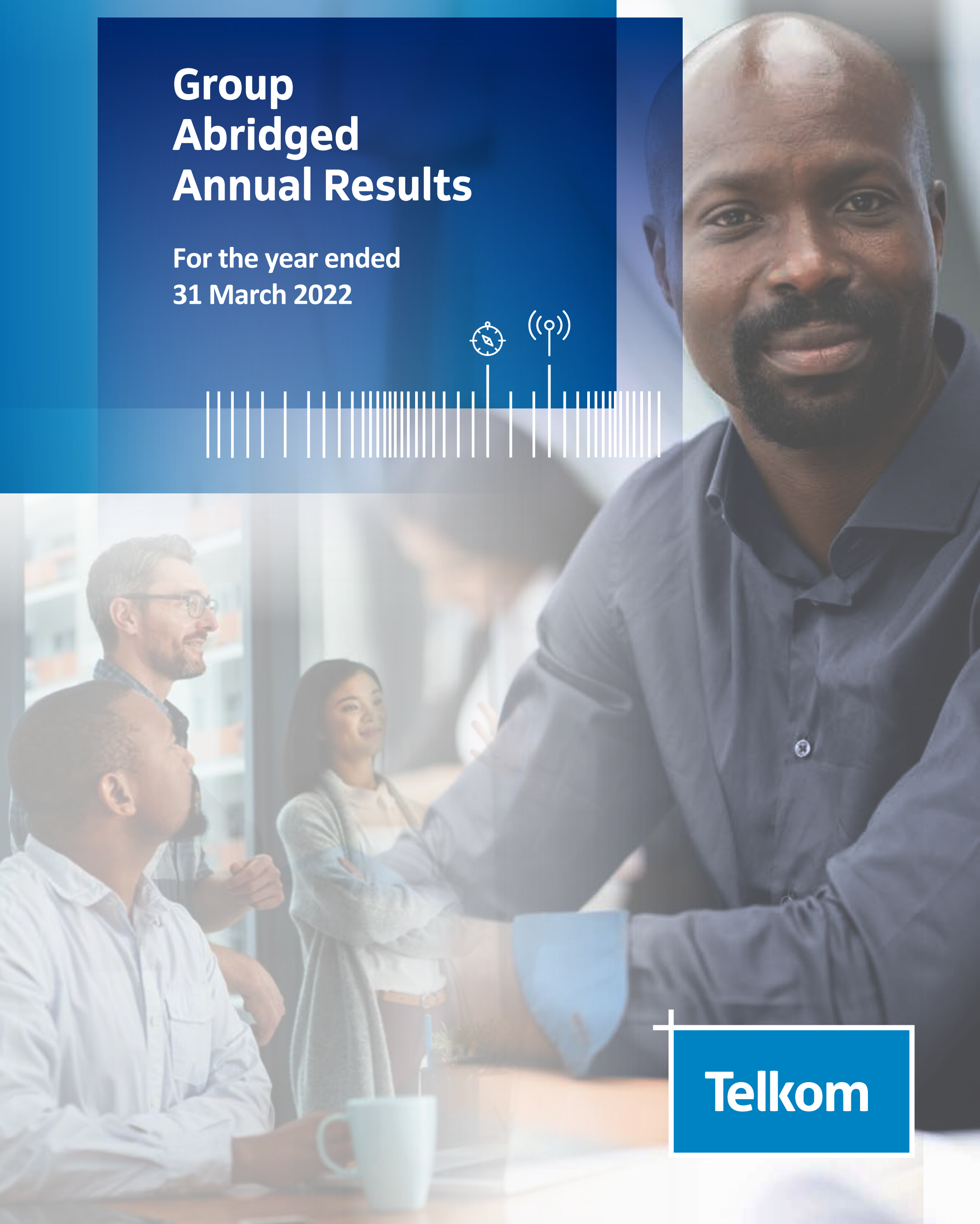
Telkom SA SOC Ltd

Group Abridged Annual Results

For the year ended 31 March 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

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

Special note regarding forward-looking statements

Many statements in this document, and verbal statements that may be made by Telkom or 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.

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

Any forward-looking financial information disclosed in these Group annual results for the year ended 31 March 2022 ("results announcement") has not been reviewed or audited or otherwise reported on by our joint independent external auditors.

Pro forma information

Certain financial information presented in this results announcement constitutes pro forma financial information in terms of the JSE Listings Requirements. This is presented for illustrative purposes only and may not fairly present Telkom's results of operations.

The pro forma financial information contained in this results announcement was reported on by the Group's joint independent external auditors. Their unmodified limited assurance report was prepared in terms of ISAE 3420 and is available on www.telkom.co.za/ir.

All financial information presented in the results announcement was prepared excluding the impact of voluntary severance package (VSP), voluntary early retirement package (VERP) costs and S189 costs in the comparative year and the related tax impact on results (the "pro forma adjustments"). This constitutes pro forma financial information to the extent that it is not extracted from the segment disclosure included in the audited consolidated abridged financial statements for the year ended 31 March 2021. This pro forma financial information was presented to eliminate the impact of the pro forma adjustments from the audited consolidated abridged financial statements for the year ended 31 March 2021 to achieve a comparable year-on-year analysis and show the underlying performance of the business. The pro forma adjustments were determined in terms of the Group accounting policies disclosed in the audited consolidated abridged financial statements for the year ended 31 March 2021.

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

The board of directors takes full responsibility for the preparation of this results announcement (including the pro forma financial information) that has been correctly extracted from the underlying audited financial statements. The information contained in this document is also available on Telkom's investor relations website www.telkom.co.za/ir.

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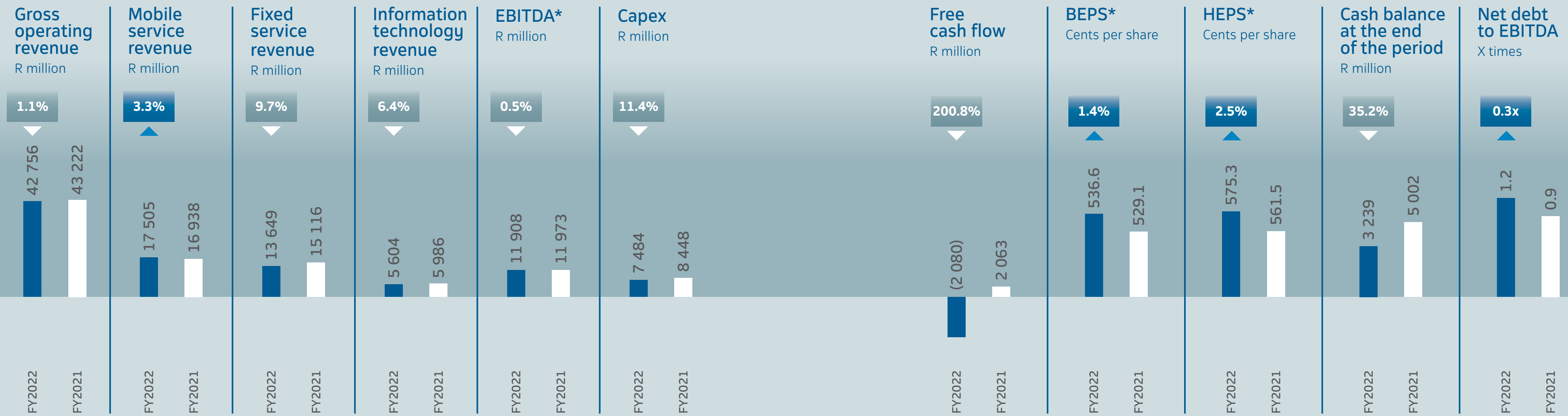
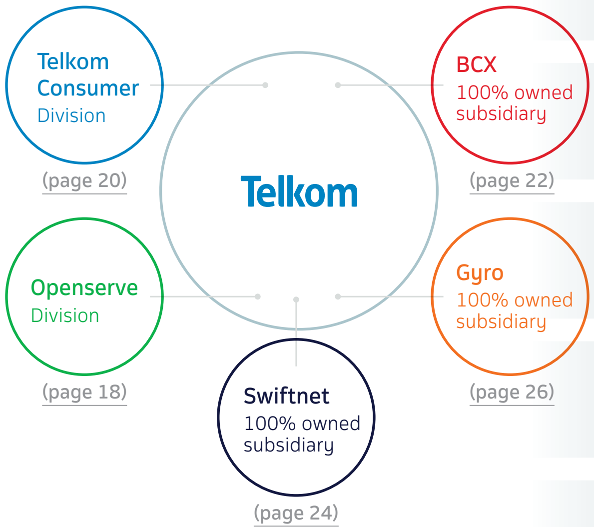
Key indicators



Telkom's operating structure

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

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



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

Telkom Consumer is South Africa's largest fixed broadband provider measured by network deployed, internet service provider and, together with its mobile network, a Converged Communications provider. Telkom Small and Medium Business (SMB) is included in this segment.

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

Swiftnet manages and commercialises the masts and towers portfolio.

Gyro manages Telkom's properties and data centres.

* *Refer to page 8 for the reconciliation of the reported figures to the pro forma adjusted figures.*

Introducing our Environmental, Social and Governance Strategy

Telkom remains committed to creating value for all its stakeholders; from our customers to our shareholders; from our employees to our communities. In October 2021, the Group embarked on a process to formalise its Environmental, Social and Governance Strategy (ESG strategy). Our ESG vision is to create sustainable economic, environmental and social value for all. We have set out a purpose-led ESG strategy with clear focus areas and goals, that seek to enable the long-term success of the organisation, our country and its people. Indeed, our ESG imperatives are considered to be a non-negotiable to the way we do business. Our ESG strategy is guided by our corporate strategy and pillars, our values, our portfolio of products and services and our commitment to contributing positively to the achievement of the United Nations Sustainable Development Goals (SDGs).

Our ESG vision

We deliver the Future of Converged ICT solutions to create sustainable economic, environmental and social value for all.

Alignment to our Sustainable Development Goals Commitment

Impact: 4 Quality Education; 8 Decent Work and Economic Growth; 9 Industry, Innovation and Infrastructure; 12 Responsible Consumption and Production

SUSTAINABLE DEVELOPMENT GOALS

Influence: 1 No Poverty; 6 Clean Water and Sanitation; 10 Reduced Inequalities; 16 Peace and Justice Strong Institutions

	ESG Focus Areas		ESG Commitments
E	Operational Efficiencies	Responsibly mitigate climate change impact through our energy, water & waste management practices	- Become Carbon Neutral by 2035 - Achieve Net Zero by 2040
E	Digital Planet	Pioneer digital solutions that help our customers reduce their environmental footprint	- Enable responsible water consumption and energy usage by deploying utilities monitoring IoT devices for our business and government customers
S	Investing with Purpose	Enable shared value through our social investment, enterprise & supplier development and workplace programmes	- Impact 100,000 lives through SMME spend by 2025 - Impact 30 000 lives through digital literacy by 2023 - Grow our female talent pool for senior management positions and demonstrate intent-to-action
S	Digital Services	Deliver ICT solutions which enable socio-economic uplift	- Bridge the digital divide through our educational, entertainment and financial services platforms - Grow SA's business segment by providing our digital solutions to businesses and government
S	Empowered Communities	Broaden access to affordable & inclusive digital connectivity, enabling a better life for our customers	- Improve digital inclusion for South Africans by providing internet access over Telkom's wide-spread mobile and fixed wireless broadband network
G	Business Stewardship	Instil accountable & ethical operating practices & encourage responsible technology use, data privacy & security	- Promote fair and ethical practices towards our customers and within the organisation - Enhance contract simplification and billing transparency

Environment | Social | Governance

ESG imperative

Telkom has a longstanding approach of reporting our financial and non-financial performance through the lens of our six Capitals (i.e. Financial Capital, Productive Capital, Intellectual Capital, Human Capital, Social & Relationship Capital and Natural Capital). We recognise the importance of reporting ESG progress through this same lens and our ESG focus areas have been mapped to Telkom's Capitals.

So as to keep our ESG imperative at the forefront of our plans and decisions, we are undertaking regular tracking of results to understand the outcome of our ESG efforts and monitor how our actions translate into benefits for our organisation, our customers, and society.

ESG Focus Areas		Aligning to our six Capitals					
		Financial Capital	Productive Capital	Intellectual Capital	Human Capital	Social & Relationship Capital	Natural Capital
E	Operational Efficiencies	◎	◎				◎
	Digital Planet	◎					
S	Investing with Purpose				◎	◎	
	Digital Services	◎	◎				
	Empowered Communities	◎	◎				
G	Business Stewardship			◎	◎		

Demonstrating our commitment to ESG

ESG Focus Areas		What we've been focused on			
E	Operational Efficiencies Digital Planet	**SBTi** - Set science based targets and **pathway to Net Zero**	**E-waste** - **~2000 tonnes** recycled	**Water** - Consumption **down ~5%** y.o.y.	**Buildings** - **Optimised HVAC** roll-out underway
S	Investing with Purpose Digital Services Empowered Communities	**ICT & connectivity** - **New products:** • eMarketPlace for SMBs • insurance policies • payment solutions - **34% increase** in homes connected with fibre - Homes passed **up 52.7%**	**Skills** - **~2000 participants** in FTTX and FTTH prog. - **103 graduates** in Advanced Management Leadership prog. - Awarded **~200 bursaries** in digital and data science fields	**Employees** - Dedicated learning platform **>3000** modules - **10%** participants in FLDP were promoted - Largest y.o.y. improvement in **Net Sentiment****	**CSI** - **Futuremakers:** supported 2 500 enterprises, creating 27 000* jobs since 2015 - **Township Innovation:** ~50 local businesses - **Telkom Foundation:** psychosocial support for ~650 000 people
G	Business Stewardship	**Data security** - Retained **ISO/IEC 27001:2013 certification**	**Health & Safety** - **Zero** fatalities	**Covid-19** - **Vaccination drive** in partnership with Dischem	**Hybrid model** - **Telkom grant** for employees who are telecommuters

* *indirect and direct jobs*
** *Reputational and Operational Net Sentiment relative to other local wireless network providers*

A selection of our activities and ESG progress is reflected above and some of the notable achievements over the past year include the step up in our employee wellness, health and safety efforts, reflected in our shift to the hybrid operating model. In addition, we set out our pathway to carbon neutrality by 2035 and a net zero target by 2040. These targets are in line with the Science Based Targets Initiative (SBTi), and Telkom is now featured as one of the companies committed to taking action to reduce their emissions in line with climate science.

Under the Social Imperative, we have introduced new products in the market e.g. our eMarketPlace solution for small and medium sized businesses, upskilled youth and employees and invested in SME's through the FutureMarkers and Township Innovation initiatives.

Pro forma financial information

Certain financial information presented in this results announcement constitutes pro forma financial information in terms of the JSE Listings Requirements. The pro forma financial information is presented to assist the reader to analyse the underlying performance of Telkom. The pro forma adjustments for the prior financial year include the impact of VSP, VERP and S189 costs of R270 million and the related tax impact of R76 million in FY2021. Unless otherwise stated, the pro forma consolidated income statement and all related key performance indicators and messages in this results announcement are based on this adjusted base. The applicable criteria on which this pro forma financial information is reported and prepared for the year ended 31 March 2021 are set out below.

Extract of the audited consolidated abridged statement of profit and loss

	Reported March 2021 Rm	Pro forma adjustment Rm	Pro forma March 2021 Rm
Operating expenses	**21 069**	(270)	20 799
Employee expenses	**9 312**	(270)	9 042
EBITDA	**11 703**	270	11 973
Operating profit	**4 833**	270	5 103
Taxation	**1 067**	76	1 143
Profit for the year	**2 428**	194	2 622
BEPS (cents)	**489.9**		529.1
HEPS (cents)	**522.2**		561.5

Segment reporting

Segment reporting is provided on page 64 as part of the notes to the financial statements.

Results from operations

Group profit after tax increased by 0.3%* to R2 631 million (FY2021: R2 622 million*). This is attributable to lower fair value movements and finance charges as a result of lower interest rates and the settlement of the SARS liability in the comparative year. Headline earnings per share (HEPS) increased by 2.5%* to 575.3 cents and basic earnings per share (BEPS) increased by 1.4%* to 536.6 cents.

The pro forma financial information for the comparative year ended 31 March 2021 has been presented consistently with the pro forma financial information published for the year ended 31 March 2021.

* *Refer to page 8 for the reconciliation of the reported figures to the pro forma adjusted figures.*

Overview of our business

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Telkom announced its Group annual results for the year ended 31 March 2022 on 14 June 2022 in Centurion, South Africa.

Message from the Group Chief Executive Officer (GCEO),

Serame Taukobong

The year was characterised by the prolonged effects of the COVID-19 pandemic on certain economic sectors, an intensely competitive landscape, volatile Capital Markets and significant regulatory developments. Group performance remained under pressure due to a sluggish economy, global supply chain challenges and chip shortages. The impact of the post-pandemic recovery is still evident in the challenging performance in the small and medium businesses. Competition intensified in the mobile sector. We continue to innovate to protect Telkom's value proposition in the market. The outcome of the recently held spectrum auction resulted in us securing a consolidated 50MHz of 5G spectrum and procuring 20MHz of sub 1GHz spectrum. This spectrum will be consolidated into our existing holdings to improve our competitive advantage.

Performance overview

Notwithstanding the challenging operating environment that persisted in the year, Telkom grew its earnings with underlying HEPS and BEPS increasing by 2.5%* and 1.4%*, respectively. This performance was boosted by our lower finance charges and fair value movements compared to the prior year and resilient Group EBITDA. Underlying Group EBITDA was relatively flat, decreasing by 0.5%* to R 11 908 million, despite a 1.1% decline in Group revenue to R42 756 million.

Openserve stabilisation path continues and is well underway in turning around several years of revenue declines. The Openserve business evolved as customers migrated from legacy to next-generation over the years. Today, more than half of its revenue is derived from the new business. However, a pricing gap remains between the new business and the legacy business. In the period under review, revenue was relatively flat for the first time after several years of significant decline in the legacy business. This was underpinned by growth in high-capacity links for carriers, an increase in demand for fibre services, and a slowdown in fixed voice churn. Openserve continued with it growth trajectory in the fibre market increasing homes passed with fibre by 52.7% and homes connected with fibre by 38.4%. This is in line with its strategy to accelerate the fibre to the home (FTTH) footprint while simultaneously focusing on connecting homes. In the second half of the year, overall fixed broadband customers increased for the first time in several years despite the decline in ADSL customers.

Swiftnet, our masts and tower business, increased revenue by 4.4% to R 1 292 million driven by commercialising the existing portfolio, new tower builds and the rollout of In Building Solutions (IBS). This performance includes the impact of terminations and continued focus on modernisation from our Mobile Network Operator (MNO) customers. We expect continuation of modernisation over the next year; however, coupled with deployment of new base station sites as the mobile network operators deploy their respective newly acquired permanent spectrum allocations. In the current year, the number of productive sites increased by 5.9% to 3 916. Swiftnet's profitability was impacted by the change in cost allocation methodology in the second half of the year. Global events impacting Capital Markets led us to review the timing of the listing of Swiftnet on the JSE. In March 2022, the Board resolved to postpone the separate listing of Swiftnet.

The Mobile business continues to drive growth in Telkom Consumer. The total Mobile revenue growth of 6.3% was achieved against the backdrop of an intensely competitive landscape and challenging economic environment. As the overall macro-economic constraints materialise, the pre-paid surge has slowed as the share of wallet spend has plateaued. We grew our prepaid customer base by 12% to 14.3 million with ARPU normalising to pre-COVID-19 levels in line with management expectations. In the postpaid market, the post-paid base increased by 3.4% to 2.7 million and high levels of ARPUs were maintained at R212. The legacy fixed-line business remains under pressure due to migration from traditional fixed voice to newer technologies. The impact of the post-pandemic recovery is still evident in small and medium businesses. We remain encouraged by the growth in our non-connectivity/application services which saw double-digit growth in the period under review.

BCX remains under pressure due to the lingering impact of the lockdown and the global supply chain constraints and shortages of semiconductor chips. The second half of the year saw good growth resulting from investments in new capabilities, progress made with strategic programmes, and renewed activity in the market. Revenue declined by 2.6%, mainly impacted by the IT segment, which faced supply chain pressure while the Converged Communications business stabilisation is gaining momentum. This fares well compared to a 6.1% revenue decline reported in the first half of the year. The improvements in performance seen in the last quarter across the business signal a more positive outlook for the next financial year.

** Refer to page 8 for the reconciliation of the reported figures to the pro forma adjusted figures.*

Message from the Group Chief Executive Officer
continued

Regulatory developments

Telkom acquired 20MHz of 8000MHz and 22MHz of 3500MHz for 2.1 billion. Telkom made a payment of R 1.1 billion in the current financial year with the remainder of the payment being due when sub 1GHz spectrum currently occupied by broadcasters is available. However, this licensing process was subject to a Court challenge by Telkom. The latter has since been settled. Telkom opted for a forward-looking settlement with ICASA, addressing Telkom's principal complaints regarding ensuring fair competition in the sector while providing a level of regulatory certainty.

Telkom will use the newly acquired spectrum to support its strategy of building a data-led network. Given South Africa's dual economies, Telkom believes that 4G and 5G will co-exist for some time and is expanding its network based on current data traffic and readiness for 5G deployment. Today, 93% of Telkom's data traffic is on a 4G network and 68% of Telkom Mobile sites use fibre backhaul giving Telkom the edge for 5G deployment. The acquisition of 22MHz of 3500MHz results in us securing a consolidated 50MHz of contiguous spectrum giving us high spectral efficiency for optimal 5G deployment.

Based on ICASA's undertaking, to consider the competitive effect of spectrum sharing arrangements, Telkom withdrew the referral of the Vodacom and Rain spectrum arrangement to the Competition Tribunal. Telkom is of the view that a broader public process by the sector regulator will be far more effective in addressing the implications of the licensing of spectrum on competition including spectrum arrangements. In line with the settlement, ICASA undertook to conduct the necessary consultative processes and complete the licensing process within FY2023.

Outlook

FY2022 was a reset year following changes in the global market, regulatory environment, intense competitive landscape and a weak macro-environment. We reviewed our Group strategy and five strategic pillars, namely portfolio diversification, integrated solutions, victory in broadband, operational efficiency and technology innovation (PIVOT). We concluded that, our strategy framework remains relevant. Our broadband-led strategy is the backbone of our PIVOT strategy. Over the past few years, Telkom invested in 5G infrastructure assets, and these set us apart from our competitors. In some of our businesses, we want to strengthen scale and capability to drive growth. Here, we are exploring local and international partnerships.

The Board remains committed to the value unlock strategy which is premised on Telkom's market capitalisation not representing its intrinsic value. The Board key focus is to drive maximum shareholder value. The delay of the separate listing of Swiftnet due to volatile capital markets was to protect shareholder value. Our strategic approach going forward 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. To this end, the Board continue to explore all strategic options that it believes supports its value unlock strategy which seeks to maximise shareholder value.

A solid financial framework to support the Group strategy and deliver sustainable shareholder returns is key. We will enhance our financial framework in FY2023 and we expect the Group to return to growth. Telkom Mobile has grown ahead of the market and secured a third market position. Going forward, we expect Telkom Mobile to grow in line with its industry peers. In addition to the mobile business, we expect Openserve to start growing in the next financial year supporting topline growth. Given the slowdown in growth in the Mobile business and continuous decline in the legacy business, we expect Group revenue to grow at mid-single digit over the medium term. Our sustainable cost management is also expected to deliver mid-single digit EBITDA growth over the same period.

The release of spectrum provides upside to our growth ambitions in the long-term. Telkom Mobile obtained 50 MHz contiguous spectrum in 3500MHz to support its data-led strategy. The industry will require a significant amount of masts, towers and fibre backhaul to connect to the base stations. Our infrastructure businesses, Openserve and Swiftnet are well positioned to capture this opportunity. We expect to continue to invest in the business, with capex to revenue ratio of between 16% to 18% per annum and maintain healthy balance sheet of net debt to EBITDA of 1.2x (including the acquisition of spectrum).

Returning cash to shareholders remains a key element of our capital allocation framework. Telkom is in year two of the three year dividend suspension period. The Board remains committed to reinstate the dividend policy at the end of FY2023 in line with the Board commitment on suspension of the dividend policy in FY2020. The Board is reviewing the dividend policy. It is imperative for Telkom to generate sustainable positive FCF to reward shareholders. In the current year, acquisition of spectrum took priority in line with the capital allocation framework principles of prioritising growth.

Serame Taukobong

Group Chief Executive Officer (GCEO)

Financial capital

Statutory performance

Revenue	Group EBITDA	HEPS	BEPS
down 1.1%	up 1.8%, EBITDA margin of 27.9%	up 10.2%	up 9.5%

Financial information summary

Underlying financial performance	March 2022 Rm	Pro forma* March 2021 Rm	Variance %
Gross operating revenue	**42 756**	43 222	(1.1)
EBITDA	**11 908**	11 973	(0.5)
EBITDA margin (%)	**27.9**	27.7	0.2
Capex	**7 484**	8 448	(11.4)
Free cash flow (FCF)	**(2 080)**	2 063	(200.8)
BEPS (cents)	**536.6**	529.1	1.4
HEPS (cents)	**575.3**	561.5	2.5
Net debt to EBITDA (times)**	**1.2**	0.9	(0.3)

The Group top-line remains under pressure

Group revenue declined marginally by 1.1% to R42 756 million, this was supported by the growth in the Mobile business, offset by the decline in the fixed and IT businesses which remain under pressure due to the challenging operating environment and the decline in the fixed business as customers migrate to modern technologies such as fibre and LTE. Although these businesses' top-line declined compared to the prior year, the rate of decline improved compared to the first half of the year. The stability in the fixed business is attributable to a slowdown in fixed voice churn and an increase in usage as there was improved economic activity in the year compared to the prior year.

Stable EBITDA supported by sustainable cost management despite challenges in revenue

Underlying Group EBITDA is stable at R11 908 million and the EBITDA margin expanded by 0.2 ppts* to 27.9%. This was underpinned by our effective sustainable cost management programme, which aims to contain opex growth below inflation and optimise cost to serve. Opex declined 4.0%* year on year despite an average Group-wide salary increase of 6.0%, which was effective from 1 April 2021. Mobile cost to serve was optimised despite the increase in costs associated with the post-paid market such as distribution channel costs. Cost to serve improvement was enabled by optimised roaming costs as we maintain stringent roaming traffic thresholds and migrate traffic to our network, supported by the ongoing network investment.

HEPS driven by lower finance charges and fair value movements

Reported HEPS increased by 10.2% to 575.3 cents while reported BEPS increased by 9.5% to 536.6 cents compared to the prior year. Excluding the VSP, VERP and S189 costs in the prior year, underlying HEPS increased 2.5%* and BEPS 1.4%*. This was due to a significant decline in finance charges and fair value movements compared to the prior year.

Finance charges and fair value movements declined by 16.2% to R1 279 million largely as a result of lower finance charges. Lower interest rates as well as the settlement of the SARS liability in the prior year resulted in finance charges reducing by 17.7% to R662 million. Our funding strategy allowed us to balance our cost of debt ratio to 53:47 floating to fixed. This ensures that the risk of changes in interest rates remains balanced.

Capital allocation skewed towards fibre investment

We continued to invest in our key growth areas, fibre and mobile. Capital investment decreased by 11.4% to R7 484 million representing a capex to revenue of 17.5%. This was a result of a decline in capex invested in the Mobile business in line with our disciplined capital allocation. With the highest FTTH connectivity rate of 46.3% in the market, we continued to accelerate our fibre roll out. As a result, homes passed increased by 52.7%, while homes connected increased by 38.4% year on year. Going forward, we will focus on expanding our FTTH footprint while simultaneously connecting premises to ensure that we maintain a high connectivity rate.

Capex	March 2022 Rm	March 2021 Rm	Variance %
Fibre	**2 052**	1 138	80.3
Mobile	**2 756**	4 502	(38.8)
IT solutions	**137**	191	(28.3)
Network rehabilitation/sustainment	**166**	305	(45.6)
Service on demand	**399**	486	(17.9)
Core network	**709**	849	(16.5)
Digital platforms and innovation	**44**	36	22.2
Telkom properties (Gyro)	**118**	114	3.5
Shared services	**96**	64	50.0
Telkom	**6 477**	7 685	(15.7)
BCX	**567**	519	9.2
Gyro	**418**	218	91.7
Trudon	**22**	26	(15.4)
Total	**7 484**	8 448	(11.4)
Capex to revenue ratio (%)	**17.5**	19.5	

Refer to page 8 for the reconciliation of the reported figures to the pro forma adjusted figures.
**Includes the spectrum funding of R1 142 million.*

Financial capital continued

Balance sheet remains stable with adequate capacity to fund our strategy

In the first half of the current year, we settled a R193 million debt in line with our debt maturity profile. This is over and above the R1 400 million matured debt repaid in the prior year. We have adequate balance sheet capacity to fund our strategy despite the acquisition of spectrum of R1 142 million in the current year which resulted in our net debt to EBITDA increasing to 1.2x. Excluding spectrum, our net debt to EBITDA is 1.1x driven by a 35.2% decrease in the cash balances at the end of the year and additional leases to support mobile, thus increasing IFRS 16 (Lease Liabilities).

Balance sheet	March 2022 Rm	March 2021 Rm	Variance %
Bank and cash balances	**3 239**	5 002	(35.2)
Current borrowings	**(4 745)**	(1 904)	(149.2)
Non-current borrowings	**(12 561)**	(13 934)	9.9
Net debt	**(14 067)**	(10 836)	(29.8)
Net debt to EBITDA (times)	**1.2**	0.9	(0.3)

FCF under pressure mainly due to spectrum investment, prior year capex overhang and a decline in revenue

We generated negative FCF of R2 080 million largely due to R1 142 million invested in spectrum. Excluding the impact of spectrum acquisition, we generated an underlying negative FCF of R938 million. The decline in underlying FCF is largely due to the capex overhang of R1 070 million relating to prior year capex that was settled in the current year, revenue decline and working capital movements. Working capital deteriorated in the current year, despite R1 009 million of handset financing. The deterioration in working capital is largely due to timing of cash flows, as a result of an increase in post-paid mobile handset sales and purchases following the gradual re-opening of the economy post the COVID-19 lockdown.

FCF	March 2022 Rm	Restated March 2021 Rm	Variance %
Cash generated from operations	**9 886**	14 383	(31.3)
Add back: Repayment of lease liability	**(1 076)**	(856)	(25.7)
Interest received	**235**	332	(29.2)
Finance charges paid	**(1 188)**	(1 291)	8.0
Taxation paid	**(764)**	(2 194)	65.2
Cash generated from operations before dividend paid and received	**7 093**	10 374	(31.6)
Spectrum acquisition	**(1 142)**	–	(100.0)
Cash paid for capex	**(8 031)**	(8 311)	3.4
FCF	**(2 080)**	2 063	(200.8)

Medium-term guidance CAGR 2025 – (FY2022 as a base year)

Revenue	Mid-single digit growth
EBITDA	Mid-single digit growth
Net debt to EBITDA	≤1.2x
Capex to Revenue ratio per annum#	16-18%

 # As a result of spectrum acquisition of R2.1 billion, we expect capex to revenue ratio to reach 20% in FY2023 and normalise to sustainable capital investment levels of 16-18% thereafter.

Productive capital

openserve

Openserve stabilisation path continues and is well underway in turning around several years of revenue declines. As part of its transformation journey, its overall revenue mix evolved to more next-generation-led products and services which now represent more than half of its revenue base. Openserve continues to focus on future growth areas and has seen a sustained uptake in high-capacity links and an increase in demand for fibre services across the Carrier and Consumer segments. However, the impact of the post-pandemic recovery is still evident in the challenging performance in the small and medium businesses. To improve our service delivery, we enhanced our customer engagements and further accelerated digitisation during the year.

Performance overview

Revenue declined marginally by 0.4% to R13 428 million underpinned by growth in data and offset by the decline in the legacy business. The performance also reflects the impact of the post-pandemic recovery. This is still evident in the challenging performance in the small and medium businesses. Although overall revenue was flat, we saw an increase in revenue of 2.8% from external customers.

Fixed-data revenue increased by 5.5% supported by an increasing demand for high-speed fibre broadband connectivity of 30.8% and growth of 13.1% in carrier links. The decline of legacy fixed business remains in line with management expectations with fixed voice revenue reducing 9.4% year on year.

EBITDA at R4 163 million with an EBITDA margin of 31.0% was sustained. This was supported by efficiencies extracted from maintaining a modernised network and decommissioning legacy infrastructure.

Scalable network

Openserve invested capex of R3 472 million in modernising and expanding its network during the year. This enabled a flexible, modular, and scalable network architecture that has ensured Openserve delivers high-speed and increased capacity networks across South Africa, reflected in the increased fixed-data consumption of 16.6% across our network.

As we continue to invest in our robust infrastructure network, we aggressively improved our footprint in the year under review by increasing the number of homes passed with fibre by 52.7% to 839 691. Furthermore, we continue to upgrade existing fibre nodes, allowing us to use our strategic network investments to provide network coverage to additional premises including residential, enterprises and carrier base stations.

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

Commercialise the network

During this year we saw the highest increase in the number of homes connected with fibre, resulting in a growth of 38.4% to 389 109 homes connected to our network. This represents a leading connectivity rate of 46.3% and driving our connect-led strategy of connecting premises with fibre. This increased demand for fixed connectivity increased the fixed customer base in the second half of the year. We are confident that this trend will continue as more customers turn to stable high-speed fibre connectivity for their increased consumption needs. Similarly, we saw an increase in carrier backhaul requirements resulting in a growth of 7.4% in carrier links providing high-capacity connectivity to base stations.

In driving innovative solutions aimed at enabling multi-use of our fibre infrastructure, we launched Web Connect and Uni Connect, cost-efficient products focused on serving the connectivity requirements of residential and enterprise customers respectively. We further enhanced our broadband product portfolio with the introduction of the 500 Mbps product expanding our speed offerings to the market. The attractiveness of such value propositions enabled the activation of more than 490 400 services, including broadband and other value-added services such as voice over internet protocol, intercom and security.

Transform service delivery

Aligned to our Customer First strategy, we have aggressively rolled out fibre to improve the experience of our customers across our network, focusing on areas impacted by repeated copper theft. This focused execution across service delivery saw us improving our installation time of new-generation broadband by 12.5%, and the robust restoration capability, resulting in an availability index of 99.95%, 99.74% and 99.99% across our access, aggregation and core network layers.

Our digital and innovation team continues to improve the digitising of our applications and automate processes, to improve the experience of our customers, using the Openserve Connect App. We have also enhanced our digital customer support by establishing the Digital Experience Centre and the recently launched Openserve Marketing tool. This tool is the first phase of our Unified Partner Platform allowing ISPs to easily promote and manage their deals on Openserve's digital platforms. Such initiatives reshape our interactions with our customers, resulting in an NPS improvement of 5.9%.

Inherent to the key strategic imperatives, employee development and wellbeing remains a focal point in the transformation journey. This is evident through the recent successes of being awarded 1st place at the SA Reward Association for the Openserve Hero's programme and the recognition of Openserve by LinkedIn for being one of the Top 25 best workplaces to grow your carrer in South Africa in 2022.

Productive capital

Telkom Consumer

The mobile business continues to drive growth in the Consumer business. This growth was achieved against the backdrop of an intensely competitive landscape and challenging economic environment. As the overall macro-economic constraints materialise, the pre-paid surge slowed as the share of wallet spend plateaued. We continued to grow our pre-paid customer base with average revenue per user (ARPU) normalising to pre-COVID-19 levels in line with management expectations. In the post-paid consumer market, we grew the post-paid base and maintained high levels of ARPUs. The legacy fixed-line business remains under pressure due to migration from traditional fixed voice to newer technologies. The impact of the post-pandemic recovery is still evident in small and medium businesses. We remain encouraged by the growth in our non-connectivity/application services which saw double-digit growth in the period under review with a focus on financial services, gaming and content.

Performance overview

During the current year, the Consumer segment's revenue remained relatively flat at R25 753 million, with revenue emanating mainly from the Mobile business. Total Mobile revenue increased by 6.3% to R21 415 million driven by growth in the customer base, data segment and non-connectivity revenue.

This was partially offset by the decline in the legacy consumer fixed-line businesses across the Consumer segment. The Consumer business remains under pressure due to migration from traditional fixed voice to newer technologies while the SMB remains under pressure due to the impact of the post-pandemic recovery. These businesses are in the process of transitioning from voice to data.

Accelerated Mobile growth

The Mobile performance was achieved against the backdrop of an intensely competitive landscape and Consumer being under pressure. Despite the challenging environment, external Mobile service revenue increased by 3.3% to R17 505 million underpinned by strong customer growth and stable post-paid ARPU. The customer base grew by 10.5% to 16.9 million at a blended ARPU of R90.

This growth was driven by the pre-paid customer base, which grew by 12.0% to 14.3 million at an ARPU of R66. In the post-paid segment, our post-paid customer base grew by 3.4% to 2.7 million with a post-paid ARPU holding firmly at R212.

The Mobile communication services transversal contract, commonly known as the RT15-2021 contract remains an opportunity Telkom Mobile is pursuing. Key deals have been secured and we are using the RT15 contract to partner with government to reduce technology expenditure while affording them solutions that enable as many citizens and students as possible to access connectivity and technology.

The Mobile business grew its EBITDA by 3.7% to R5 832 million and with the EBITDA margin at 27.2% due to improved cost to serve to 27.7% compared to 30.0% in the prior year.

Drive high-speed broadband

In our continuous drive to increase utilisation of and improve the adoption of broadband services, we continue to add relevant adjacent products and services into our mobile and fixed-line portfolios. This is in line with our ambition to see adjacent revenues contribute a greater proportion of our revenues. Our private pricing platform, Mo'Nice, which offers value to our customers based on segmentation and their purchase history, is still a favourite among our customers, particularly in the pre-paid segment. This has grown by 9% year on year, with more than 50% of bundle purchases being completed utilising this platform.

In ensuring that all customers benefit from high-speed, high-capacity broadband that enables them access to digital services, we improved our LTE portfolio and introduced more affordable bundles starting at R49 for the lower end segments while adding uncapped offers at the higher end. Accordingly, our mobile data revenue grew by 2.9% to R12 563 million. The mobile broadband subscriber base increased by 3.8% to 10.7 million, representing 62.9% of our base that is now using broadband. This growth is incremental to the surge in data demand witnessed previously due to the pandemic.

Our multi-faceted content strategy aims to stimulate broadband usage through our content value proposition, viz., TelkomONE and our gaming option. Our TelkomONE offering has shown consistent growth driven by SABC channels and an #OpenUpTheIndustry local content. Telkom VS Gaming is South Africa's largest independent gaming brand and is the leading local platform for online gaming. In our attempt to enable ubiquitous access to gaming in SA, Telkom VS Gaming launched a mobile league within the Telkom Plus platform that provides new opportunities for casual gamers and lowers the barrier for entry into e-sport.

Expand the mobile network

The data demand has maintained the high levels established by the pandemic with our data traffic increasing by 3.3% to 973 petabytes. We continue to strengthen our mobile network by investing in our mobile programme, which was supported by an R2 756 million investment. Consequently, our footprint was extended by 13.7% to 7 313 sites.

The drive to increase network coverage using the provisional spectrum resulted in 840 sites upgraded with the temporary spectrum thus giving us a total of 3 092 sites equipped with sub 1GHz spectrum. The transition from the temporary spectrum to the newly acquired spectrum from the auction will be seamless from a customer perspective as there would be minimal hardware and software changes required.

Roaming in target areas was reduced significantly for areas with new site build and where sub 1GHz sites were deployed. The acquisition of 20MHz of 800MHz and 22MHz of 3500MHz will enhance coverage opportunities and facilitate the deployment of a high-speed 5G network.

Drive digital and financial services revenue

Non-connectivity revenue grew by double-digits, with a 13.0% increase in our mobile financial service and micro-content services to R827 million. Our airtime lending book (nano loan business) currently has a loan book of more than R2 billion. This nano loan business is driven primarily by airtime recharges which now constitute 24.0% of total recharges with 5.3 million customers using it. This represents an adoption rate of 49.8% of qualifying customers.

Our digital and fintech revenue streams are starting 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 being at the core, we will maintain a value-driven pricing strategy and offer segmented value propositions.

Productive capital

BCX

BCX remains under pressure mainly impacted by the IT segment, which faced supply chain pressure while Converged Communications is at the tail end of migrating clients to next-generation technologies. This is due to the lingering impact of the lockdown and the global supply chain constraints and shortages of semiconductor chips. The second half of the year saw good growth due to investments in new capabilities, progress made with strategic programmes and renewed activity in the market. As a result, we saw an improved performance with some clawback in revenue though it remains negative. The improvements in performance seen in the last quarter across the business signal a more positive outlook for the next financial year as revenue declines are expected to end.

Performance review

Revenue declined by 2.6% to R15 329 million, mainly impacted by the IT segment, which faced supply chain pressure while the Converged Communications business is at the tail end of migrating clients to next-generation technologies. Renewed activity in the market has boosted our ability to stabilise our pipeline for the next financial year.

Converged Communications revenue declined marginally by 1.1% to R7 274 million, primarily owing to declines in data consumption, as employees continue to work from home, and hardware delivery backlogs due to the global chip shortage. The performance impact expected by the decline in fixed voice was slightly tempered by improved usage across the voice portfolio, offsetting data declines and reducing the EBITDA impact expected with this trend.

IT business revenue declined by 4.0% to R8 055 million, due to projects being delayed because of a slower than expected economic recovery, backlogs resulting from global supply chain constraints and chip shortages.

EBITDA declined by 7.1% to R2 288 million due to top-line pressures. Cost management initiatives were implemented resulting in a 1.9% decline in total expenses. The top-line was affected by constraints in supply chain, which is now reaching manageable levels.

Converged Communications at the tail end of migrating clients to next-generation technologies

The reduced rate of decline in fixed voice revenue signals the transition of the Converged Communications business from legacy services to digital technology services with investments made in automation, wireless research and development, and in the partner ecosystem for a generous product offering.

BCX's Wi-Fi business, together with the Data Access Network business have been key drivers of Converged Communications' performance. Wi-Fi has seen a stellar performance with a 12.0% year on year growth driven by the research and development capabilities and a focus on Wi-Fi 6 and 5G. BCX Access Networks has also shown rapid growth over two years. The business benefited from the increase in the availability of bandwidth, the consumption of connectivity, cloud-based applications, and the requirement for work-from-anywhere.

IT Business (Cloud Platform Solutions & Digital Platform Solutions)

The IT business consists of two key revenue pillars for BCX. Refocusing the business enabled the Cloud Platform Solutions and Digital Platform Solutions businesses to develop pockets of excellence that are expected to scale in the next financial year. The IT business was most impacted by environmental challenges. A sluggish economy and the Gauteng and KwaZulu-Natal riots resulted in clients reducing their ICT spend or postponing large-scale planned projects.

Cloud Platform Solutions

Cloud Platform Solutions (CPS) is the ICT infrastructure and infrastructure services arm of BCX. Environmental constraints resulted in revenue declines. Due to the nature of the business, CPS requires scale to maintain profitability. In the first half of the year supply constraints had a significant impact on the ability to maintain scale. This turned around as supply began to show signs of stability in the second half of the year and although challenges will continue, predictability improved markedly. Although performance was slow within CPS, its Security business grew revenue significantly in the current year albeit from a lower base. Catalysts for the stellar performance can be attributed to early investments in novel skills and enhanced resources, while increased cyber-attacks on clients throughout the year continued to generate revenue for the BCX Security business. BCX's rapid response initiatives on incident reports and in managing security risks for clients were favourably met by the market.

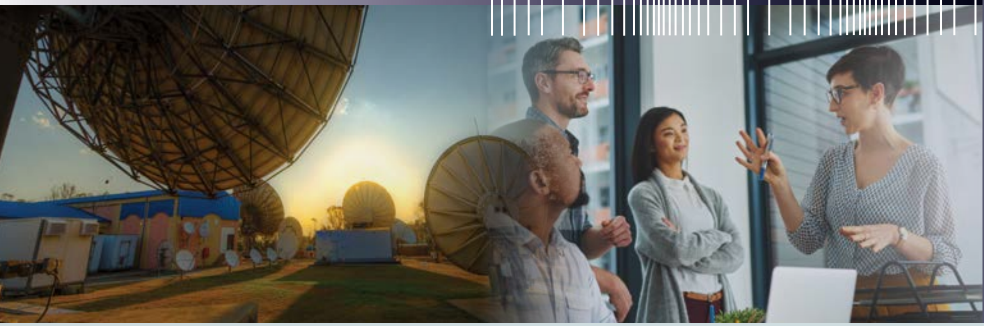
Digital Platform Solutions

Digital Platform Solutions (DPS) is the digital arm of BCX that brings together highly qualified internal consultants, subject matter experts, and sophisticated digital technologies across BCX and partner IP, bringing digital transformation to life for our clients. In the current financial year, DPS noted declining revenues as it refocused its efforts on structuring its capabilities for efficiency and modernisation to meet market demands. Investments were made into Artificial Intelligence for IT Operations (AIOPs), resulting in revenue growth of 35.0%, with greater gains made in the second half of the year. Growth of 19.0% was experienced in the Internet of Things (IoT) business. This may be attributed to new markets, including the focused utilisation of resources to provide greater client value.

DPS will continue to invest in the AIOPs and IoT spaces in the future. It will focus on growing its digital consultancy business, while working towards the diversification of its enterprise application offerings to clients, such as SAP, Payroll Solutions, Octane and SOLAR. Further efforts will be placed on the modernisation of its IP businesses and creating synergies through its centralisation efforts.

Productive capital

swiftnet



Swiftnet continues to commercialise the masts and towers portfolio in line with its strategic objectives. Our growth strategy entails increasing tenancy on the existing portfolio, acquiring sites and building new towers, as well as expanding the range of products and preparing for the implementation of 5G by our clients. Swiftnet's performance was impacted by termination of sites, continued focus on modernisation from our Mobile Network Operators (MNO) customers and the change in cost allocation methodology in the second half of the year. We remain a very important partner to our customers as they deliver connectivity services to their customers throughout the country.

Optimise and grow masts and towers portfolio

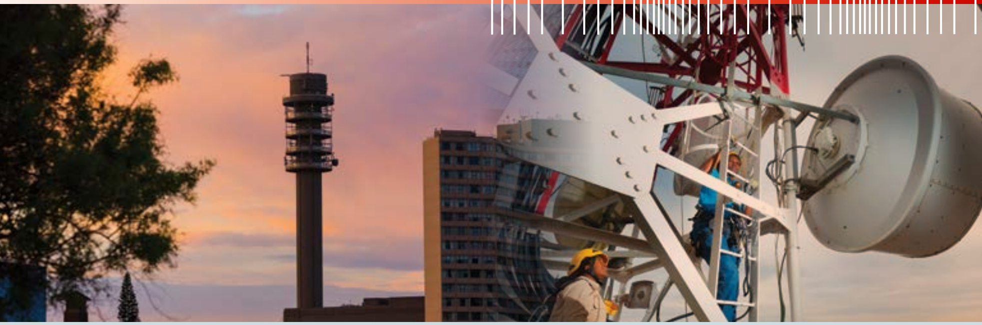
In the current year, we continued on the strategic course to commercialise and grow the productive portfolio through new tenancies, construction of new towers and In Building Coverage Solutions (IBS), as well as the development of value-add services for our clients. During this period, we built 152 towers and 17 IBS sites bringing our total productive portfolio to 3 916 towers. We decommissioned further commercially non-productive towers as we continued to optimise the operational efficiency of our portfolio. We refined our organisation structure to enhance our operational capacity and to service our clients at the regional level more effectively.

Masts and towers revenue increased by 4.4% to R1 292 million driven by commercialising the existing portfolio, new tower builds and the roll out of In Building Solutions (IBS). This performance includes the impact of terminations and continued focus on modernisation from our Mobile Network Operator (MNO) customers. We expect continuation of modernisation over the next year; however, coupled with deployment of new base station sites as the mobile network operators deploy their respective newly acquired permanent spectrum allocations.

Masts and towers EBITDA declined by 8.6% to R909 million and EBITDA margin contracted to 70.4% compared to 80.4% reported in the previous year. The decline was due to a re-basing of costs resulting from the implementation of a new Telkom Group-wide methodology of allocating property operating costs (utilities, facilities and security-related costs) across business units and subsidiaries, to a direct allocation methodology driven by site presence and usage. This new methodology was made prospectively and effective from the second half of the financial year, the impact of which was net neutral across Telkom Group as it offset between Swiftnet and Openserve. On a normalised basis, excluding the impact of this new methodology, EBITDA for masts and towers increased by 2.7% to R1 021 million compared to the prior year with EBITDA margin at 79.0%.

Productive capital

Gyro



Gyro continues to unlock value and optimise the property portfolios that are in Gyro Properties and in Telkom. Gyro focused on progressing development planning activity for selected development projects and engagement with prospective development investment partners for the execution of the development projects. We continued to rationalise the property portfolio by decommission assets that are no longer required for operational purposes and disposing of excess properties that are not suitable for re-purposing or development opportunities.

Commercialise the property portfolio

During the financial year, Gyro continued to advance the development planning work for properties in Phase I of the development project pipeline. The development pipeline comprises of mixed use, industrial, student accommodation and residential apartment opportunities. Four development projects are in Stage 3* of development planning and will be ready for construction in the next calendar year. The continuing Covid-19 pandemic operating environment impacted the pace of obtaining municipal approvals in instances; but did not severely hamper the progress of the development planning process. We identified and engaged in investment partnership discussions with several experienced development investment partners for projects that are in Stage 2^ and Stage 3* of the development planning process. We are hopeful to conclude development partnerships and to commence construction of projects in the next calendar year. The Gyro business model is to assume minority stakes in the development projects that we originate by contributing the land as equity including the equity invested in the pre-development planning activities.

Enhance building costs and operational efficiencies

Gyro continued to reduce the property operating costs through various cost optimisation interventions that encompass rationalisation of the property portfolio. Telkom adopted a new hybrid way of working (majority of employees operating partially at the work premise and their place of residence) that optimises Telkom's property space requirements. The result from the hybrid way of working will be a reduced property footprint for operational purposes that links with the decommissioning of legacy equipment and more technical properties. In the current year, we sold 40 properties for R66.8 million, the proceeds of which will be realised in the new financial year. We plan to dispose of further properties in the new year as more properties are decommissioned or are no longer required for operations.

We continued, during the financial year, to implement energy and water savings initiatives to optimise costs through technical project interventions to optimise energy and water utilisation across the property portfolio. These initiatives will continue in the new financial year in our environmental focus to pursue carbon neutrality and net zero as part of the Telkom ESG strategy.

Stage 1: *securing the appropriate land and rights to undertake the development and appointment of professional teams;*

^ ***Stage 2:*** *establish viability of the project and preliminary development programme;*

* ***Stage 3:*** *develop the approved concept to finalise the design, outline specifications, cost plan, financial viability and documentation programme for the project prior to construction.*

Human capital

Telkom continues to be impacted by the COVID-19 pandemic. We adopted a policy of mandatory vaccination as a form of protecting employees, particularly those who are on our customers' premises daily ensuring customer connectivity. In driving a sustainable mindset, the hybrid approach to work is one of the strategies adopted which supports operational efficiency while creating business sustainability. Telkom's journey to a hybrid approach to work embedded via the implementation of the work from home policy in August 2021.

During FY2022, Telkom remained focused on supporting its employees during the pandemic. A proactive COVID-19 vaccination framework that supports an increased focus on mental and physical wellness, was developed. We provided counselling support and educated employees on how to take care of themselves physically and mentally, while under lockdown and working from home.

We partnered with Dis-Chem on a vaccination drive, holding three sessions in July and August that resulted in 1 299 employees and their family members being vaccinated during the pilot phase. This enabled the Group to actively play a part in ensuring the safety and wellness of employees and their families and help curb the spread of COVID-19. In addition, a new leave code was introduced to encourage employees to get vaccinated. This new leave code provides a half-day special leave (non-quota) per occasion and special leave for employees to take in conjunction with sick leave, which is taken on a 50:50 basis for the mandatory isolation period when employees test positive for COVID-19. On 20 April 2022, a mandatory vaccination policy was adopted, and employees are expected to be vaccinated by 1 June 2022.

The hybrid approach to work is one of the strategies that support operational efficiency while creating business sustainability. Telkom's journey to a hybrid approach was embedded by implementing a work from home policy in August 2021. Each employee's role was categorised to identify telecommuting employees to equip them to successfully operate from home. Telecommuters are employees whose work allows them to primarily work from home. However, they may be required to attend face-to-face engagements from time to time. Office-bound employees are those whose jobs are fully customer-facing and/or cannot be done remotely. Office-bound employees resumed coming to the office on 1 March 2022.

A Telkom grant was made available to telecommuters to purchase the home office equipment required for productive work. Employees can choose from desks, ergonomic chairs, and a range of alternative power supply products. Telkom also offers connectivity as a tool of trade. This will be implemented in staggered phases. Strategically enabling our employees to have the right equipment and tools will contribute to a motivated and engaged workforce. The new ways of work offered employees flexibility and autonomy, but also mental and emotional fatigue. We want to ensure that the mental health of employees is a key consideration and that employees thrive and sustain their performance. The concept of Spring Break enables employees to take two company-funded leave days aligned to the September public holiday. This allows employees to relax. It also shows that the Group recognises and acknowledges contributions and performance.

The performance framework continues to be entrenched across the Group to support the remote work archetype. The framework is underpinned by the SAP SuccessFactors system and four online modules on the Learning Management System to guide employees and line managers to inculcate a rhythmic cadence focused on high performance. New modules and events based on patterns or trends in practice are initiated throughout the year to maintain and drive the focus on performance management and ensure a "fresh" perspective.

The virtually launched Coaching for Growth module aims to refine line management skills for enhanced performance conversations and feedback processes. Additionally, the module enables a continued focus on leading indicators, performance plans aligned to business goals and future-focused objectives.

The Group spent R131 million on employee and non-employee training compared to R145 million in FY2021. Solid investments were made to ensure the upskilling and development of our internal talent through our leadership and talent development programmes. Executive coaching played a pivotal role in shaping and supporting high potential leaders over the past year which is envisaged to continue into the new year. As we continue to focus on building our internal talent pipelines, a longer-term focus will be made during FY2023 on developing young talent through targeted internship and learnership programmes.

Intellectual capital

Telkom prioritised building on the technical foundation laid in the prior year, which included the shift to remote work and changing customer and employee expectations as a result. The emphasis changed from technology solutions to business solutions, resulting in new products and services.

Our governance of technology and information is based on King IV, Control Objective for Information Technologies 2019, and ISO/IEC 38 500[1]. In complying with these, the Board assumes ultimate responsibility for policy and direction over matters regarding technology and information. The business objectives underpinning our governance framework are strategic alignment, resource management, risk management, value delivery and performance management.

In driving these objectives, 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. Emphasis was placed on defining risk and governance metrics to proactively manage risks and non-compliance.

Importance of Innovation to Telkom

As telecommunication organisations evolve in line with the growing demand of our digital age, we believe that Telkom's long-term investment in research and development will help us fulfil our ambition to become a market leader within the telecommunication sector. We need to continue investing in our telecommunication infrastructure, driving innovation and meeting the evolving needs of customers. Telkom has always been committed to ensuring reliable connectivity, with sustainability crucial to our open innovation process.

Our forward-looking perspective is to strengthen our intellectual property as a Group while ensuring a future-fit workforce. We are strengthening key investments in emerging technology areas where we want to bolster our current research and development partnerships. We are also prioritising areas such as cybersecurity and artificial intelligence.

As part of an ongoing programme to promote skills development and sustain innovation capabilities, we have partnered with various universities in key research and development areas of the telecommunications sector. This is also part of Telkom's initiatives to support the United Nations' SDGs regarding quality education (SDG 4) and industry, innovation and infrastructure.

Through the FutureMakers programme, we have supported many start-ups in key technology areas. Some of these companies have become key partners in our operations as we strengthen our commitment to growing South Africa's technology sector. We will continue to invest in scalable start-ups that can solve some of the most complex local challenges in areas such as providing access to EdTech, health-tech and fintech. We remain committed to impact investment and continue to support start-up investments and partnerships in key verticals where we aim to grow and make an impact as a Group.

Employees play a crucial role in our innovation ecosystem by responding to the changing digital landscape and adapting to the innovation sought by the customer of today and tomorrow. We want to continue to cultivate customer-centric innovation to support business units and empower employees through a range of training programmes. We aim to foster an environment that can enable innovative research and development while embracing agile working practices. We will invest in a Group-wide innovation management platform to support the business unit's innovations.

The primary focus will be operationalising the IT operating model and initiatives for the value unlock strategy. Data analytics will remain critical in driving decision-making. Newer digital technologies such as artificial intelligence, machine learning and IoT will continue to be explored to enable further automation and efficiencies. In addition, further automation of governance processes will be explored.

** International Organization for Standardization and International Electrotechnical Commission.*

Social and relationship capital

As a post-COVID-19 "new normal" started to define itself, Telkom has worked to find sustainable solutions to South Africa's challenges in education and skills, tech innovation and entrepreneurship – all key platforms for building digital growth and inclusion into the future.

We aim to enable a talent pipeline of young people with future skills to fuel Telkom's innovation and transformation agenda and support digitalisation of the South African economy. The annual investment into this was R37 million (FY2021: R37 million) and our key programmes are the Explore Data Science Academy and WeThinkCode partnerships.

Telkom's strategic partnerships to secure a pipeline of coding and data science talent have been extended for a further three years from 2022. In support of an additional 600 students over the year, our contracts with Explore Data Science Academy and WeThinkCode have been renewed.

This year was again significantly shaped by COVID-19, and despite its constraint performance levels remained high. This is a testimony to the resilience of the students, agile business models and institutional leadership. With the necessary support, students continued to adapt well to hybrid learning approaches, providing valuable lessons for scaling digital learning in the future. Necessary support mechanisms, such as hardware, software and broadband and data, were put in place to support students studying from home. Innovative pedagogical support through enhanced peer-to-peer support, mentorship and tutoring further assisted students.

Through our supplier development programmes, incubation, and funding initiatives, we have supported over 2 500 enterprises since 2015. This has created just over 27 000 direct and indirect jobs. FutureMakers currently has 278 SMMEs registered on various programmes.

In our supply chain programmes, we supported 10 women owned SMMEs on the Independent Field Technicians programme by purchasing fibre cables to help them roll out Openserve's fibre programme amounting to R1.2 million. We further supported 38 SMMEs that are suppliers to Telkom on the FutureMakers programme with R19 million grant funding to help with growing their businesses and fulfilling the work allocated by Telkom to them in a tough economic climate.

In our innovation programmes, the 11 selected businesses that are part of the Township Innovation Incubator completed all their training modules and have moved to the prototyping stage. BCX's Software Development team worked closely with the entrepreneurs to help improve their prototypes and in some cases develop minimum viable products worth R5 million. We also supported 36 SMMEs in our innovation-based programmes with grant funding to scale their businesses in a tough economic climate.

The Telkom Foundation continued to support young people in improving their performance in STEM subjects to enable them to access post-schooling and future economic opportunities. The Foundation also continued to invest in re-skilling unemployed youth through MICTSETA accredited training to enable them to access employment and entrepreneurial opportunities in the ICT sector.

The Foundation invested R76.7 million including administration costs, with R36.3 million invested in education, R25.3 million in digital skills and R7.7 million in Social Development programmes (FY2021: R52.7 million).

In FY2022, the Foundation's integrated High School Support programme reached a five-year milestone with the first group of 1 343 of the 3 140 learners reaching Grade12. This group achieved 354 distinctions. Telkom offered bursaries to 25 learners who achieved two or more distinctions. The Foundation provided Grade 12 learners within supported schools with a facilitated structured programme to help them apply and secure post-school study and funding opportunities. The programme supported 492 learners of which 187 were able to secure opportunities in various institutions. The STEM Supplementary Tuition programme continued through a hybrid of online and physical classes.

Natural capital

Telkom developed an ESG strategy that is in line with the Global System for Mobile Communications Association's ambition of net zero emissions by 2050. We signed a Science-Based Target (SBT) commitment letter, committing to combat climate change. Work is underway to set Scope 1 and 2 projections for SBT and we will submit the projections to Carbon Disclosure Project for validation and approval.

Extensive research and analysis into Telkom's ESG strategy led to Telkom setting a carbon neutral target for Scope 1 and 2 by 2035. Once further understanding of our Scope 3 emissions is baselined, we can advance towards net zero by 2040.

In February 2019 the Global System for Mobile Communications Association (GSMA) Board set an ambition on behalf of the industry to reach net zero carbon emissions by 2050 at the latest. Telkom is a member of GSMA. The net zero carbon emissions target derived from the ESG strategy we have developed is in line with the ambition of GSMA for the industry.

Our Scope 1 carbon emissions increased by 9% from 50 695 CO_2e in the prior year to 55 466 CO_2e resulting from high usage of diesel on standby generators due to load shedding. Scope 2 emissions increased by 87% from 578 225 CO_2e in the prior year to 1 081 108 CO_2e, due to the reversal of estimates incurred in FY2022. We improved the accuracy of our calculation methodology to include electricity usage at leased properties. Telkom is now able to report total electricity usage including direct municipal and Eskom supply, and nett electricity usage across the leased property portfolio. Eskom's Grid Emission Power Factor also increased in 2021 from 1.04 to 1.08 tonnes per MW.

Therefore, the increase is not necessarily attributable to increased electricity usage, but rather improved baseline calculation methodology.

To meet carbon reduction targets of Scope 2, Telkom will directly invest in renewable energy technologies, where feasible, and indirectly invest through independent green power purchase agreements. The national electricity utility unbundled its generation and transmission business to support a more competitive energy market which looks set for renewable energy, as per the commitments to the United Nations to decarbonise energy supply and meet the carbon emissions reduction commitments of South Africa.

We implemented a smart metre installation project to ensure efficient water usage. As at March 2022, we have installed 147 smart metres. We deferred the waste-water recycling project to next year due to lower occupancy levels in offices. Our water consumption decreased by 4% to 997 617 kl from 1 040 535 kl, due to account terminations in the prior year and rates and taxes revaluations in the current year. Work from home arrangements also contributed to the decline in water consumption.

During the year, assessments were conducted at offices, data centres and the radio access network sites to determine the feasibility of optimisation projects covering electricity tariffs, power factor correction, lighting efficiency, air-conditioning, solar photovoltaic and water heating. Implementation of viable projects commenced in FY2022 and shall be completed by the fourth quarter of the next financial year.

Operational data

2

Operational data

Subscribers	March 2022 Rm	March 2021 Rm	Variance %
Broadband subscribers			
Fixed broadband subscribers[1]	**584 189**	605 807	(3.6)
Mobile broadband subscribers	**10 650 526**	10 255 979	3.8
Fixed subscribers			
Internet all-access subscribers[2]	**298 695**	334 859	(10.8)
Fixed access lines ('000)[3]	**997**	1 284	(22.4)
Revenue per fixed access line (rand)	**5 060**	4 758	6.3
Fixed voice ARPU	**275.63**	350.07	(21.3)
Fixed broadband ARPU	**273.92**	247.78	10.5
Managed data network sites	**35 418**	33 119	6.9
Mobile subscribers			
Active mobile subscribers[4]	**16 936 464**	15 325 582	10.5
Pre-paid	**14 269 139**	12 745 988	12.0
Post-paid	**2 667 325**	2 579 594	3.4
ARPU (rand)	**89.94**	104.45	(13.9)
Pre-paid	**65.67**	77.05	(14.8)
Post-paid	**212.47**	211.22	0.6

[1] *Includes x DSL and FTTH lines of which 3 747 (FY2021: 3 188) 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.*

	March 2022 Rm	March 2021 Rm	Variance %
Volumes			
Fixed broadband (petabytes)	**1 665**	1 428	16.6
Mobile broadband (petabytes)	**973**	942	3.3
Total fixed-line traffic (millions of minutes)	**6 178**	6 787	(9.0)
Network			
Fibre to the home	**839 691**	549 957	52.7
Fibre homes passed and connected	**389 109**	281 065	38.4
Enterprise business services	**41 368**	39 443	4.9
Next-generation technology services	**68 667**	66 810	2.8
Carrier services	**19 210**	17 888	7.4
Fibre to base station connections	**8 655**	8 483	2.0
Mobile sites integrated	**7 313**	6 430	13.7
Active fibre connectivity rate %	**46.3**	51.1	(4.8)
Group employees	**11 898**	12 039	(1.2)
Telkom Company employees	**7 114**	6 938	2.5
Consumer	**1 138**	1 001	13.7
Openserve	**5 647**	5 610	0.7
Corporate Centre	**329**	327	0.6
BCX group employees	**4 588**	4 911	(6.6)
Trudon employees	**91**	93	(2.2)
Gyro employees	**105**	97	8.2

Financial performance

3

Financial performance

Gross operating revenue

	March 2022 Rm	March 2021 Rm	Variance Rm	Variance %
Fixed	**15 338**	16 536	(1 198)	(7.2)
Voice and subscriptions	**5 055**	6 110	(1 055)	(17.3)
Usage	**2 041**	2 213	(172)	(7.8)
Subscriptions	**3 014**	3 897	(883)	(22.7)
Interconnection	**319**	435	(116)	(26.7)
Fixed-line domestic	**181**	207	(26)	(12.6)
Fixed-line international	**138**	228	(90)	(39.5)
Data	**8 275**	8 571	(296)	(3.5)
Data connectivity	**6 111**	6 147	(36)	(0.6)
Internet access and related services	**1 490**	1 561	(71)	(4.5)
Managed data network services	**678**	828	(150)	(18.1)
Multimedia services	**(4)**	35	(39)	(111.4)
Customer premises equipment sales and rentals	**1 407**	1 189	218	18.3
Sales	**592**	306	286	93.5
Rentals	**815**	883	(68)	(7.7)
Other revenue	**282**	231	51	22.1
Mobile	**20 791**	19 626	1 165	5.9
Mobile voice and subscriptions	**4 460**	4 242	218	5.1
Mobile interconnection	**482**	485	(3)	(0.6)
Mobile data	**12 563**	12 211	352	2.9
Mobile handset and equipment sales	**3 030**	2 448	582	23.8
Significant financing component revenue	**256**	240	16	6.7
Information technology	**5 604**	5 986	(382)	(6.4)
Information technology service solutions	**2 925**	3 685	(760)	(20.6)
Application solutions	**948**	1 112	(164)	(14.7)
IT hardware and software	**1 607**	1 016	591	58.2
Industrial technologies	**98**	131	(33)	(25.2)
Significant financing component revenue	**26**	42	(16)	(38.1)
Other	**1 023**	1 074	(51)	(4.7)
Trudon	**337**	386	(49)	(12.7)
Gyro	**686**	688	(2)	(0.3)
Total	**42 756**	43 222	(466)	(1.1)

Mobile statement of profit and loss

	Reported March 2022 Rm	Reported March 2021 Rm	Reported March 2020 Rm
Operating revenue	**21 415**	20 154	15 355
Payments to other operators	**(2 598)**	(2 961)	(2 577)
Cost of handsets, equipment and directories	**(3 458)**	(2 597)	(3 061)
Sales commission, incentive and logistical costs	**(2 258)**	(2 121)	(1 666)
Other income	**292**	229	155
Operating expenses	**(7 561)**	(7 080)	(5 343)
Employee expenses	**(435)**	(371)	(235)
Selling, general and administrative	**(6 619)**	(6 107)	(4 415)
Service fees	**(575)**	(427)	(390)
Operating leases	**68**	(175)	(303)
EBITDA	**5 832**	5 624	2 863

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

Masts and towers statement of profit and loss

	Reported March 2022 Rm	Reported March 2021 Rm	Reported March 2020 Rm
Operating revenue	**1 292**	1 237	1 160
Other income	**–**	–	4
Operating expenses	**(383)**	(243)	(357)
Other operating expenses	**(216)**	(194)	(316)
Impairment of receivables and contract assets	**12**	(15)	(42)
Service fees	**(177)**	(31)	3
Operating leases	**(2)**	(3)	(2)
EBITDA	**909**	994	807

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

Pro forma summary audited consolidated statement of profit or loss

	March 2022 Rm	Pro forma* March 2021 Rm	Variance %
Revenue from contracts with customers	**42 756**	43 222	(1.1)
Payments to other operators	**(3 393)**	(3 878)	12.5
Cost of handsets, equipment and directories	**(5 648)**	(4 781)	(18.1)
Sales commission, incentive and logistical costs	**(2 516)**	(2 425)	(3.8)
Other income	**686**	619	10.8
Insurance service result	**(2)**	15	(113.3)
Operating expenses	**(19 975)**	(20 799)	4.0
Employee expenses	**(8 693)**	(9 042)	3.9
Other operating expenses	**(2 315)**	(2 197)	(5.4)
Maintenance	**(3 879)**	(3 971)	2.3
Marketing	**(729)**	(747)	2.4
Impairment of receivables and contract assets	**(803)**	(1 039)	22.7
Service fees	**(3 388)**	(3 316)	(2.2)
Lease related expenses	**(168)**	(487)	65.5
EBITDA	**11 908**	11 973	(0.5)
Depreciation, amortisation, impairment and write-offs	**(6 975)**	(6 870)	(1.5)
Operating profit	**4 933**	5 103	(3.3)
Investment income	**144**	188	(23.4)
Finance charges and fair value movements	**(1 279)**	(1 527)	16.2
Net finance charges on lease liabilities	**(450)**	(445)	(1.1)
Net finance charges	**(662)**	(804)	17.7
Cost of hedging	**–**	(153)	100.0
Foreign exchange and fair value movements	**(167)**	(125)	(33.6)
Profit before taxation	**3 798**	3 765	0.9
Taxation	**(1 167)**	(1 143)	(2.1)
Profit for the year	**2 631**	2 622	0.3

* *Refer to page 8 for the reconciliation of the reported figures to the pro forma adjusted figures.*

Notes

Payments to other operators decreased by 12.5% to R3 393 million, due to lower mobile roaming costs.

Cost of handsets, equipment and directories increased by 18.1% to R5 648 million due to higher mobile handset sales recorded in the current year and an increase in IT hardware and software sales.

Employee expenses decreased 3.9% to R8 693 million largely due to savings from a lower headcount and a lower employee performance recognition provision partially offset by an average 6.0% salary increase implemented 1 April 2021.

Lease related expenses decreased by 65.5% to R168 million due to an increase in IFRS 16 capitalisations.

Investment income decreased by 23.4% due to the lower cash balances during the year.

Finance charges and fair value movements decreased 16.2% to R1 279 million largely as a result of lower finance charges. Net finance charges on local and foreign debt decreased 17.7% to R662 million due to the impact of lower interest rates as well as the settlement of the SARS liability in the prior year.

Summary audited consolidated statement of financial position

	March 2022 Rm	March 2021 Rm	Variance %
Assets			
Non-current assets	**49 893**	47 901	4.2
Property, plant and equipment	**38 319**	36 271	5.6
Right-of-use assets	**4 945**	4 519	9.4
Intangible assets	**4 248**	4 605	(7.8)
Other investments	**170**	115	47.8
Employee benefits	**1 566**	1 317	18.9
Other financial assets	**113**	81	39.5
Finance lease receivables	**224**	270	(17.0)
Deferred taxation	**308**	723	(57.4)
Current assets	**16 124**	15 930	1.2
Inventories	**1 084**	1 026	5.7
Income tax receivable	**30**	91	(67.0)
Finance lease receivables	**183**	228	(19.7)
Trade and other receivables	**7 797**	7 227	7.9
Contract asset	**2 055**	1 747	17.6
Other current assets	**466**	459	1.5
Current portion of other financial assets	**69**	88	(21.6)
Investment in insurance cell captive	**59**	61	(3.3)
Cash and cash equivalents	**3 239**	5 003	(35.3)
Restricted cash	**1 142**	–	100.0
Total assets	**66 017**	63 831	3.4
Equity and liabilities			
Equity attributable to owners of the parent	**34 069**	31 366	8.6
Share capital	**5 050**	5 050	–
Share-based compensation reserve	**1 238**	1 036	19.5
Non-distributable reserves	**968**	1 361	(28.9)
Retained earnings	**26 813**	23 919	12.1
Non-controlling interest	**(25)**	(25)	–
Total equity	**34 044**	31 341	8.6
Non-current liabilities	**13 422**	15 121	(11.2)
Interest-bearing debt	**8 221**	10 173	(19.2)
Lease liability	**4 340**	3 761	15.4
Provisions	**380**	619	(38.6)
Other financial liabilities	**106**	107	(0.9)
Deferred revenue	**138**	235	(41.3)
Deferred taxation	**237**	226	4.9
Current liabilities	**18 551**	17 369	6.8
Trade and other payables	**10 339**	11 493	(10.0)
Shareholders for dividend	**28**	31	(9.7)
Interest-bearing debt	**3 711**	693	435.5
Lease liabilities	**1 034**	1 211	(14.6)
Provisions	**1 276**	1 613	(20.9)
Deferred revenue	**1 633**	1 696	(3.7)
Income tax payable	**3**	9	(66.7)
Other financial liabilities	**527**	622	(15.3)
Credit facilities utilised	**–**	1	(100.0)
Total liabilities	**31 973**	32 490	(1.6)
Total equity and liabilities	**66 017**	63 831	3.4

Notes

Employee benefits increased by 18.9% to R1 566 million largely due to the actuarial gain. The actuarial gain is primarily due to the change in experience adjustments.

Financial assets and liabilities increased by 7.7% to R182 million and decreased by 13.2% to R633 million, respectively. The financial liabilities decreased due to valuation gains on mark to market of interest rate swaps.

Deferred taxation decreased by 85.7% to R71 million primarily attributable to the movement of R347 million through profit and loss, which movement is mainly attributable to an increase in capital allowances and the tax rate change, set off by the increase in the deferred tax asset recognized on tax losses and a reduction in prior year adjustments. The movement of R79 million through other comprehensive income (OCI) also contributed to the decrease due to the additional liability raised in Telkom SA SOC Ltd, attributable to actuarial gains recognised on the post-employment benefit plans.

Trade and other receivables increased 7.9% to R7 797 million mainly due to higher customer premises equipment sales from fixed business and IT hardware and software sales.

Contract assets increased by 17.6% to R2 055 million largely due to higher mobile handset sales.

Restricted cash of R1 142 million represents the payment to ICASA for spectrum acquisition.

Provisions decreased by 25.8% to R1 656 million primarily driven by a lower employee performance recognition provision.

Summary audited consolidated statement of cash flows

	March 2022 Rm	Restated March 2021 Rm	Variance %
Cash flows from operating activities	8 152	10 941	(25.5)
Cash receipts from customers	41 614	43 790	(5.0)
Cash paid to suppliers and employees	(31 728)	(29 407)	(7.9)
Cash generated from operations	9 886	14 383	(31.3)
Interest received	235	332	(29.2)
Dividend received	22	–	100.0
Finance charges paid	(1 188)	(1 291)	8.0
Taxation paid	(764)	(2 194)	65.2
Repayment of derivatives – FECs	(114)	(158)	27.8
Proceeds from derivatives – FECs	80	126	(36.5)
Cash generated from operations before dividend paid	8 157	11 198	(27.2)
Dividend paid	(5)	(257)	98.1
Cash flows from investing activities	(9 298)	(8 294)	(12.1)
Proceeds on disposal of property, plant and equipment and intangible assets	16	6	166.7
Additions to assets for capital expansion	(8 031)	(8 311)	3.4
Investments made by FutureMakers	(53)	(54)	1.9
Investment in SME fund	(9)	–	(100.0)
Repayment of derivatives – FECs	(267)	(477)	44.0
Proceeds from derivatives – FECs	188	378	(50.3)
Increase in restricted cash	(1 142)	–	(100.0)
Withdrawal from ABSA sinking fund investment	–	164	(100.0)
Cash flows from financing activities	(617)	(2 371)	74.0
Loans raised	1 150	268	329.1
Loans repaid	(193)	(1 400)	86.2
Purchase of shares for the Telkom share plan and subsidiaries' long-term incentive share scheme	(393)	(285)	(37.9)
Repayment of lease liability	(1 076)	(856)	(25.7)
Repayment of derivatives – Interest rate swaps	(105)	(98)	(7.1)
Net decrease in cash and cash equivalents	(1 763)	276	(738.8)
Net cash and cash equivalents at beginning of the year	5 002	4 726	5.8
Net cash and cash equivalents at end of the year	3 239	5 002	(35.2)

Notes

Cash generated from operations declined 31.3% to R9 886 million largely as a result of the 1.1% revenue decline and the deterioration in working capital largely due to timing of cash flows primarily due to an increase in post-paid mobile handset sales and purchases following the gradual re-opening of the economy post the national lockdown.

Taxation paid decreased 65.2% to R764 million primarily due to the payment of settlements in FY2021 in respect of prior period tax disputes to the South African Revenue Service.

Additions to assets for capital expansion of R8 031 million paid during FY2022 includes payments made of R1 070 million in respect of the accelerated build programme executed in Q4 FY2021 supporting strategic growth.

Restricted cash of R1 142 million represents the payment to ICASA for spectrum acquisition.

Loans raised increased 329.1% to R1 150 million attributable to the funding of the spectrum acquisition.

Audited consolidated abridged financial statements | 4

for the year ended
31 March 2022

Board approval

These consolidated abridged financial statements for the year ended 31 March 2022 were authorised for issue on 10 June 2022 by the Telkom SA SOC Ltd Board of Directors and published on 14 June 2022. The Directors have the power to amend and reissue the financial statements.

Directors' responsibility and audit report

The Directors of the Company take full responsibility for the preparation of the consolidated abridged financial statements for the year ended 31 March 2022. The consolidated abridged financial statements for the year ended 31 March 2022 have been audited by our independent joint auditors PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc.

Preparer and supervisor of the consolidated abridged financial statements

These consolidated abridged financial statements for the year ended 31 March 2022 were prepared by the Telkom Group finance staff under the supervision of the Group Chief Financial Officer, Dirk Reyneke CA(SA).

Independent auditors' review report on the condensed abridged annual financial statements

for the year ended 31 March 2022

To the Shareholders of Telkom SA SOC Limited

Opinion

The summary consolidated financial statements of Telkom SA SOC Limited, contained in the accompanying abridged report, which comprise the summary consolidated statement of financial position as at 31 March 2022, the summary consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Telkom SA SOC Limited for the year ended 31 March 2022.

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

Summary consolidated financial statements

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

The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 10 June 2022. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Director's responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, set out in note 3.1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Auditor's responsibility

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: KJ Dikana
Registered Auditor
Johannesburg

10 June 2022

SizweNtsalubaGobodo Grant Thornton Inc.

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

10 June 2022

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

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

Chief Executive Officer: L S Machaba

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

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

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

T: +27 (0) 11 231 0600, F: +27 (0) 11 234 0933,
info@sng.za.com

Chief Executive: Victor Sekese

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

Reg. no. M2005/034639/21

Consolidated summary statement of profit or loss and other comprehensive income

for the year ended 31 March 2022

	Notes	31 March 2022 Rm	31 March 2021 Rm
Revenue	5	42 756	43 222
Operating revenue		42 474	42 939
Interest revenue		282	283
Other income		686	619
Insurance service result		(2)	15
Payments to other operators	6.1	(3 393)	(3 878)
Cost of handsets, equipment, software and directories	6.2	(5 648)	(4 781)
Sales commission, incentives and logistical costs	6.3	(2 516)	(2 425)
Employee expenses	6.4	(8 693)	(9 312)
Other expenses	6.5	(2 315)	(2 197)
Maintenance		(3 879)	(3 971)
Marketing		(729)	(747)
Impairment of receivables and contract assets		(803)	(1 039)
Service fees		(3 388)	(3 316)
Lease-related expenses	6.6	(168)	(487)
EBITDA		11 908	11 703
Depreciation of property, plant and equipment		(4 713)	(4 918)
Depreciation of right-of-use assets		(1 184)	(947)
Amortisation of intangible assets		(831)	(805)
Write-offs and impairments of property, plant and equipment and intangible assets		(247)	(200)
Operating profit		4 933	4 833
Investment income		144	188
Income from associates		–	1
Net finance charges and fair value movements		(1 279)	(1 527)
Finance charges on lease liabilities		(450)	(445)
Net finance charges – other		(662)	(804)
Cost of hedging		–	(153)
Foreign exchange and fair value movements		(167)	(125)
Profit before taxation		3 798	3 495
Taxation	13.1	(1 167)	(1 067)
Profit for the year		**2 631**	**2 428**

	Notes	31 March 2022 Rm	31 March 2021 Rm
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange gains/(losses) on translating foreign operations[1]		4	(25)
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gains/(losses)	10	341	(69)
Income tax relating to other comprehensive income		(79)	19
Other comprehensive income for the year, net of taxation		266	(75)
Total comprehensive income for the year		**2 897**	**2 353**
Profit attributable to:			
Owners of Telkom		2 630	2 422
Non-controlling interests		1	6
Profit for the year		**2 631**	**2 428**
Total comprehensive income attributable to:			
Owners of Telkom		2 896	2 347
Non-controlling interests		1	6
Total comprehensive income for the year		**2 897**	**2 353**
Basic earnings per share (cents)	7	536.6	489.9
Diluted earnings per share (cents)	7	519.9	484.0

[1] *This component of other comprehensive income does not attract any tax.*

Consolidated summary statement of financial position

as at 31 March 2022

	Notes	31 March 2022 Rm	31 March 2021 Rm
Assets			
Non-current assets		**49 893**	47 901
Property, plant and equipment	8	**38 319**	36 271
Right-of-use assets		**4 945**	4 519
Intangible assets	8	**4 248**	4 605
Other investments		**170**	115
Employee benefits	10	**1 566**	1 317
Other financial assets	9.1	**113**	81
Finance lease receivables		**224**	270
Deferred taxation	13.3	**308**	723
Current assets		**16 124**	15 930
Inventories	11	**1 084**	1 026
Income tax receivable	13.4	**30**	91
Finance lease receivables		**183**	228
Trade and other receivables	18.1	**7 797**	7 227
Contract assets	18.2	**2 055**	1 747
Other current assets	19	**466**	459
Other financial assets	9.1	**69**	88
Investment in cell captives		**59**	61
Cash and cash equivalents	12.1	**3 239**	5 003
Restricted cash	12.2	**1 142**	–
Total assets		**66 017**	**63 831**

	Notes	31 March 2022 Rm	31 March 2021 Rm
Equity and liabilities			
Equity attributable to owners of the parent		**34 069**	31 366
Share capital		**5 050**	5 050
Share-based compensation reserve		**1 238**	1 036
Non-distributable reserves		**968**	1 361
Retained earnings		**26 813**	23 919
Non-controlling interests		**(25)**	(25)
Total equity		**34 044**	**31 341**
Non-current liabilities		**13 422**	15 121
Interest-bearing debt	15	**8 221**	10 173
Lease liabilities		**4 340**	3 761
Provisions	16	**380**	619
Other financial liabilities	9.2	**106**	107
Deferred revenue		**138**	235
Deferred taxation	13.3	**237**	226
Current liabilities		**18 551**	17 369
Trade and other payables[1]		**10 339**	11 493
Shareholders for dividend		**28**	31
Interest-bearing debt	15	**3 711**	693
Lease liabilities		**1 034**	1 211
Provisions	16	**1 276**	1 613
Deferred revenue		**1 633**	1 696
Income tax payable	13.4	**3**	9
Other financial liabilities	9.2	**527**	622
Credit facilities utilised	12.1	**–**	1
Total liabilities		**31 973**	**32 490**
Total equity and liabilities		**66 017**	**63 831**

[1] *R1 169 million of the total trade payables is subject to supplier financing where the suppliers have decided to receive the invoice amounts before the due date from independent external funders.*

Consolidated summary statement of changes in equity

for the year ended 31 March 2022

	31 March 2022 Rm	31 March 2021 Rm
Balance at 1 April (as previously reported)	31 341	29 475
Attributable to owners of Telkom	31 366	29 504
Non-controlling interests	(25)	(29)
Restatement of third party service costs	–	(114)
Restated balance at 1 April	31 341	29 361
Correction of prior period error during 2021	–	(44)
Total comprehensive income for the year	2 897	2 353
Profit for the year	2 631	2 428
Other comprehensive income	266	(75)
Exchange gains/(losses) on translating foreign operations	4	(25)
Net defined benefit plan remeasurements	262	(50)
Dividend declared[1]	(1)	(256)
Increase in share-based compensation reserve	203	203
Escrow shares realised for settlement to employees	–	12
Increase in treasury shares[2]	(396)	(288)
Balance at 31 March	34 044	31 341
Attributable to owners of Telkom	34 069	31 366
Non-controlling interests	(25)	(25)

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

[2] *Treasury shares increased due to the share buy-back for the Telkom and subsidiaries long-term incentive share scheme.*

Consolidated summary statement of cash flows

for the year ended 31 March 2022

	Notes	31 March 2022 Rm	Restated 31 March 2021[1] Rm
Cash flows from operating activities		8 152	10 941
Cash receipts from customers		41 614	43 790
Cash paid to suppliers and employees		(31 728)	(29 407)
Cash generated from operations	22	9 886	14 383
Interest received		235	332
Dividend received		22	–
Finance charges paid		(1 188)	(1 291)
Taxation paid	13.2	(764)	(2 194)
Repayment of derivatives – FECs		(114)	(158)
Proceeds from derivatives – FECs		80	126
Cash generated from operations before dividend paid		8 157	11 198
Dividend paid		(5)	(257)
Cash flows utilised for investing activities		(9 298)	(8 294)
Proceeds on disposal of property, plant and equipment and intangible assets		16	6
Additions to assets for capital expansion		(8 031)	(8 311)
Investments made by FutureMakers		(53)	(54)
Investment in SA SME Fund		(9)	–
Repayment of derivatives – FECs		(267)	(477)
Proceeds from derivatives – FECs		188	378
Restricted cash	12.2	(1 142)	–
Withdrawal from the Absa sinking fund investment		–	164
Cash flows from financing activities		(617)	(2 371)
Loans raised	15	1 150	268
Loans repaid	15	(193)	(1 400)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		(393)	(285)
Repayment of lease liability		(1 076)	(856)
Repayment of derivatives – interest rate swaps		(105)	(98)
Net (decrease)/increase in cash and cash equivalents		(1 763)	276
Net cash and cash equivalents at 1 April		5 002	4 726
Net cash and cash equivalents at the end of the year	12.1	3 239	5 002

[1] *The Group restated the statement of cash flows to correctly classify repayments of R158 million and proceeds of R126 million in respect of FECs relating to inventory purchases, and R477 million of repayments and R378 million of proceeds in respect of the FECs relating to capital expenditure from financing activities to operating activities and investing activities, respectively. Due to the reclassification, the FEC fair value movements which form part of inventory working capital movement changed, as well as the FEC fair value movement capitalised to property, plant and equipment. This resulted in a decrease of R139 million in cash paid to suppliers and employees and an increase in additions to assets for capital expansion of R139 million. The change in classification of the cash flows did not impact the net cash and cash equivalents balance at the end of the reporting period.*

Notes to the consolidated summary financial statements

for the year ended 31 March 2022

1. Independent audit

The consolidated summary financial statements have been derived from the audited Group financial statements. The Directors of the Company take full responsibility for the preparation of the summary consolidated financial statements and that the financial information has been correctly derived and is consistent in all material respects with the underlying audited Group financial statements. The consolidated summary financial statements for the year ended 31 March 2022 have been audited by our joint auditors, PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc., who have expressed an unmodified opinion thereon. The auditors also expressed an unmodified opinion on the Group financial statements from which the consolidated summary financial statements were derived. A copy of the auditors' report on the Group financial statements is available for inspection on the Telkom website, together with the financial statements identified in the auditors' report.

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 consolidated summary financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), IAS 34 (Interim Financial Reporting) and in compliance with the JSE Listings Requirements, the Companies Act, 71 of 2008 (as amended) (the Companies Act), the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by the Financial Reporting Standards Council. The consolidated summary financial statements have been prepared on the going concern basis.

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

3.2 Significant accounting judgements, estimates and assumptions

In preparing these consolidated summary 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 2021, with the exception of the judgements and estimates related to the useful lives of property, plant and equipment (refer to note 3.2.1), supply chain financing arrangements (refer to note 3.2.2) and the assessment of the Russia-Ukraine conflict as part of accounting judgements and sources of estimation uncertainty (refer to note 3.2.3).

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 year, the Group reassessed the useful lives on property, plant and equipment. The reassessment decreased the depreciation expense by R514 million (31 March 2021: R120 million).

3.2.2 Supply chain financing arrangements

Assessment of supplier finance arrangements and whether these result in changes on the trade payable classification to interest-bearing debt takes into consideration numerous factors, which include the impact of the arrangement on the supplier's payment terms, nature of relationships between the Group and the funders, changes on cash flows, whether there are any guarantees provided by the Group to the funders as well as whether the supplier has discharged the Group from its obligation.

3.2.3 The assessment of the Russia-Ukraine conflict as part of accounting judgements and sources of estimation uncertainty

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.

Going concern

The Group does not have direct exposure in Ukraine/Russia, which could potentially threaten its ability to continue as a going concern. The Group will, however, continue to monitor the indirect impact resulting from the uncertainties in the global economy.

The natural disasters and social unrest experienced recently also did not have a significant impact on the going concern.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 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 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 larger disclosures within the Group, however, the recognition and measurement in terms of the standard is not expected to be material.

Consideration	Effective date
IFRS 3 (Business Combinations) Reference to the conceptual framework	Annual periods beginning on or after 1 January 2022
IFRS 16 (Leases) Amendments to illustrative example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements	Annual periods beginning on or after 1 January 2022
IFRS 9 (Financial Instruments) Fees in the "10 percent" test for derecognition of financial liabilities	Annual periods beginning on or after 1 January 2022
IAS 16 (Property, Plant and Equipment) Proceeds before intended use	Annual periods beginning on or after 1 January 2022
IFRS 17 (Insurance Contracts)	Annual periods beginning on or after 1 January 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 January 2023
IAS 1 (Presentation of Financial Statements) Amendments regarding the classification of liabilities	Annual periods beginning on or after 1 January 2023
IAS 1 (Presentation of Financial Statements) Amendments regarding the disclosure of accounting policies	Annual periods beginning on or after 1 January 2023
IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) Onerous Contracts - Costs of Fulfilling a Contract	Annual periods beginning on or after 1 January 2022
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 January 2023
IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) Definition of accounting estimate	Annual periods beginning on or after 1 January 2023

4. Significant changes in the current reporting period

4.1 Assessment of COVID-19

The year was characterised by the third and fourth waves of COVID-19 infections in South Africa, driven by the emergence of the Delta and Omicron variants. While economic activity across South Africa has started to recover due to the easing of lockdown restrictions, economic concerns remain due to higher levels of unemployment and the resurgence of the COVID-19 virus.

The Group continues to experience varied impacts as a consequence of COVID-19, largely due to the diverse nature of its operations, the impact of which is included in the actual results over the past financial year. The Group experienced a significant increase in growth across its carrier and broadband market segments since the advent of the COVID-19 pandemic, pushed by significant demand for internet connectivity. The decline in the traditional fixed-line business continues and is intensified by the impact of businesses downsizing or introducing remote working policies for employees. This decline has been countered by an increase in the demand across the Group's next-generation services, which are powered by fibre. As more companies and people adopt hybrid forms of work, the home has become the new hub of communication, fuelling tremendous growth across fixed fibre and backhaul requirements for mobile operators.

5. 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, Openserve and Telkom Small and Medium Business (SMB), as well as its subsidiaries, BCX 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 simplex 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 consolidated summary financial statements continued

for the year ended 31 March 2022

5. Segment information continued

March 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]	3 792	25 411	12 867	686	–	–	–	42 756
Revenue from contracts with customers recognised over time	3 698	22 190	10 777	–	–	–	–	36 665
Voice	–	6 535	2 980	–	–	–	–	9 515
Interconnection	319	482	–	–	–	–	–	801
Data	3 248	14 581	3 011	–	–	–	–	20 840
Information technology services	–	–	3 971	–	–	–	–	3 971
Customer premises equipment related services	–	105	739	–	–	–	–	844
Interest revenue	–	256	26	–	–	–	–	282
Sundry revenue	131	231	50	–	–	–	–	412
Revenue from contracts with customers recognised at a point in time	–	3 221	2 090	–	–	–	–	5 311
Customer premises equipment	–	3 111	483	–	–	–	–	3 594
Information technology hardware	–	–	1 607	–	–	–	–	1 607
Sundry revenue	–	110	–	–	–	–	–	110
Lease revenue	94	–	–	686	–	–	–	780
Intersegmental operating revenue	9 636	342	2 462	934	1 057	(13 610)	(821)	–
Other income	276	575	64	–	392	(621)	–	686
Insurance service result	–	–	–	–	(2)	–	–	(2)
Total expenses	(9 541)	(21 829)	(13 105)	(399)	(889)	14 231	–	(31 532)
Cost of handsets, equipment, software and directories	–	(3 686)	(2 274)	–	–	312	–	(5 648)
Sales commission, incentives and logistical costs	–	(2 369)	(147)	–	–	–	–	(2 516)
Payments to other operators	(717)	(2 602)	(445)	–	–	371	–	(3 393)
Employee expenses	(3 086)	(1 021)	(4 024)	(133)	(429)	–	–	(8 693)
Selling, general and administrative expenses	(5 738)	(12 151)	(6 215)	(266)	(460)	13 548	–	(11 282)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	4 163	4 499	2 288	1 221	558	–	(821)	11 908
Depreciation, amortisation, impairments and write-offs								(6 975)
Operating profit								4 933
Investment income								144
Net finance charges, hedging costs and fair value movements								(1 279)
Profit before taxation								**3 798**
Other segment information								
Capital expenditure of property, plant and equipment and intangible assets	3 472	2 832	567	418	195	–	–	7 484

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2022

5. Segment information continued

March 2021	Openserve Rm	Telkom Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	IFRS 16 reversal Rm	Consolidated Rm
Revenue from external customers[1]	3 690	25 520	13 324	688	–	–	–	43 222
Revenue from contracts with customers recognised over time	3 589	22 614	11 676	–	–	–	–	37 879
Voice	–	7 170	3 182	–	–	–	–	10 352
Interconnection	435	485	–	–	–	–	–	920
Data	3 077	14 578	3 127	–	–	–	–	20 782
Information technology services	–	–	4 511	–	–	–	–	4 511
Customer premises equipment related services	–	132	770	–	–	–	–	902
Interest revenue	–	240	42	–	–	–	–	282
Sundry revenue	77	9	44	–	–	–	–	130
Revenue from contracts with customers recognised at a point in time	–	2 906	1 648	–	–	–	–	4 554
Customer premises equipment	–	2 520	215	–	–	–	–	2 735
Information technology hardware	–	–	1 433	–	–	–	–	1 433
Sundry revenue	–	386	–	–	–	–	–	386
Lease revenue	101	–	–	688	–	–	–	789
Intersegmental operating revenue	9 795	295	2 418	765	836	(13 428)	(681)	–
Other income	197	540	76	–	283	(477)	–	619
Insurance service result	–	–	–	–	15	–	–	15
Total expenses	(9 507)	(21 347)	(13 354)	(318)	(1 262)	13 905	–	(31 883)
Cost of handsets, equipment, software and directories	–	(2 846)	(2 025)	–	–	90	–	(4 781)
Sales commission, incentives and logistical costs	–	(2 243)	(182)	–	–	–	–	(2 425)
Payments to other operators	(770)	(3 052)	(491)	–	–	435	–	(3 878)
Employee expenses	(2 917)	(970)	(4 159)	(113)	(886)	3	–	(9 042)
Selling, general and administrative expenses[2]	(5 820)	(12 236)	(6 497)	(205)	(376)	13 377	–	(11 757)
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	4 175	5 008	2 464	1 135	(128)	–	(681)	11 973
Reconciliation of operating profit to profit before tax								
Normalisations								
Voluntary severance, retirement and retrenchment package expenses								(270)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments								11 703
Depreciation, amortisation, impairments and write-offs								(6 870)
Operating profit								4 833
Investment income								188
Income from associates								1
Net finance charges, hedging costs and fair value movements								(1 527)
Profit before taxation								**3 495**
Other segment information								
Capital expenditure of property, plant and equipment and intangible assets	2 942	4 597	519	217	173	–	–	8 448

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

[2] *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 consolidated summary financial statements continued

for the year ended 31 March 2022

5. Segment information *continued*

Entity-wide disclosures

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

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

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

6. Expenses

	31 March 2022 Rm	31 March 2021 Rm
6.1 Payments to other operators	**(3 393)**	(3 878)
Payments to other operators decreased mainly due to lower mobile roaming and interconnect traffic.		
6.2 Cost of handsets, equipment, software and directories	**(5 648)**	(4 781)
Cost of handsets, equipment, software and directories increased as a result of higher post-paid and long-term evolution (LTE) sales year on year. The prior year was negatively impacted by COVID-19.		
6.3 Sales commission, incentives and logistical costs	**(2 516)**	(2 425)
Sales commission, incentives and logistical costs increased slightly as a result of higher commissions due to the growth in the commissionable base.		
6.4 Employee expenses	**(8 693)**	(9 312)
Employee expenses decreased mainly due to restructuring that occurred in the prior period.		
6.5 Other expenses	**(2 315)**	(2 197)
Other expenses include third party costs, licence fees paid to regulators, market research and losses as a result of theft of copper and fibre lines. Other expenses increased mainly due to higher losses as a result of theft, licence fees and third party access costs.		
6.6 Lease-related expenses	**(168)**	(487)
Included in lease-related expenses is an amount of R8 million (31 March 2021: R54 million) related to short-term leases as well as month-to-month leases that are non-strategic in nature. Of the total amount, low-value leases consist of Rnil (31 March 2021: Rnil). Lease renewals were fast tracked resulting in leases, that were previously expensed as month-to-month, being renewed for a fixed period. These leases have been capitalised to right-of-use assets and lease liabilities and are no longer accounted for as month-to-month, resulting in the decrease in lease-related expenses. This resulted in an increase in the right-of-use asset and lease liability.		

7. Earnings and dividend per share

Total operations	31 March 2022	31 March 2021
Basic earnings per share (cents)	**536.6**	489.9
Diluted earnings per share (cents)	**519.9**	484.0
Headline earnings per share (cents)[1]	**575.3**	522.2
Diluted headline earnings per share (cents)[1]	**557.5**	516.0

Reconciliation of weighted average number of ordinary shares:	Number of shares	Number of shares
Weighted ordinary shares in issue	**511 140 239**	511 140 239
Weighted average number of treasury shares	**(20 985 607)**	(16 718 676)
Weighted average number of shares outstanding	**490 154 632**	**494 421 563**

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 consolidated summary financial statements continued

for the year ended 31 March 2022

7. Earnings and dividend per share continued

Reconciliation of diluted weighted average number of ordinary shares:	Number of shares	Number of shares
Weighted average number of shares outstanding	490 154 632	494 421 563
Expected future vesting of shares related to Group share scheme incentive plans	15 702 826	5 995 674
Diluted weighted average number of shares outstanding	**505 857 458**	**500 417 237**

Treasury shares

Treasury shares of 23 021 555 (31 March 2021: 16 056 950) are held by the Group.

	31 March 2022		31 March 2021	
	Gross Rm	Net[2] Rm	Gross Rm	Net[2] Rm
Total operations				
Reconciliation between earnings and headline earnings				
Profit for the year		2 631		2 428
Non-controlling interests		(1)		(6)
Profit attributable to owners of Telkom		2 630		2 422
Profit on disposal of property, plant and equipment and intangible assets	(14)	(14)	(4)	(4)
Loss on disposal of a subsidiary	3	3	–	–
Write-offs and impairments of property, plant and equipment and intangible assets	247	201	200	164
Headline earnings		2 820		2 582
Dividend per share (cents)		**–**		**50.08**

[2] *The taxation impact consists of a R46 million increase (31 March 2021: R36 million) in tax expense related to recoupment and scrapping of disposals and write-offs of property, plant and equipment and intangible assets.*

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

8. Capital additions and disposals

	31 March 2022 Rm	31 March 2021 Rm
Property, plant and equipment		
Additions	6 969	7 692
Disposals	(13)	(7)
	6 956	7 685
Intangible assets		
Additions	513	756
	513	756

Finance charges of R78 million (31 March 2021: R31 million) were capitalised to property, plant and equipment and intangible assets in the current financial year.

9. Other financial assets and liabilities

9.1 Other financial assets

	31 March 2022 Rm	31 March 2021 Rm
Non-current other financial assets	113	81
Other financial assets at amortised cost		
Asset finance receivables	103	81
Other financial assets at fair value through profit or loss		
Investment in SA SME Fund	10	–
Current other financial assets	69	88
Other financial assets at fair value through profit or loss		
Derivative instruments used for hedging		
Forward exchange contracts	16	–
Firm commitments	53	88

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2022

9. Other financial assets and liabilities continued

9.2 Other financial liabilities

	31 March 2022 Rm	31 March 2021 Rm
Non-current other financial liabilities	**(106)**	(107)
Other financial liabilities at amortised cost		
Asset finance payables	**(106)**	(107)
Current other financial liabilities	**(527)**	(622)
Other financial liabilities at amortised cost	**(253)**	(200)
Asset finance payables	**(94)**	(86)
Vendor financing	**(159)**	(114)
Other financial liabilities at fair value through profit or loss	**(274)**	(422)
Derivative instruments used for hedging	**(252)**	(400)
Forward exchange contracts	**(147)**	(179)
Firm commitments	**(36)**	(19)
Interest rate swaps	**(69)**	(202)
Financial guarantees	**(22)**	(22)

The movement in the forward exchange contracts and firm commitments relates to the volatility of the forex market. The decrease in the interest rate swaps liability is due to the realisation of the losses. 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 the debt which is predominately floating rate debt.

10. Employee benefits

	31 March 2022 Rm	31 March 2021 Rm
Non-current assets	**1 566**	1 317
Telkom Pension Fund asset	**17**	17
Post-retirement medical aid recognition of net plan asset	**1 549**	1 300
Defined benefit plan actuarial gains/(losses)	**341**	(69)
Telkom Pension Fund net actuarial (loss)/gain	**(1)**	1
Telkom Retirement Fund net actuarial gain/(loss)	**247**	(212)
Medical aid net actuarial gain	**99**	145
Telephone rebate net actuarial gain/(loss)	**1**	(1)
Long service award net actuarial loss	**(5)**	(2)

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

Share scheme

On 1 June 2021 and 9 November 2021, 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.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2022

10. Employee benefits continued

The shares granted are as follows:	No. of shares granted 2022
Telkom	
LTIP	2 945 065
ESOP	3 799 573
BCX	
LTIP	979 884
ESOP	3 378 199
Yellow Pages	
ESOP	59 051
Gyro	
LTIP	230 520
ESOP	111 855

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

ESOP grant:

30 June 2024: 100%

LTIP grant:

30 June 2024: 50%
30 June 2025: 30%
30 June 2026: 20%

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

ESOP grant:

30 June 2024: 100%

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)	48.11	48.11
Share price volatility (%)	40	40
Future risk-free interest rate (%)		
- 30 June 2024	4.98	4.98
- 30 June 2025	N/A	5.51
- 30 June 2026	N/A	6.01

11. Inventories

	31 March 2022 Rm	31 March 2021 Rm
Inventories	1 084	1 026
Gross inventories	1 244	1 180
Write-down of inventories to net realisable value	(160)	(154)

In line with the Group strategy, the Group's inventory increased in the current financial period due to the accelerated deployment of fibre which required additional inventory to be purchased.

During the current financial year, R33 million (31 March 2021: R42 million) was transferred from inventories to property, plant and equipment. The transfers only take place from CWIP.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2022

12. Net cash and cash equivalents and restricted cash

12.1 Net cash and cash equivalents

	31 March 2022 Rm	31 March 2021 Rm
Cash disclosed as current assets	**3 239**	5 003
Cash and bank balances	**3 104**	3 637
Short-term deposits	**135**	1 366
Credit facilities utilised	**–**	(1)
Net cash and cash equivalents	**3 239**	5 002
Undrawn borrowing facilities	**4 900**	6 578

The significant decrease in short-term deposits and the overall decrease in cash and cash equivalents is due to cash outflows attributable to capex spend. The Group utilised available cash throughout the year and did not obtain funding except for the spectrum auction payment.

The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 31 March 2022, R4.35 billion (31 March 2021: R5.5 billion) of these undrawn facilities were committed.

12.2 Restricted cash

The restricted cash balance comprises an amount of R1 142 million relating to a portion of the ICASA spectrum auction fee.

At the spectrum auction conducted by ICASA in March 2022, Telkom successfully bid for 2 x 10 MHz in the 800 MHz band and 22 MHz in the 3 500 MHz band. On 22 March 2022, Telkom was officially awarded the spectrum at a cost of R2 114 million, of which R1 142 million was payable within 30 working days from 23 March 2022. The outstanding payment of R972 million relates to a portion of the 800 MHz which ICASA is expected to commence the licensing of in July 2022.

Prior to the auction being finalised, Telkom had launched a court application against ICASA, in which it claimed that it was constrained in its ability to acquire the amount of spectrum it needs to compete effectively. In light of the pending litigation proceedings, Telkom, at their discretion, paid the amount of R1 142 million into a trust account at Werksmans Attorneys, their attorney on record, with specific instructions:

- if Telkom is ultimately unsuccessful in the court application or if the matter is settled out of court, the monies are to be used by Werksmans Attorneys to pay the auction fees to ICASA; or
- if Telkom is ultimately successful in the court application, the monies are to be repaid to Telkom, together with the interest that may have accrued and less any fees and charges to be deducted in terms of the agreement signed with Werksmans Attorneys.

The above instruction to Werksmans Attorneys cannot be revoked by Telkom under any circumstances.

The payment of R1 142 million has been reflected as an investing activity on the statement of cash flows.

Refer to note 24 for the events that took place after the reporting date.

13. Taxation and deferred taxation

13.1 Taxation

	31 March 2022 Rm	31 March 2021 Rm
Taxation	**(1 167)**	(1 067)

The taxation expense increased by 9.4% (R100 million) primarily due to an increase of 8.7% (R304 million) in the Group's profit before tax (PBT) and the increase of 0.2% in the Group's effective tax rate (ETR) to 30.7% (FY2021: 30.5%). The increase in the ETR is mainly attributable to the reduction in the corporate tax rate from 28% to 27% for future years of assessment (resulting in the reduction in the Group's deferred tax asset balance to align with the future utilisation thereof), set off by a decrease in prior year adjustments.

13.2 Taxation paid

	31 March 2022 Rm	31 March 2021 Rm
Taxation paid	**(764)**	(2 194)

Taxation paid in the current financial year is R1 430 million lower than the prior year mainly due to payments of R1 172 million made in FY2021 in settlement of prior period tax disputes (as reported in the prior year annual financial statements). Excluding these payments, taxation paid in the current year is R258 million lower than the R1 022 million paid in FY2021 as a result of an increase in the Group's tax losses.

13.3 Deferred taxation

	31 March 2022 Rm	31 March 2021 Rm
Deferred taxation balance is made up as follows:	**71**	497
Deferred taxation assets	**308**	723
Deferred taxation liabilities	**(237)**	(226)

The decrease of R426 million in the deferred tax asset (DTA) balance is attributable to the following:

- R347 million is the net movement in temporary differences through the statement of profit or loss, primarily as a result of a deferred tax liability (DTL) attributable to fixed assets and movement in provisions, set off by the DTA recognised on tax losses; and
- R79 million movement through other comprehensive income (OCI) due to the additional liability raised in Telkom SA SOC Ltd, including actuarial gains recognised on the post-employment benefit plans.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2021

13. Taxation and deferred taxation continued

13.4 Net income tax receivable

	31 March 2022 Rm	31 March 2021 Rm
The income tax receivable is made up as follows:	**27**	82
Income tax receivable	**30**	91
Income tax payable	**(3)**	(9)

The decrease of R55 million in net income tax receivable is mainly due to differences in provisional tax payments made and the final tax liability for the current year, refunds received and prior year overprovisions.

14. Fair value measurement

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 and Risk Committee.

14.1 Fair value of financial instruments

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

Type of financial instrument	Fair value at 31 March 2022 Rm	Valuation technique	Significant inputs
Derivative assets	**69**	Discounted cash flows	Yield curves Market interest rates
Derivative liabilities	**(252)**		
Financial guarantees	**(22)**	Discounted cash flows	Market foreign exchange rates
Investment in FutureMakers entities	**165**	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
Interest-bearing debt	**(12 007)**	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.

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 R121 million (31 March 2021: R460 million) has been recognised in finance charges and fair value movements and offset with a similar gain on the hedged items (property, plant and equipment and inventory).

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

The fair value of financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. The fair value of cash and short-term deposits, trade and other receivables, contract assets, finance leases, shareholders for dividend and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments and market-related interest rates included in finance lease receivables. Long-term receivables and borrowings are evaluated by the Group based on parameters such as interest rates, specific country factors and the individual creditworthiness of the customer. Based on this evaluation, allowances are taken into account for the expected losses of these receivables. As at the reporting date, the carrying amount of such receivables, net of allowances, are not materially different from their calculated fair values. Fair values of quoted bonds are based on price quotations at the reporting date.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2022

14. Fair value measurement continued

14.2 Fair value hierarchy

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

The different levels have been defined as follows:

- 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]	31 March 2022 Rm	31 March 2021 Rm
Assets measured at fair value			
Derivative assets			
Forward exchange contracts	Level 2	**16**	–
Firm commitments	Level 2	**53**	88
Investment made by FutureMakers	Level 3	**165**	107
Investment in SA SME Fund	Level 3	**10**	–
Liabilities measured at fair value			
Derivative liabilities			
Forward exchange contracts	Level 2	**(147)**	(179)
Firm commitments	Level 2	**(36)**	(19)
Interest rate swaps	Level 2	**(69)**	(202)
Financial guarantees	Level 3	**(22)**	(22)
Liabilities measured at amortised cost			
Interest-bearing debt[2]	Level 2	**(12 007)**	(11 078)

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

[2] *The carrying amount of interest-bearing debt is R11 932 million (31 March 2021: R10 866 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.*

15. Interest-bearing debt

	31 March 2022 Rm	31 March 2021 Rm
Non-current interest-bearing debt	**8 221**	10 173
Local debt	**7 344**	9 135
Foreign debt	**877**	1 038
Current portion of interest-bearing debt	**3 711**	693
Local debt	**3 558**	693
Foreign debt	**153**	–

The current portion of interest-bearing debt of R3 711 million (31 March 2021: R693 million) at 31 March 2022 is expected to be repaid from available cash, operational cash flow or the issue of new debt instruments.

During the year, R193 million (31 March 2021: R1 400 million) debt was repaid. R1 150 million debt was raised (31 March 2021: R268 million).

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2022

16. Provisions

	31 March 2022 Rm	31 March 2021 Rm
Non-current provisions	380	619
Non-current employee-related provisions	364	606
Subsidiary defined benefit plans	26	27
Telephone rebates	338	325
Telkom Retirement Fund	–	254
Non-current non-employee-related provisions		
Other	16	13
Current provisions	1 276	1 613
Current portion of employee-related provisions	1 126	1 480
Annual leave	454	473
Telephone rebates	39	39
Bonus, termination packages and other benefits	633	968
Current portion of non-employee-related provisions		
Other	150	133

Annual leave

In terms of the Group's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 10 – 30 days (31 March 2021: 15 – 30 days) which must be taken within a 6 – 19 month (31 March 2021: 6 –19 month) leave cycle. The leave cycle is reviewed annually and is in accordance with legislation.

Bonus

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

Telkom Retirement Fund

The decrease in the Telkom Retirement Fund obligation is largely due to the fund being in a surplus position.

17. Commitments

	31 March 2022 Rm	31 March 2021 Rm
Capital commitments authorised	9 085	12 303
Commitments against authorised capital expenditure	2 119	2 007
Authorised capital expenditure not yet contracted	6 966	10 296

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

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

18. Trade and other receivables and contract assets

18.1 Trade and other receivables

	31 March 2022 Rm	31 March 2021 Rm
Trade and other receivables	7 797	7 227
Trade receivables	5 210	5 077
Gross trade receivables	7 506	7 395
Impairment of receivables	(2 296)	(2 318)
Prepayments and other receivables	2 587	2 150
Allowance account for credit losses – trade receivables	2 296	2 318
Opening balance as previously reported	2 318	1 877
Charged to statement of profit or loss and other comprehensive income	534	1 008
Receivables written off	(556)	(567)

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

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2022

18. Trade and other receivables and contract assets continued

18.2 Contract assets

	31 March 2022 Rm	31 March 2021 Rm
Contract assets	**2 055**	1 747
Gross contract assets	**2 551**	2 157
Impairment of contract assets	**(496)**	(410)
Allowance account for credit losses – contract assets	**496**	410
Opening balance as previously reported	**410**	432
Charged to statement of profit or loss and other comprehensive income	**269**	31
Contract assets written off	**(183)**	(53)

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 R1 009 million (31 March 2021: R422 million).

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.

19. Other current assets

	31 March 2022 Rm	31 March 2021 Rm
Other current assets	**466**	459
Contract costs capitalised	**255**	261
Ongoing commission capitalised assets	**211**	198
Contract costs capitalised	**255**	261
Opening balance	**261**	299
Contract costs capitalised during the year	**276**	265
Contracts cancelled during the year	**(25)**	(26)
Amortisation recognised as cost of providing services during the year	**(257)**	(277)

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

20. 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 2021 financial statements.

High Court

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

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2022

20. Contingencies continued

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. 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 and is awaiting Phutuma's feedback regarding the proposal.

Masstores (Pty) Ltd (Masstores)

During November 2021, Masstores (a subsidiary of Massmart Ltd) launched arbitration proceedings against BCX claiming for damages to the amount of R160 million as a result of alleged breach of contract. BCX is in the process of preparing its defence and has filed an exception to the Masstores claim.

Government Gazette announcement on Telkom

On 26 January 2022, Telkom noted Government Gazette no. 11385, published on 25 January 2022 giving the Special Investigating Unit (SIU) authority to investigate several matters including contracting and possible maladministration regarding the disposals of its former subsidiaries, iWayAfrica, Africa Online Mauritius and Multi-Links Telecommunications Ltd. The SIU investigation is now pending and Telkom is engaging with the SIU as to the progress of the matter. Telkom will deal with the investigation on its merits at the appropriate forum should this become necessary.

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.

21. Related parties

	31 March 2022 Rm	Restated 31 March 2021[1] Rm
Details of material transactions and balances with related parties not disclosed separately in the consolidated summary financial statements were as follows:		
With shareholders:		
Government of South Africa		
Related party balances		
Finance lease receivables	**146**	240
Trade receivables	**911**	911
Impairment of trade receivables	**(264)**	(232)
Related party transactions		
Revenue	**(4 625)**	(4 414)

At 31 March 2022, the Government of South Africa held 40.5% (31 March 2021: 40.5%) of Telkom's shares, and had the ability to exercise significant influence, and the Public Investment Corporation held 15.13% (31 March 2021: 15.48%) of Telkom's shares.

	31 March 2022 Rm	Restated 31 March 2021[1] Rm
With entities under common control:		
Major public entities		
Related party balances		
Finance lease receivables	**48**	88
Trade receivables	**369**	318
Impairment of trade receivables	**(106)**	(83)
Trade payables	**(1)**	(1)
Related party transactions		
Revenue (excluding lease income)	**(658)**	(713)
Operating expenses (excluding lease expense)	**278**	277
Lease income	**(31)**	(32)
Lease expense	**42**	42

[1] *In the current financial year, 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 year.*

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2022

21. Related parties continued

	31 March 2022 Rm	31 March 2021 Rm
Key management personnel compensation (including Directors and prescribed officers' remuneration):		
Related party transactions		
Short-term employee benefits	**229**	273
Post-employment benefits	**16**	14
Termination benefits	**8**	5
Equity compensation benefits	**71**	77

Terms and conditions of transactions with related parties

Except as indicated above, outstanding balances at 31 March 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 31 March 2022, the Group has not impaired any of the amounts owed by the related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates.

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

	31 March 2022 Rm	Re-presented 31 March 2021[1] Rm
Cash generated from operations	**9 886**	14 383
Profit before tax	**3 798**	3 495
Finance charges and fair value movements	**1 279**	1 527
Investment income and income from associates	**(144)**	(189)
Interest received from trade receivables	**(122)**	(151)
Non-cash items	**7 201**	7 209
Depreciation, amortisation, impairment and write-offs	**6 975**	6 870
Increase in expected credit loss provision	**64**	419
Bad debts written off	**739**	620
Decrease in provisions	**(419)**	(386)
Insurance service result	**2**	(15)
Gain on termination of leases	**(33)**	(9)
(Profit)/loss from disposal of property, plant and equipment	**(14)**	5
Gain on sale of contract assets	**(154)**	(62)
Foreign exchange movements	**(1)**	(217)
Share-based payment expenses	**203**	203
Movement in deferred revenue	**(161)**	(219)
Movement in working capital	**(2 126)**	2 492
Movement in inventories	**(79)**	(77)
(Increase)/decrease in trade receivables, contract assets, finance lease receivables and other receivables	**(1 343)**	385
(Decrease)/increase in trade and other payables and prepayments	**(704)**	2 184

[1] *In the prior financial year, 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 year, this is disclosed separately as a gain on sale of contract assets. The comparative period has been re-presented for comparability purposes.*

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2022

23. Significant events and transactions

Results of the Telkom annual general meeting regarding Directors reappointments

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

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

Vesting of shares

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

Resignation and appointment of Group Chief Executive Officer (GCEO)

Telkom announced on 23 July 2021 that Mr Sipho Maseko would step down as GCEO and Executive Director of the Telkom Group and that the Board had appointed Mr Serame Taukobong as GCEO designate. Telkom further announced on 14 December 2021 that Mr Sipho Maseko would step down with effect from 31 December 2021 and Mr Serame Taukobong would take over the role of GCEO with effect from 1 January 2022.

Resignation of Non-executive Directors

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

Appointment of Non-executive Directors

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

Listing of masts and towers business

In September 2021, Telkom announced its plan to list its masts and towers business, Swiftnet (Pty) Ltd, on the JSE before the end of March 2022. Following the recent global events, current market conditions and the impact on the Capital Markets, Telkom is following a measured approach as it continues to explore a number of value unlock options.

Legal separation of Openserve

Telkom announced in November 2021 that the legal separation of the Openserve business unit is on track. Once finalised, Openserve will be operating as a standalone subsidiary of the Telkom Group.

24. Events after the reporting date

Appointment of Non-executive Director

Telkom announced on 26 April 2022 that Mr Sung Hyuck Yoon had been appointed to the Board of Directors as an independent Non-executive Director with effect from 1 May 2022.

Spectrum auction

The litigation referred to in note 12.2, which was scheduled for hearing in the High Court in early April 2022, was settled amicably between the two parties on 8 April 2022 resulting in the R1 142 million being paid by Werksmans Attorneys to ICASA on 6 May 2022.

Divisionalisation of Yellow Pages (Pty) Ltd

The Telkom Board approved an in-principle decision to divisionalise one of its 100% owned subsidiaries, Yellow Pages (Pty) Ltd, into the Telkom Consumer business unit. It is envisaged that this process will have a positive impact on the operational efficiency of the Group. The process is expected to commence in FY2023, after the implementation plans have been finalised.

Other matters

The Directors are not aware of any other matter or circumstance since the financial year ended 31 March 2022 and the date of this report, or otherwise dealt with in the consolidated summary financial statements, which significantly affects the financial position of the Group and the results of its operations.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2022

Abbreviations

BCX	Business Connexion (Pty) Ltd
CAPEX	Capital expenditure
CODM	Chief operating decision maker
CWIP	Capital work in progress
DTA	Deferred tax asset
DTL	Deferred tax liability
EBITDA	Earnings before investment income and finance cost, tax, depreciation, amortisation and write-offs, impairments and losses
ESOP	Employee share ownership plan
ETR	Effective tax rate
EXCO	Group Executive Committee
FEC	Forward exchange contracts
GCEO	Group Chief Executive Officer
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IT	Information technology
JSE	Johannesburg Stock Exchange
LTIP	Long-term incentive plan
MHz	Megahertz
OCI	Other comprehensive income
SIU	Special Investigating Unit
SMB	Small and Medium Business
TKG	The Telkom Group's JSE share code