92.40	(4.9)
Pre-paid	**64.47**	67.21	(4.1)
Post-paid	**205.92**	216.84	(5.0)
Volumes			
Fixed broadband (petabytes)	**919**	809	13.6
Mobile broadband (petabytes)	**550**	482	14.1
Total fixed-line traffic (millions of minutes)	**2 723**	3 158	(13.8)
Network			
Fibre to the home	**960 801**	707 399	35.8
Fibre homes passed and connected	**443 469**	331 735	33.7
Enterprise business services	**40 861**	39 758	2.8
Next-generation technology services	**71 647**	66 784	7.3
Carrier services	**19 937**	18 794	6.1
Fibre to base station connections	**8 877**	8 560	3.7
Mobile sites integrated	**7 384**	6 910	6.9
Active fibre connectivity rate %	**46.2**	46.9	(0.7)
Group employees	**11 788**	11 853	(0.5)
Telkom Company employees	**1 679**	7 074	(76.3)
Consumer	**1 325**	936	41.6
Openserve	**–**	5 619	(100.0)
Corporate Centre	**354**	322	9.9
SMB (known as Yep!)[5]	**–**	197	(100.0)
Openserve	**5 658**	–	100.0
BCX group employees	**4 339**	4 585	(5.4)
Trudon employees[5]	**–**	95	(100.0)
Gyro employees	**112**	99	13.1

1 *Includes xDSL and FTTH lines of which 3 389 (H1 FY2022: 2 619) 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.*
5 *Transferred to Consumer.*

Financial performance

3

Group operating revenue	September 2022 Rm	September 2021 Rm	Variance %
Fixed	**6 947**	7 704	(9.8)
Voice and subscriptions	**2 146**	2 694	(20.3)
Usage	**894**	1 079	(17.2)
Subscriptions	**1 252**	1 615	(22.5)
Interconnection	**146**	166	(12.1)
Fixed-line domestic	**94**	91	3.3
Fixed-line international	**52**	75	(30.7)
Data	**3 990**	4 106	(2.8)
Data connectivity	**2 970**	2 996	(0.9)
Internet access and related services	**724**	754	(4.0)
Managed data network services	**294**	360	(18.3)
Multimedia services	**2**	(4)	(150.0)
Customer premises equipment sales and rentals	**528**	628	(15.9)
Sales	**196**	209	(6.2)
Rentals	**332**	419	(20.8)
Other revenue	**137**	110	24.6
Mobile	**10 605**	10 366	2.3
Mobile voice and subscriptions	**2 213**	2 236	(1.0)
Mobile interconnection	**253**	237	6.9
Mobile data	**6 317**	6 374	(0.9)
Mobile handset and equipment sales	**1 671**	1 396	19.7
Significant financing component revenue	**151**	123	22.9
Information technology	**3 119**	2 677	16.5
Information technology service solutions	**1 373**	1 436	(4.4)
Application solutions	**477**	485	(1.7)
IT hardware and software	**1 201**	694	73.1
Industrial technologies	**53**	50	6.0
Significant financing component revenue	**15**	12	25.0
Other	**479**	545	(12.1)
Trudon	**111**	171	(35.1)
Gyro	**368**	374	(1.6)
Total	**21 150**	21 292	(0.7)

Mobile statement of profit or loss	September 2022 Rm	September 2021 Rm	September 2020 Rm
Revenue	**10 713**	10 659	9 708
Payments to other operators	**(1 322)**	(1 393)	(1 507)
Cost of handsets, equipment and directories	**(1 954)**	(1 456)	(1 091)
Sales commission, incentive and logistical costs	**(1 112)**	(1 117)	(1 016)
Other income	**173**	112	81
Operating expenses	**(4 086)**	(3 739)	(3 275)
Employee expenses	**(292)**	(215)	(204)
Selling, general and administrative	**(3 399)**	(3 328)	(2 788)
Service fees	**(346)**	(244)	(221)
Lease-related expenses	**(49)**	48	(62)
EBITDA	**2 412**	3 066	2 900

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

Masts and towers statement of profit or loss	September 2022 Rm	September 2021 Rm	September 2020 Rm
Operating revenue	**660**	674	628
Operating expenses	**(201)**	(142)	(144)
Other operating expenses	**(81)**	(107)	(101)
Impairment of receivables and contract assets	**(5)**	–	(15)
Service fees	**(113)**	(34)	(23)
Lease-related expenses	**(2)**	(1)	(5)
EBITDA	**459**	532	484

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

Condensed consolidated statement of profit or loss

	September 2022 Rm	September 2021 Rm	Variance %
Revenue from contracts with customers	**21 150**	21 292	(0.7)
Payments to other operators	**(1 705)**	(1 822)	6.4
Cost of handsets, equipment , software and directories	**(3 224)**	(2 453)	(31.4)
Sales commission, incentive and logistical costs	**(1 183)**	(1 269)	6.8
Other income	**434**	277	56.7
Insurance service result	**9**	(8)	212.5
Operating expenses	**(10 539)**	(10 039)	(5.0)
Employee expenses	**(4 132)**	(4 371)	5.5
Other operating expenses	**(1 206)**	(1 271)	5.1
Maintenance	**(2 153)**	(1 924)	(11.9)
Marketing	**(423)**	(330)	(28.2)
Impairment of receivables and contract assets	**(500)**	(475)	(5.3)
Service fees	**(1 950)**	(1 611)	(21.0)
Lease-related expenses	**(175)**	(57)	(207.0)
EBITDA	**4 942**	5 978	(17.3)
Depreciation, amortisation, impairment and write-offs	**(3 549)**	(3 488)	(1.7)
Operating profit	**1 393**	2 490	(44.1)
Investment income	**55**	95	(42.1)
Finance charges and fair value movements	**(553)**	(659)	16.1
Finance charges on lease liabilities	**(242)**	(224)	(8.0)
Net finance charges	**(413)**	(317)	(30.3)
Cost of hedging	**–**	(101)	100.0
Foreign exchange and fair value movements	**102**	(17)	700.0
Profit before taxation	**895**	1 926	(53.5)
Taxation	**(254)**	(565)	55.0
Profit for the period	**641**	1 361	(52.9)

Notes

Cost of handsets, equipment , software and directories increased by 31.4% to R3 224 million due to a 19.7% increase in mobile handsets and 73.1% increase in IT hardware and software sales recorded in the current period.

Other income increased by 56.7% to R434 million largely due to the impact of the contract asset sales.

Marketing increased by 28.2% to R423 million mainly due to an uptake in the marketing of mobile products and higher sponsorships.

Service fees increased by 21.0% to R1 950 million mainly attributable to higher diesel consumption due to increased load shedding and higher consultant costs mainly relating to mergers and acquisition transactions and key strategic projects.

Lease-related expenses increased by 207.0% to R175 million mainly due to an extensive lease renewal engagement which resulted in the confirmation of a payment variance between expired leases and the actual renewal lease. The variance is expensed as it relates to the period in which the assets have been used.

Investment income decreased by 42.1% mainly due to the lower cash balances during the period.

Finance charges and fair value movements decreased by 16.1% to R553 million and is attributed to recognised gains in the valuation of FECs and interest rate swaps, due to a weaker rand and aggressive interest rate increases, respectively. The Group pays the fixed interest leg of the swap and receives the floating interest leg, while paying the floating interest to lenders on the underlined debt. These gains were slightly offset by an increase in net finance charges due to increases in interest rates and higher debt levels.

Taxation decreased by 55.0% due to the 53.5% decrease in profit before tax when compared to the prior period.

Condensed consolidated provisional statement of financial position

	September 2022 Rm	March 2022 Rm	Variance %
Assets			
Non-current assets	**51 303**	49 893	2.8
Property, plant and equipment	**38 062**	38 319	(0.7)
Right-of-use assets	**5 228**	4 945	5.7
Intangible assets	**5 259**	4 248	23.8
Other investments	**173**	170	1.8
Non-current other receivable	**46**	–	100.0
Employee benefits	**1 678**	1 566	7.2
Other financial assets	**114**	113	0.9
Finance lease receivables	**244**	224	8.9
Deferred taxation	**499**	308	62.0
Current assets	**15 536**	16 124	(3.6)
Inventories	**1 213**	1 084	11.9
Income tax receivable	**50**	30	66.7
Finance lease receivables	**258**	183	41.0
Trade and other receivables	**8 348**	7 797	7.1
Contract assets	**2 355**	2 055	14.6
Other current assets	**461**	466	(1.1)
Other financial assets	**283**	69	310.1
Investment in insurance cell captive	**69**	59	16.9
Cash and cash equivalents	**2 499**	3 239	(22.8)
Restricted cash	**–**	1 142	(100.0)
Total assets	**66 839**	66 017	1.2
Equity and liabilities			
Equity attributable to owners of the parent	**34 630**	34 069	1.6
Share capital	**5 050**	5 050	–
Share-based compensation reserve	**1 319**	1 238	6.5
Non-distributable reserves	**783**	968	(19.1)
Retained earnings	**27 478**	26 813	2.5
Non-controlling interest	**(23)**	(25)	(8.0)
Total equity	**34 607**	34 044	1.7
Non-current liabilities	**13 735**	13 422	2.3
Interest-bearing debt	**8 011**	8 221	(2.6)
Lease liability	**4 676**	4 340	7.7
Provisions	**333**	380	(12.4)
Other financial liabilities	**171**	106	61.3
Deferred revenue	**126**	138	(8.7)
Deferred taxation	**418**	237	76.4
Current liabilities	**18 497**	18 551	(0.3)
Trade and other payables	**9 479**	10 339	(8.3)
Shareholders for dividend	**26**	28	(7.1)
Interest-bearing debt	**5 102**	3 711	37.5
Lease liabilities	**1 036**	1 034	0.2
Provisions	**759**	1 276	(40.5)
Deferred revenue	**1 599**	1 633	(2.1)
Income tax payable	**3**	3	–
Other financial liabilities	**493**	527	(6.5)
Total liabilities	**32 232**	31 973	0.8
Total equity and liabilities	**66 839**	66 017	1.2

Notes

Intangible assets increased by 23.8% to R5 259 million mainly due to the spectrum acquisition that was capitalised in the current period.

Financial assets increased by 118.1% to R397 million primarily due to the depreciation of the South African rand against the US dollar, resulting in the fair value gains on revaluation of FECs.

Inventories increased by 11.9% to R1 213 million due to stock purchased for specific customer contracts and additional stock purchased in advance. The bulk ordering of stock is as a result of the general stock shortfall faced in South Africa, following the KwaZulu-Natal unrest in 2021.

Contract assets increased by 14.6% to R2 355 million supported by the 19.7% increase in mobile handset sales recorded in the current period partially offset by handset financing of R730 million.

Interest-bearing debt increased by 9.9% to R13 113 million due to net loans raised of R1 139 million to fund our strategic capital investment requirements.

Provisions decreased by 34.1% to R1 092 million mainly due to the settlement of the FY2022 employee performance recognition provision in the current financial period.

Condensed consolidated statement of cash flows

	September 2022 Rm	September 2021 Rm	Variance %
Cash flows from operating activities	**2 094**	3 598	(41.8)
Cash receipts from customers	**20 360**	21 229	(4.1)
Cash paid to suppliers and employees	**(17 513)**	(16 700)	(4.9)
Cash generated from operations	**2 847**	4 529	(37.1)
Interest received	**102**	119	(14.3)
Dividend received	**–**	22	(100.0)
Finance charges paid	**(654)**	(577)	(13.3)
Taxation paid	**(301)**	(433)	30.5
Repayment of derivatives – FECs	**(20)**	(67)	70.1
Proceeds from derivatives – FECs	**123**	7	(1 657.1)
Cash generated from operations before dividend paid	**2 097**	3 600	(41.8)
Dividend paid	**(3)**	(2)	(50.0)
Cash flows from investing activities	**(3 159)**	(4 193)	(24.7)
Proceeds on disposal of property, plant and equipment and intangible assets	**65**	10	550.0
Additions to assets for capital expansion	**(3 358)**	(4 003)	16.1
Repayment of derivatives – FECs	**(28)**	(200)	86.0
Proceeds from derivatives – FECs	**169**	22	668.2
Proceeds from/(investments made by) FutureMakers	**(7)**	(22)	68.2
Cash flows from financing activities	**325**	(1 019)	131.9
Loans raised	**3 274**	–	100.0
Loans repaid	**(2 135)**	(100)	(2 035.0)
Purchase of shares for the Telkom share plan and subsidiaries' long-term incentive share scheme	**(250)**	(393)	36.4
Repayment of lease liability	**(523)**	(474)	(10.3)
Repayment of derivatives	**(41)**	(69)	40.6
Proceeds from settlements of derivatives	**–**	17	(100.0)
Net decrease in cash and cash equivalents	**(740)**	(1 614)	54.2
Net cash and cash equivalents at beginning of the period	**3 239**	5 002	(35.2)
Net cash and cash equivalents at end of the period	**2 499**	3 388	(26.2)

Notes

Cash generated from operations declined by 37.1% to R2 847 million largely attributable to the 53.5% decrease in profit before taxation and the deterioration in working capital mainly due to the timing of cash flows as a result of an increase in post-paid mobile handset sales and purchases.

Additions to assets for capital expansion of R3 358 million decreased by 16.1% compared to the prior period due to payments included in the prior period for capital expansions executed during Q4 of FY2022.

Loans raised of R3 274 million were raised to fund the settlement of R2 135 million maturing debt and capital expenditure in line with the Group strategy.

Financial statements

Group interim results

Reviewed six months ended 30 September 2022

4

Board approval

These condensed consolidated interim financial statements were authorised for issue on 22 November 2022 by the Telkom SA SOC Ltd Board of Directors and published on 23 November 2022.

Directors' responsibility and audit review 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 joint independent external auditors (hereafter referred to as "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 interim financial statements

for the period ended 30 September 2022

To the Shareholders of Telkom SA SOC Limited

We have reviewed the condensed consolidated interim financial statements of Telkom SA SOC Limited in the accompanying interim report, which comprise the condensed consolidated interim statement of financial position as at 30 September 2022 and the related condensed consolidated interim statement of profit and loss and other comprehensive income, changes in equity and cash flows for the six-months then ended, and selected explanatory notes.

Directors' Responsibility for the Interim Financial Statements

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

Auditor's Responsibility

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

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Telkom SA SOC Limited for the six months ended 30 September 2022 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. SizweNtsalubaGobodo Grant Thornton Inc.

PricewaterhouseCoopers Inc.
Director: KJ Dikana
Registered Auditor
Johannesburg

22 November 2022

SizweNtsalubaGobodo Grant Thornton Inc.
Director: Gulam Mohammed Hafiz
Registered Auditor
Johannesburg

22 November 2022

The examination of controls over the maintenance and integrity of the Group's website is beyond the scope of the review of the financial statements. Accordingly, we accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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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.

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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

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

for the period ended 30 September 2022

	Notes	Reviewed six months ended 30 September 2022 Rm	Reviewed six months ended 30 September 2021 Rm
Revenue		21 150	21 292
Operating revenue		20 984	21 157
Interest revenue		166	135
Other income[1]		434	277
Insurance service result		9	(8)
Payments to other operators	5.1	(1 705)	(1 822)
Cost of handsets, equipment, software and directories	5.2	(3 224)	(2 453)
Sales commission, incentives and logistical costs	5.3	(1 183)	(1 269)
Employee expenses	5.4	(4 132)	(4 371)
Other expenses		(1 206)	(1 271)
Maintenance	5.5	(2 153)	(1 924)
Marketing	5.6	(423)	(330)
Impairment of receivables and contract assets		(500)	(475)
Service fees	5.7	(1 950)	(1 611)
Lease-related expenses	5.8	(175)	(57)
EBITDA		4 942	5 978
Depreciation of property, plant and equipment		(2 477)	(2 406)
Depreciation of right-of-use assets		(617)	(584)
Amortisation of intangible assets		(370)	(423)
Write-offs and impairments of property, plant and equipment and intangible assets		(85)	(75)
Operating profit		1 393	2 490
Investment income		55	95
Net finance charges and fair value movements		(553)	(659)
Finance charges on lease liabilities		(242)	(224)
Net finance charges – other[2]		(413)	(317)
Cost of hedging		–	(101)
Foreign exchange and fair value movements[2]		102	(17)
Profit before taxation		895	1 926
Taxation	12.1	(254)	(565)
Profit for the period		641	1 361

	Notes	Reviewed six months ended 30 September 2022 Rm	Reviewed six months ended 30 September 2021 Rm
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange gains on translating foreign operations[3]		27	11
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gains	9	65	258
Income tax relating to other comprehensive income		(17)	(72)
Other comprehensive income for the period, net of taxation		75	197
Total comprehensive income for the period		716	1 558
Profit attributable to:			
Owners of Telkom		639	1 360
Non-controlling interests		2	1
Profit for the period		641	1 361
Total comprehensive income attributable to:			
Owners of Telkom		714	1 557
Non-controlling interests		2	1
Total comprehensive income for the period		716	1 558
Basic earnings per share (cents)	6	131.6	276.8
Diluted earnings per share (cents)	6	126.9	269.6

[1] *Other income increased largely due to the impact of contract asset sales. Refer to note 17.2.*
[2] *Other net finance charges increased mainly due to an increase in interest-bearing debt as well as an increase in interest rates. The change in foreign exchange and fair value movements is largely due to a gain on the revaluation of forward exchange contracts and interest rate swaps.*
[3] *This component of other comprehensive income does not attract any tax.*

Condensed consolidated interim statement of financial position

at 30 September 2022

	Notes	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Assets			
Non-current assets		**51 303**	49 893
Property, plant and equipment	7	**38 062**	38 319
Right-of-use assets		**5 228**	4 945
Intangible assets	7	**5 259**	4 248
Other investments		**173**	170
Other receivables[1]		**46**	–
Employee benefits	9	**1 678**	1 566
Other financial assets	8.1	**114**	113
Finance lease receivables		**244**	224
Deferred taxation	12.3	**499**	308
Current assets		**15 536**	16 124
Inventories	10	**1 213**	1 084
Income tax receivable	12.4	**50**	30
Finance lease receivables		**258**	183
Trade and other receivables	17.1	**8 348**	7 797
Contract assets	17.2	**2 355**	2 055
Other current assets		**461**	466
Other financial assets	8.1	**283**	69
Investment in cell captives		**69**	59
Cash and cash equivalents	11	**2 499**	3 239
Restricted cash[2]		**–**	1 142
Total assets		**66 839**	66 017

	Notes	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Equity and liabilities			
Equity attributable to owners of the parent		**34 630**	34 069
Share capital		**5 050**	5 050
Share-based compensation reserve		**1 319**	1 238
Non-distributable reserves		**783**	968
Retained earnings		**27 478**	26 813
Non-controlling interests		**(23)**	(25)
Total equity		**34 607**	34 044
Non-current liabilities		**13 735**	13 422
Interest-bearing debt	14	**8 011**	8 221
Lease liabilities		**4 676**	4 340
Provisions	15	**333**	380
Other financial liabilities	8.2	**171**	106
Deferred revenue		**126**	138
Deferred taxation	12.3	**418**	237
Current liabilities		**18 497**	18 551
Trade and other payables[3]		**9 479**	10 339
Shareholders for dividend		**26**	28
Interest-bearing debt	14	**5 102**	3 711
Lease liabilities		**1 036**	1 034
Provisions	15	**759**	1 276
Deferred revenue		**1 599**	1 633
Income tax payable	12.4	**3**	3
Other financial liabilities	8.2	**493**	527
Total liabilities		**32 232**	31 973
Total equity and liabilities		**66 839**	66 017

[1] *The other receivables relate to prepayments on contracts ending after the next 12 months, with the latest end date being in March 2027. The current portion of prepayments is disclosed in trade and other receivables.*

[2] *The restricted cash balance of R1 142 million in the prior year relates to an amount that was deposited into a trust account at Werksmans Attorneys for the ICASA spectrum auction fee. In the current period, this amount was capitalised as an intangible asset as the amount had been paid to ICASA from the trust account.*

[3] *Invoices subject to supplier finance are classified as trade payables based on management's judgement applied. R1 595 million of the total trade payables is subject to supplier financing. The Group continues to pay its suppliers based on the agreed payment terms and provides no guarantees to the participating funders. The arrangement does not have an impact on the Group's trade payables, net debt and cash flows.*

Condensed consolidated interim statement of changes in equity

for the period ended 30 September 2022

	Reviewed six months ended 30 September 2022 Rm	Reviewed six months ended 30 September 2021 Rm
Balance at 1 April (as previously reported)	**34 044**	31 341
Attributable to owners of Telkom	**34 069**	31 366
Non-controlling interests	**(25)**	(25)
Total comprehensive income for the period	**716**	1 558
Profit for the period	**641**	1 361
Other comprehensive income	**75**	197
Exchange gains on translating foreign operations	**27**	11
Net defined benefit plan remeasurements	**48**	186
Dividend declared[1]	**–**	(2)
Increase in share-based compensation reserve	**89**	105
Increase in treasury shares	**(242)**	(203)
Increase in treasury shares from BCX	**–**	(184)
Increase in treasury shares from Gyro	**–**	(8)
Balance at 30 September	**34 607**	32 607
Attributable to owners of Telkom	**34 630**	32 634
Non-controlling interests	**(23)**	(27)

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

Condensed consolidated interim statement of cash flows

for the period ended 30 September 2022

	Notes	Reviewed six months ended 30 September 2022 Rm	Reviewed six months ended 30 September 2021 Rm
Cash flows from operating activities		**2 094**	3 598
Cash receipts from customers		**20 360**	21 229
Cash paid to suppliers and employees		**(17 513)**	(16 700)
Cash generated from operations[1]	20	**2 847**	4 529
Interest received		**102**	119
Dividend received		**–**	22
Finance charges paid		**(654)**	(577)
Taxation paid	12.2	**(301)**	(433)
Repayment of derivatives – FECs		**(20)**	(67)
Proceeds from derivatives – FECs		**123**	7
Cash generated from operations before dividend paid		**2 097**	3 600
Dividend paid		**(3)**	(2)
Cash flows utilised for investing activities		**(3 159)**	(4 193)
Proceeds on disposal of property, plant and equipment and intangible assets		**65**	10
Additions to property, plant and equipment and intangible assets		**(3 358)**	(4 003)
Investments made by FutureMakers		**(7)**	(22)
Repayment of derivatives – FECs		**(28)**	(200)
Proceeds from derivatives – FECs		**169**	22
Cash flows from financing activities		**325**	(1 019)
Loans raised	14	**3 274**	–
Loans repaid	14	**(2 135)**	(100)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		**(250)**	(393)
Repayment of lease liability		**(523)**	(474)
Repayment of derivatives – interest rate swaps		**(41)**	(69)
Proceeds from derivatives – interest rate swaps		**–**	17
Net decrease in cash and cash equivalents		**(740)**	(1 614)
Net cash and cash equivalents at 1 April		**3 239**	5 002
Net cash and cash equivalents at the end of the period	11	**2 499**	3 388

[1] *The deterioration in cash is driven by the increase in trade receivables and contract debtors as a result of higher post-paid mobile handset sales. The collections derived from mobile handset sales are deferred over a 24 or 36-month contract while the cost of sale is recorded immediately.*

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2022

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 2022 have been reviewed by our auditors PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc., who have expressed an unmodified conclusion thereon. The 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 and associates is to supply telecommunication, multimedia, technology, information, mobile communication services and other related information technology (IT) 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 for the period are not necessarily indicative of the results for 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 2022, 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 consolidated annual financial statements for the year ended 31 March 2022, with the exception of the judgements and estimates related to the useful lives of property, plant and equipment (refer to note 3.2.1).

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 under review, the Group reassessed the useful lives on property, plant and equipment. The reassessment decreased the depreciation expense by R113 million (30 September 2021: R172 million).

3.2.2 The assessment of the Russia-Ukraine conflict

The geopolitical situation in Eastern Europe intensified on 24 February 2022 with Russia's invasion of Ukraine. The war between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed.

The war has created uncertainties and caused volatility in commodity prices and impacts on the global supply chain.

The Group does not have direct exposure, largely because of not having significant suppliers, vendors or customers in the affected countries. Indirectly, the most likely impact will be on the overall economic uncertainty and negative impacts on the global economy and major financial markets arising from the war. The extent of the financial impact, or how long the war will last, is still not quantifiable.

3.2.3 CGU and goodwill impairment assessment

All assets within the scope of IAS 36 (Impairment of Assets) are to be tested for impairment where there is an impairment indicator. Goodwill is tested for impairment on an annual basis and when an impairment indicator exists. Telkom's net asset value is more than the current market capitalisation as at 30 September 2022. This is an indicator of impairment in terms of IAS 36. Based on Telkom's assessment, the indicator has been assessed and no impairment is required.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

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

3.3 New accounting pronouncements

3.3.1 Other standards, amendments to standards and interpretations

The standards and amendments to standards listed below have been adopted effective 1 April 2022 and did not have a material impact on the Group:

Consideration	Effective date
IFRS 3 (Business Combinations) Reference to the conceptual framework	Annual periods beginning on or after 1 April 2022
IFRS 16 (Leases) Amendments to illustrative example 13 in IFRS 16, to remove the illustration of payments from the lessor relating to leasehold improvements	Annual periods beginning on or after 1 April 2022
IFRS 9 (Financial Instruments) Fees in the "10 percent" test for derecognition of financial liabilities	Annual periods beginning on or after 1 April 2022
IAS 16 (Property, Plant and Equipment) Proceeds before intended use	Annual periods beginning on or after 1 April 2022
IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) Onerous Contracts – Costs of Fulfilling a Contract	Annual periods beginning on or after 1 April 2022

The standards and amendments listed below will be effective in future reporting periods. It is expected that the Group will adopt the pronouncements on their respective effective dates. With the exception of IFRS 17, the amendments are not expected to have a material impact. The adoption of IFRS 17 will result in greater disclosures within the Group, however the recognition and measurement in terms of the standard are not expected to be material.

Consideration	Effective date
IFRS 17 (Insurance Contracts)	Annual periods beginning on or after 1 April 2023
IFRS 17 (Insurance Contracts) Amendments to address concerns and implementation challenges that were identified after IFRS 17 was published (includes a deferral of the effective date to annual periods beginning on or after 1 January 2023)	Annual periods beginning on or after 1 April 2023
IAS 1 (Presentation of Financial Statements) Amendments regarding the classification of liabilities	Annual periods beginning on or after 1 April 2023
IAS 1 (Presentation of Financial Statements) Amendments regarding the disclosure of accounting policies	Annual periods beginning on or after 1 April 2023
IAS 12 (Income Taxes) Amendments regarding deferred tax related to assets and liabilities arising from a single transaction	Annual periods beginning on or after 1 April 2023
IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) Definition of accounting estimate	Annual periods beginning on or after 1 April 2023

4. Segment information

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

The reportable segments have been determined as Openserve, Telkom Consumer, BCX, Gyro and "Other". The SMB segment has been aggregated into the Telkom Consumer segment. The aggregation is based on the similarity in the nature of products and services. SMB customers include primarily sole proprietors and customers who typically consume simple products and are similar to the product nature and customer profiling within the Telkom Consumer segment. 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 Telkom 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
- Interest on overdue accounts

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 2022

4. Segment information continued

September 2022	Openserve Rm	Telkom Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	IFRS 16 reversal Rm	Consolidated Rm
Revenue from external customers[1]	1 953	12 521	6 308	368	–	–	–	21 150
Revenue from contracts with customers recognised over time	1 899	10 806	4 934	–	–	–	–	17 639
Voice	–	3 005	1 354	–	–	–	–	4 359
Interconnection	146	253	–	–	–	–	–	399
Data	1 672	7 255	1 380	–	–	–	–	10 307
Information technology services	–	–	1 903	–	–	–	–	1 903
Customer premises equipment related services	–	50	282	–	–	–	–	332
Interest revenue	–	151	15	–	–	–	–	166
Sundry revenue	81	92	–	–	–	–	–	173
Revenue from contracts with customers recognised at a point in time	–	1 715	1 374	–	–	–	–	3 089
Customer premises equipment	–	1 694	173	–	–	–	–	1 867
Information technology hardware	–	–	1 201	–	–	–	–	1 201
Sundry revenue	–	21	–	–	–	–	–	21
Lease revenue	54	–	–	368	–	–	–	422
Intersegmental operating revenue	4 481	196	688	451	412	(5 805)	(423)	–
Other income	141	354	23	6	252	(342)	–	434
Insurance service result	–	–	–	–	9	–	–	9
Total expenses	(4 691)	(11 338)	(6 177)	(272)	(320)	6 147	–	(16 651)
Cost of handsets, equipment, software and directories	(7)	(2 061)	(1 345)	–	–	189	–	(3 224)
Sales commission, incentives and logistical costs	–	(1 170)	(13)	–	–	–	–	(1 183)
Payments to other operators	(335)	(1 328)	(224)	–	–	182	–	(1 705)
Employee expenses	(1 611)	(639)	(1 735)	(70)	(77)	–	–	(4 132)
Selling, general and administrative expenses	(2 738)	(6 140)	(2 860)	(202)	(243)	5 776	–	(6 407)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	1 884	1 733	842	553	353	–	(423)	4 942
Depreciation, amortisation, impairments and write-offs								(3 549)
Operating profit								1 393
Investment income								55
Net finance charges, hedging costs and fair value movements								(553)
Profit before taxation								895
Other segment information								
Capital expenditure of property, plant and equipment and intangible assets	1 419	1 937	177	104	52	–	–	3 689

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

4. Segment information continued

Restated September 2021[2]	Openserve Rm	Telkom Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	IFRS 16 reversal Rm	Consolidated 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	5 405	–	–	–	–	18 400
Voice	–	3 374	1 561	–	–	–	–	4 935
Interconnection	166	237	–	–	–	–	–	403
Data	1 577	7 405	1 492	–	–	–	–	10 474
Information technology services	–	–	1 971	–	–	–	–	1 971
Customer premises equipment related services	–	52	366	–	–	–	–	418
Interest revenue	–	123	12	–	–	–	–	135
Sundry revenue	61	–	3	–	–	–	–	64
Revenue from contracts with customers recognised at a point in time	–	1 608	863	–	–	–	–	2 471
Customer premises equipment	–	1 437	169	–	–	–	–	1 606
Information technology hardware	–	–	694	–	–	–	–	694
Sundry revenue	–	171	–	–	–	–	–	171
Lease revenue	47	–	–	374	–	–	–	421
Intersegmental operating revenue	4 869	161	671	469	509	(6 309)	(370)	–
Other income	190	234	27	–	100	(274)	–	277
Insurance service result	–	(8)	–	–	–	–	–	(8)
Total expenses	(4 661)	(10 671)	(6 129)	(154)	(551)	6 583	–	(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	(1 590)	(600)	(1 752)	(65)	(364)	–	–	(4 371)
Selling, general and administrative expenses[3]	(2 671)	(5 933)	(3 104)	(89)	(187)	6 316	–	(5 668)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	2 249	2 515	837	689	58	–	(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. Group revenue declined marginally, driven by a decrease in fixed, mobile and IT service revenue due to the challenging operating environment. This was offset by an increase in mobile handset and IT hardware and software sales. Refer to note 5 for more details regarding the corresponding increase in cost of handsets, software, equipment and directories.

2 Effective from 1 April 2022, Telkom has terminated the Telkom Group Information Technology (TGIT) contract with BCX and transferred the respective BCX employees to the respective business units within Telkom. By terminating the TGIT agreement and transferring the employees, Telkom has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change. The prior period has been restated to account for the change in the way the TGIT business is viewed by the CODM.

3 In the prior year, service fees and lease-related expenses were disclosed separately. These have been included in selling, general and administrative expenses in the current year to simplify the disclosure. The prior year segment has been re-presented for comparability purposes.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

4. Segment information continued

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

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.

5. Expenses

		Reviewed six months ended 30 September 2022 Rm	Reviewed six months ended 30 September 2021 Rm
5.1	**Payments to other operators** Payments to other operators decreased mainly due to lower mobile roaming and interconnect traffic.	**(1 705)**	(1 822)
5.2	**Cost of handsets, equipment, software and directories** Cost of handsets, equipment, software and directories increased mainly due to high-end mobile contract sales resulting in higher average handset cost and higher post-paid revenue, as well as an increase in mobile handset sales.	**(3 224)**	(2 453)
5.3	**Sales commission, incentives and logistical costs** The decrease in sales commission, incentives and logistical costs is in line with the decrease in mobile revenue.	**(1 183)**	(1 269)
5.4	**Employee expenses** Employee expenses decreased mainly due to a decrease in the bonus provision, labour broker costs and long service awards.	**(4 132)**	(4 371)
5.5	**Maintenance** Maintenance increased mainly due to higher subcontractor costs, maintenance costs and support contract costs.	**(2 153)**	(1 924)
5.6	**Marketing** Marketing costs have increased due to higher media and non-media commissions paid as well as sponsorship payments for the Youth Employment Service program.	**(423)**	(330)
5.7	**Service fees** Service fees increased due to higher spend on consultants in the current period, mainly in mergers and acquisitions for Group strategic projects as well as higher property management costs.	**(1 950)**	(1 611)

		Reviewed six months ended 30 September 2022 Rm	Reviewed six months ended 30 September 2021 Rm
5.8	**Lease-related expenses** During the current period, the Group undertook an extensive process to renew expired lease agreements relating to strategic leased assets which are still in use. For expired lease agreements relating to strategic leased assets still in use, the Group policy requires that the lease period be extended in line with the Group's rolling forecast period. The increase in the lease-related expense is mainly due to additional lease payments made as a result of variances identified between the original payment terms and the new payments terms under the renewed lease agreements.	**(175)**	(57)

6. Earnings and dividend per share

Total operations	Reviewed six months ended 30 September 2022	Reviewed six months ended 30 September 2021
Basic earnings per share (cents)	**131.6**	276.8
Diluted earnings per share (cents)	**126.9**	269.6
Headline earnings per share (cents)[1]	**137.2**	285.5
Diluted headline earnings per share (cents)[1]	**132.3**	278.2

Reconciliation of weighted average number of ordinary shares:	Number of shares	Number of shares
Weighted ordinary shares in issue	**511 140 239**	511 140 239
Weighted average number of treasury shares	**(25 735 040)**	(19 745 319)
Weighted average number of shares outstanding	**485 405 199**	491 394 920

Reconciliation of diluted weighted average number of ordinary shares:

Weighted average number of shares outstanding	**485 405 199**	491 394 920
Expected future vesting of shares related to Group share scheme incentive plans	**17 983 582**	12 965 469
Diluted weighted average number of shares outstanding	**503 388 781**	504 360 389

[1] *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.*

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

6. Earnings and dividend per share continued

Treasury shares
The Group holds 25 062 168 (30 September 2021: 23 248 692) treasury shares.

	Reviewed 30 September 2022		Reviewed 30 September 2021	
	Gross Rm	Net[1] Rm	Gross Rm	Net[1] Rm
Total operations				
Reconciliation between earnings and headline earnings				
Profit for the period		641		1 361
Non-controlling interests		(2)		(1)
Profit attributable to owners of Telkom		639		1 360
Profit on disposal of property, plant and equipment and intangible assets	(43)	(43)	(9)	(9)
Gain on disposal of a subsidiary	–	–	3	3
Write-offs and impairments of property, plant and equipment and intangible assets	85	70	75	49
Headline earnings		666		1 403

[1] *The taxation impact consists of a R15 million increase (30 September 2021: R26 million) in tax expense related to recoupment and scrapping of disposals and write-offs of property, plant and equipment and intangible assets.*

7. Capital additions and disposals

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Property, plant and equipment		
Additions	2 307	6 969
Disposals	(8)	(13)
	2 299	6 956
Intangible assets		
Additions	1 382	513
Disposals	(55)	–
	1 327	513

Finance charges of R26 million (31 March 2022: R78 million) were capitalised to property, plant and equipment and intangible assets in the current period.

8. Other financial assets and liabilities

8.1 Other financial assets

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Non-current other financial assets		
Other financial assets at amortised cost	114	113
Asset finance receivables	99	103
Other financial assets at fair value through profit or loss		
Investment in SA SME Fund	10	10
Investment in first party cell captive	5	–
Current other financial assets		
Other financial assets at fair value through profit or loss	283	69
Derivative instruments used for hedging		
Forward exchange contracts[1]	264	16
Firm commitments	–	53
Interest rate swaps[1]	19	–

8.2 Other financial liabilities

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Non-current other financial liabilities	(171)	(106)
Other financial liabilities at amortised cost		
Asset finance payables	(171)	(106)
Current other financial liabilities	(493)	(527)
Other financial liabilities at amortised cost	(293)	(253)
Asset finance payables	(101)	(94)
Vendor financing	(192)	(159)
Other financial liabilities at fair value through profit or loss	(200)	(274)
Derivative instruments used for hedging	(185)	(252)
Forward exchange contracts	–	(147)
Firm commitments[1]	(180)	(36)
Interest rate swaps[1]	(5)	(69)
Financial guarantees	(15)	(22)

[1] *The movement in forward exchange contracts and firm commitments is due to the volatility of the forex market and the depreciation of the rand against major currencies. The decrease in the interest rate swaps liability is due to the realisation of the losses and the continuous increases in interest rates. The Group pays the fixed interest leg of the swap and receives the floating interest leg in return. The interest rate swaps are used to hedge interest on predominantly floating rate debt. The increase in the interest rate swap asset is due to the interest rate hikes.*

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

9. Employee benefits

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Non-current assets	1 678	1 566
Telkom Pension Fund asset	124	17
Post-retirement medical aid recognition of net plan asset	1 554	1 549

	Reviewed six months ended 30 September 2022 Rm	Reviewed six months ended 30 September 2021 Rm
Defined benefit plan actuarial gains	65	258
Telkom Pension Fund net actuarial gain/(loss)	108	(2)
Telkom Retirement Fund net actuarial (loss)/gain	(29)	255
Medical aid net actuarial (loss)/gain	(60)	14
Telephone rebate net actuarial gain/(loss)	46	(8)
Long service award net actuarial loss	–	(1)

The actuarial gain is due to the change in the discount rate and inflation rate. The discount rate is driven purely by market movement 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.

The increase in the actuarial gain on the Telkom Pension Fund is due to a change in the asset restriction which is mainly as a result of the reallocation of the surplus in the fund to the Employer Surplus Account. The increase in the actuarial loss on the Telkom Retirement Fund is largely due to higher than expected pension increases, experience adjustments and returns on assets higher than expected.

Share scheme
On 15 June 2022, the 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 2022
Telkom	
LTIP	1 543 060
ESOP	3 660 111
BCX	
LTIP	479 269
ESOP	965 804
Yellow Pages	
ESOP	48 214
Gyro	
LTIP	206 289
ESOP	142 377

The vesting dates for the shares granted to Telkom Company, BCX, Yellow Pages 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 2025: 100%

LTIP grant:
30 June 2025: 50%
30 June 2026: 30%
30 June 2027: 20%

The financial assumptions used for the valuation of these grants are as follows:	Telkom Group 2022 ESOP	Telkom Group 2022 LTIP
Market share price (R)	36.20	36.20
Share price volatility (%)	50	50
Future risk-free interest rate (%)		
– 30 June 2025	7.09	7.09
– 30 June 2026	N/A	7.40
– 30 June 2027	N/A	7.69

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

10. Inventories

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Inventories	**1 213**	1 084
Gross inventories	**1 400**	1 244
Write-down of inventories to net realisable value	**(187)**	(160)

The increase in inventory is as a result of stock purchased for specific customer contracts as well as additional stock purchased in advance. The bulk ordering of stock is as a result of the general stock shortfall faced in South Africa, following the KwaZulu-Natal unrest in 2021.

11. Net cash and cash equivalents

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Cash disclosed as current assets	**2 499**	3 239
Cash and bank balances	**2 481**	3 104
Short-term deposits	**18**	135
Undrawn borrowing facilities	**2 283**	4 900

The significant decrease in short-term deposits and the overall decrease in cash and cash equivalents is due to lower cash generated from operations.

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 2022, R1.98 billion (31 March 2022: R4.35 billion) of these undrawn facilities were committed.

12. Taxation and deferred taxation

12.1 Taxation

	Reviewed six months ended 30 September 2022 Rm	Reviewed six months ended 30 September 2021 Rm
Taxation	**(254)**	(565)

The taxation expense decreased mainly due to a reduction in the profit and in the Group's effective tax rate (ETR) to 28.4% from 29.3%. This reduction is attributable to the decrease in the corporate tax rate from 28% to 27%.

12.2 Taxation paid

Taxation paid	**(301)**	(433)

Taxation paid in the current financial period is lower than in the comparative period, due to a lower taxable profit expected in 2023.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

12. Taxation and deferred taxation continued

12.3 Deferred taxation

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Deferred taxation balance is made up as follows:	**81**	71
Deferred taxation assets	**499**	308
Deferred taxation liabilities	**(418)**	(237)

The increase of R10 million in the deferred tax asset (DTA) balance is attributable to an increase in tax losses recognised in profit or loss, set off by the reversal of timing differences and the movement in other comprehensive income (OCI). The movement in OCI includes actuarial gains recognised on the post-employment benefit plans. Management has completed an assessment and believes that there will be sufficient future taxable profit against which the deferred tax asset will be utilised.

12.4 Net income tax receivable

The income tax receivable is made up as follows:	**47**	27
Income tax receivable	**50**	30
Income tax payable	**(3)**	(3)

The increase in the net income tax receivable is mainly due to the first provisional tax payment made exceeding the year to date tax expense.

13. Financial risk management

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

13.1 Fair value measurement

13.1.1 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 2022 Rm	Valuation techniques	Significant inputs
Derivative assets	**284**	Discounted cash flows	Yield curves Market interest rates
Derivative liabilities	**(185)**		
Financial guarantees	**(15)**	Discounted cash flows	Market foreign exchange rates
Investment in FutureMakers entities	**163**	Discounted cash flows	Cash flow forecasts and market-related discount rates
Investment in SA SME Fund	**10**	Discounted cash flows	Cash flow forecasts and market-related discount rates
Investment in first party cell captive	**5**	Discounted cash flows	Cash flow forecasts and market-related discount rates
Interest-bearing debt	**(13 144)**	Discounted cash flows and quoted bond prices	Market interest rates Market foreign exchange 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.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

13. Financial risk management continued

13.1 Fair value measurement continued

13.1.1 Fair value of financial instruments continued

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 firm commitments.

A decrease in fair value of the forward exchange contracts, designated as fair value hedges, of R321 million (31 March 2022: R121 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).

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 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 on the previous page 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.

13.1.2 Fair value hierarchy

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

The different levels have been defined as follows:

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

	Hierarchy levels[1]	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Assets measured at fair value			
Derivative assets			
Forward exchange contracts	Level 2	**265**	16
Firm commitments	Level 2	**–**	53
Interest rate swaps	Level 2	**19**	–
Investment made by FutureMakers	Level 3	**163**	165
Investment in SA SME Fund	Level 3	**10**	10
Investment in first party cell captive	Level 3	**5**	–
Liabilities measured at fair value			
Derivative liabilities			
Forward exchange contracts	Level 2	**–**	(147)
Firm commitments	Level 2	**(180)**	(36)
Interest rate swaps	Level 2	**(5)**	(69)
Financial guarantees	Level 3	**(15)**	(22)
Liabilities measured at amortised cost			
Interest-bearing debt[2]	Level 2	**(13 144)**	(12 007)

[1] *There have been no transfers between the fair value levels in the period under review.*
[2] *The carrying amount of interest-bearing debt is R13 113 million (31 March 2022: R11 932 million). Interest-bearing debt is measured at amortised cost, however, it is included in the fair value hierarchy table above to achieve the IFRS 13 disclosure requirements relating to the disclosure of the fair value.*

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

13. Financial risk management continued

13.2 Liquidity risk management

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

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

As at 30 September 2022, the current liabilities exceed the current assets. There has also been a decrease in operating profit and an increase in short-term interest-bearing debt. Telkom has performed a going concern assessment considering the above and believes that there are no going concern issues at this stage.

Since April 2022, Telkom has increased its utilisation of committed facilities which form part of short-term borrowings. These facilities have been utilised to finance the purchase of spectrum and refinance maturing bonds in the short term. Telkom's plan has been to utilise these committed facilities while negotiating and securing longer term debt. The proceeds of this long-term debt will then be used to repay the short-term debt, increase headroom on committed facilities and reduce the amount of interest-bearing debt classified as current. Discussions are well advanced with lenders which will allow for the repayment of the short-term facilities using the proceeds of long-term debt. Telkom is in the process of securing a R2 billion long-term credit facility agreement. The approval processes at both Telkom and the lender are underway. Refer to note 22.

The table below summarises the maturity profile of the Group's interest-bearing debt based on undiscounted contractual cash flows at the reporting date:

	Carrying amount Rm	Contractual cash flows Rm	0 – 12 months Rm	1 – 2 years Rm	2 – 5 years Rm	>5 years Rm
Interest-bearing debt (note 14)	13 113	14 980	5 727	2 697	5 688	868

13.3 Interest rate risk management

The Group's policy is to manage interest cost through the utilisation of a mix of fixed and floating rate debt. In order to manage this mix in a cost-efficient manner and to hedge specific exposure in the interest rate repricing profile of the existing borrowings, the Group makes use of interest rate swaps.

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

	Average maturity	Notional amount Rm
2023		
Interest rate swaps outstanding		
Pay fixed and receive floating	1.72 years	2 277

13.4 Foreign currency exchange rate risk management

The Group enters into forward exchange contracts to hedge foreign currency exposure of the Group's operations and liabilities.

The following table details the forward exchange contracts outstanding at the reporting date:

Purchased	Foreign contract value m	Contract value Rm
2023		
Currency		
USD	133	2 201
Euro	11	187
Chinese yuan	282	687
		3 075

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

14. Interest-bearing debt

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Non-current interest-bearing debt	**8 011**	8 221
Local debt	**7 206**	7 344
Foreign debt	**805**	877
Current portion of interest-bearing debt	**5 102**	3 711
Local debt	**4 944**	3 558
Foreign debt	**158**	153

The current portion of interest-bearing debt of R5 102 million (31 March 2022: R3 711 million) at 30 September 2022 is expected to be repaid from available cash, operational cash flow or the issue of new debt instruments.

During the period, R2 135 million (30 September 2021: R100 million) debt was repaid. R3 274 million debt was raised (30 September 2021: Rnil).

15. Provisions

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Non-current provisions	**333**	380
Non-current employee-related provisions	**306**	364
Subsidiary defined benefit plans	**8**	26
Telephone rebates	**299**	338
Telkom Retirement Fund	**(1)**	–
Non-current non-employee-related provisions		
Other	**27**	16
Current provisions	**759**	1 276
Current portion of employee-related provisions	**627**	1 126
Annual leave	**507**	454
Telephone rebates	**39**	39
Bonus, termination packages and other benefits	**81**	633
Current portion of non-employee-related provisions		
Other	**132**	150

Annual leave
In terms of the Group's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 22 – 30 days (31 March 2022: 10 – 30 days) which must be taken within a 12 – 19 month (31 March 2022: 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 5.4.

Non-employee-related provisions
Other provisions relate to the ICASA license fee provision and COVID-19 donation provision.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

16. Commitments

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Capital commitments authorised	8 028	9 085
Commitments against authorised capital expenditure	2 357	2 119
Authorised capital expenditure not yet contracted	5 671	6 966

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

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

17. Trade and other receivables and contract assets

17.1 Trade and other receivables

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Trade and other receivables	8 348	7 797
Trade receivables	5 348	5 210
Gross trade receivables	7 745	7 506
Impairment of receivables	(2 397)	(2 296)
Prepayments and other receivables	3 000	2 587
Allowance account for credit losses – trade receivables	2 397	2 296
Opening balance as previously reported	2 296	2 318
Charged to statement of profit or loss and other comprehensive income	393	534
Receivables written off	(292)	(556)

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.

Trade receivables credit risk remained fairly constant. The increase in the trade receivable balance has resulted in an increase in the expected credit loss (ECL) amount while the coverage ratio remains fairly constant.

The Group increased the specific provision due to increased uncertainties regarding the collection of specific affected debtors.

17.2 Contract assets

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm
Contract assets	2 355	2 055
Gross contract assets	2 850	2 551
Impairment of contract assets	(495)	(496)
Allowance account for credit losses – contract assets	495	496
Opening balance as previously reported	496	410
Charged to statement of profit or loss and other comprehensive income	107	269
Contract assets written off	(108)	(183)

The contract asset balance increased mainly due to an increase in customer premises equipment sales. However, the ECL coverage decreased due to lower credit risk evidenced by lower write-offs and lower future expected COVID-19 impact.

Sale of contract assets

Telkom entered into agreements with financial institutions to factor a ring-fenced group of contract assets. The gross carrying amount of the contract assets factored is R805 million (31 March 2022: R1 009 million) for the current period.

Telkom recognised a derecognition gain of R106 million (30 September 2021: 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.

Per the arrangements, Telkom retains the contractual right to receive cash flows, and has assumed a contractual obligation to pay these cash flows received to the financial institution.

Based on the structure of the agreements, the IFRS 9 (Financial Instruments) "pass through" criteria were met for the derecognition of the contract assets, and the contract asset portfolios were derecognised in its entirety as significant risks and rewards were transferred. The total cash inflow related to the derecognition is included in cash flows from operating activities in the statement of cash flows.

As part of the agreement, Telkom is obligated to pay the financial institution only from the cash collected from customers and, as such, Telkom assumes no further obligation in relation to the agreement. In the case that there is a credit note, Telkom will not be required to refund the financial institution for the credit note. Telkom has no continuing involvement with the transferred contract asset.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

18. Contingencies

Contingent liabilities
Other than the disclosures below, no significant movement or new matters have been noted on the contingent positions as reported in the 31 March 2022 financial statements.

High court
Radio Surveillance Security Services (RSSS)
On 27 August 2020, RSSS served a new summons on Telkom based largely on the same events which gave rise to its previous unsuccessful action. RSSS is claiming the return of 444 alarm systems, alternatively payment of R210 million and a payment of R319 million for alleged outstanding rentals for certain disputed alarm monitoring systems. Pleadings have closed and the parties are currently in the discovery phase of the matter. 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 applying for the liquidation of RSSS, which will be heard in due course. The liquidation proceedings have been postponed on several occasions, with certain adverse and punitive cost orders granted against RSSS.

Class action against Telkom and Mutual and Federal Risk Financing Ltd
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 relating to VAT. Mutual and Federal Risk Financing Ltd 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.

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. To date, Phutuma has failed to set down the matter for hearing before the same judge who granted absolution. Telkom has proposed that the matter begins anew before another judge. Telkom has not heard from Phutuma and it has taken no further steps to advance the litigation.

Masstores (Pty) Ltd (Masstores)
During November 2021, Masstores (a subsidiary of Massmart Ltd) launched arbitration proceedings against BCX claiming for damages in the amount of R160 million as a result of alleged breach of contract. Masstores was recently granted leave to amend its claim, after BCX filed various exceptions. BCX is currently awaiting Masstores' notice of intention to amend its statement of claim.

Government Gazette announcement on Telkom
On 25 January 2022, Telkom received notice that the Special Investigating Unit (SIU) would launch an investigation into contracting and procurement processes in respect of telex and advisory services and alleged maladministration in the disposals of iWayAfrica, Africa Online Mauritius and Multi-Links Telecommunications. Telkom has approached the High Court to declare the proclamation on the SIU invalid. Telkom contends that the SIU has no jurisdiction over it. This challenge will be heard by the High Court in the latter part of November 2022.

Telkom follows robust corporate governance principles and has done so in executing the Telkom strategy to consolidate its operations in South Africa. The aforementioned matters date back as far as 2006 and most of them have been repeatedly reported on in respective Telkom reports.

Therefore, at this point, Telkom expects no material impact on its financial statements resulting from the outcomes of the SIU investigation.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

19. Related parties

	Reviewed six months ended 30 September 2022 Rm	Restated 31 March 2022[1] Rm	Restated six months ended 30 September 2021[1] 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			
Related party balances			
Finance lease receivables	**184**	146	176
Trade receivables	**995**	911	936
Impairment of trade receivables	**(280)**	(267)	(253)
Related party transactions			
Revenue	**(2 174)**	(4 625)	(2 127)

At 30 September 2022, the Government of South Africa held 40.5% (30 September 2021: 40.5%) of Telkom's shares, and had the ability to exercise significant influence, and the Public Investment Corporation held 15.13% (30 September 2021: 13.39%) of Telkom's shares.

	Reviewed six months ended 30 September 2022 Rm	Restated 31 March 2022[1] Rm	Restated six months ended 30 September 2021[1] Rm
With entities under common control:			
Major public entities			
Related party balances			
Finance lease receivables	**56**	48	70
Trade receivables	**305**	371	303
Impairment of trade receivables	**(177)**	(106)	(91)
Trade payables	**–**	(1)	(1)
Related party transactions			
Revenue (excluding lease income)	**(332)**	(658)	(376)
Operating expenses (excluding lease expense)	**125**	270	153
Lease income	**(16)**	(31)	(16)
Lease expense	**19**	42	24

[1] *In the current financial period, it was identified that certain amounts from major public entities were incorrectly included in the disclosure relating to the Government of South Africa. The comparatives have been restated to only include related party amounts with regard to the Government of South Africa. The comparatives related to major public entities have also been restated due to changes in the major public entities listing in the current financial period.*

	Reviewed six months ended 30 September 2022 Rm	Audited 31 March 2022 Rm	Reviewed six months ended 30 September 2021 Rm
Key management personnel compensation (including Directors and Prescribed Officers' remuneration):			
Related party transactions			
Short-term employee benefits	**140**	229	87
Post-employment benefits	**8**	16	8
Termination benefits	**1**	8	–
Equity compensation benefits	**27**	71	34

Terms and conditions of transactions with related parties

Except as indicated above, outstanding balances at 30 September 2022 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 2022, the Group has not impaired any of the amounts owed by the related parties. This assessment is undertaken in each financial period through examining the financial position of the related party and the market in which the related party operates.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2022

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

	Reviewed six months ended 30 September 2022 Rm	Re-presented six months ended 30 September[1] 2021 Rm
Cash generated from operations	**2 847**	4 529
Profit before tax	895	1 926
Finance charges and fair value movements	553	659
Investment income and income from associates	(55)	(95)
Interest received from trade receivables	(44)	(56)
Non-cash items	**3 488**	3 216
Depreciation, amortisation, impairment and write-offs	3 549	3 488
Increase in expected credit loss provision	100	128
Bad debts written off	400	347
Decrease in provisions	(631)	(726)
Insurance service result	(9)	8
Reversal of FutureMakers impairment	(10)	–
Gain on termination of leases	(9)	–
Profit from disposal of property, plant and equipment	(43)	(9)
Gain on sale of contract assets	(106)	(43)
Foreign exchange movements	204	33
Share-based payment expenses	89	106
Movement in deferred revenue	(46)	(116)
Movement in working capital	**(1 990)**	(1 121)
Movement in inventories	(221)	(163)
Decrease in trade receivables, contract assets, finance lease receivables and other receivables	(976)	(116)
Decrease in trade and other payables and prepayments	(793)	(842)

[1] *In the prior financial period, the gain on sale of contract assets was included in the movement in trade receivables, contract assets, finance lease receivables and other receivables line item. In the current period, this is disclosed separately as a gain on sale of contract assets. The comparative period has been re-presented for comparability purposes.*

21. Significant events and transactions

Results of the Telkom annual general meeting regarding Directors reappointments

On 24 August 2022, the following Board Members were elected or re-elected as per the annual general meeting ordinary resolutions:

- B Kennedy
- KP Lebina
- M Nyati
- IO Selele
- LL Von Zeuner
- SH Yoon

Vesting of shares

In terms of the Telkom share plan, no shares vested to Mr Serame Taukobong and to Mr Dirk Reyneke in June 2022 as this was considered a prohibited period. The vesting of these shares shall be delayed until the prohibited period has ended.

Resignation of Non-executive Directors

Telkom announced on 15 July 2022 that Mr RG Tomlinson, an independent Non-executive Director, had resigned from the Telkom Board with effect from 24 August 2022.

Retirement of Non-executive Directors

Telkom announced on 15 July 2022 that Mr N Kapila, Ms F Petersen-Cook and Ms KW Mzondeki, independent Non-executive Directors, have retired from the Telkom Board with effect from 24 August 2022.

Appointment of Non-executive Directors

Telkom announced on 26 April 2022 that Mr SH Yoon had been appointed to the Board of Directors as an independent Non-executive Director with effect from 1 May 2022. Telkom announced on 15 July 2022 that Mr B Kennedy, Ms P Lebina, Mr M Nyati and Ms IO Selele had been appointed to the Board of Directors as independent Non-executive Directors with effect from 15 July 2022.

Legal separation of Openserve

On 14 July 2022, the Telkom Board approved the carve-out and legal separation of the Openserve division through the sale of Telkom's infrastructure business as a going concern to Openserve NewCo (Openserve (Pty) Ltd) effective 1 September 2022, resulting in Openserve (Pty) Ltd becoming a 100% subsidiary of Telkom SA SOC Ltd. Openserve was under the control of Telkom both before and after the sale transaction. This transaction has no impact at a Telkom Group level.

Notes to the condensed consolidated interim financial statements continued

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21. Significant events and transactions continued

Yellow Pages (Pty) Ltd ("Yellow Pages") divisionalisation
Telkom entered into a sale of business agreement with its 100% owned subsidiary, Yellow Pages, in terms of which Yellow Pages sold its business to Telkom SA SOC Ltd with effect from 1 July 2022.

The operations of Yellow Pages have been integrated into Telkom SA SOC Ltd effective 1 July 2022. The legal entity known as Yellow Pages (Pty) Ltd will continue as a going concern due to the subsidiaries that still reside therein as well as their separate operations. The planned deregistration of Yellow Pages will occur post deregistration of the subsidiaries. This transaction had no impact at a Telkom Group level.

Google Equiano undersea internet cable contract
Openserve (Pty) Ltd, a subsidiary of Telkom, has entered into an arrangement with Google and its affiliates for licenses in order for Telkom to operate the Equiano cable system in South Africa. Based on the arrangement, the parties have entered into a master services agreement (MSA). The MSA sets out the rights and obligations of each party and the general terms and conditions of the arrangement, but does not set out the specified performance obligations and payment terms. These details are included in order forms that would need to be considered in conjunction with the MSA. As at 30 September 2022, no order forms were entered into and, as such, the arrangement does not give rise to any accounting implications for this period. Accounting implications will only be triggered by the order forms and the effective dates for all the order forms are on or after 1 October 2022.

22. Events after the reporting date

Appointment of Non-executive Director
Telkom announced on 28 October 2022 that Ms N Ford-Hoon had been appointed to the Board of Directors as an independent Non-executive Director with effect from 1 November 2022.

Disposal of Swiftnet SOC Ltd ("Swiftnet")
The Board gave in-principle approval to affirm and realise the value of its investment in Swiftnet partially or in full. Management is exploring various options of realising the value of the mast and towers business and will update the market in due course.

Approval of long-term credit facility agreement
On 18 November 2022, the Telkom Board gave in-principle approval of the R2 billion long-term credit facility, as mentioned in note 13. The bank approval processes are in progress.

Other matters
The Directors are not aware of any other matter or circumstance since the financial period ended 30 September 2022 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
ECL	Expected credit loss
ESOP	Employee share ownership plan
ETR	Effective tax rate
Exco	Group Executive Committee
FEC	Forward exchange contract
GCEO	Group Chief Executive Officer
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICASA	Independent Communications Authority of South Africa
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
SMB	Telkom Small and Medium Business
TGIT	Telkom Group Information Technology
TKG	The Telkom Group's JSE share code
TRF	Telkom Retirement Fund