Seamlessly connecting our customers to a better life

Telkom SA SOC Ltd

Group Interim Results

for the six months ended 30 September 2023

Telkom

Telkom SA SOC Ltd
(Incorporated in the Republic of South Africa)

Registration number: 1991/005476/30
JSE share code: TKG
Alpha code: BITEL
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(Telkom, the Company, or the Group)

www.telkom.co.za

Telkom SA SOC Ltd is listed on the JSE Ltd. Information can be accessed on Reuters under the symbol TKGJ.J and on Bloomberg under the symbol TKG.SJ. Information 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", and "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 materially differ 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 https://group.telkom.co.za/ir/index.shtml.

Telkom cautions readers not to place undue reliance on 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 forward-looking statements after the date of this document, so that they conform either to actual results or to changes in our expectations. Such forward-looking statements have not been reviewed or audited by the Company's external auditor.

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Key indicators

21 778	Revenue[1] R'million	2.5% ↑	H1 FY2023: 21 238
17 234	Next-generation revenue R'million	8.1% ↑	H1 FY2023: 15 947
9 293	Mobile service revenue R'million	5.8% ↑	H1 FY2023: 8 783
5 883	Fixed service revenue R'million	6.4% ↓	H1 FY2023: 6 282
3 469	Information technology revenue R'million	11.2% ↑	H1 FY2023: 3 119
5 025	EBITDA[1,2] R'million	1.7% ↑	H1 FY2023: 4 943
3 143	Capex R'million	14.8% ↓	H1 FY2023: 3 689
573	Free cash flow (FCF)[2,4] R'million	130.4% ↑	H1 FY2023: (1 887)
200.2	BEPS[1] Cents per share	52.1% ↑	H1 FY2023: 131.6
195.0	HEPS[1,2,3] Cents per share	46.7% ↑	H1 FY2023: 132.9
3 585	Cash balance at the end of the period[1] R'million	3.3% ↑	H1 FY2023: 3 469
1.8	Net debt[2] to EBITDA[1,2] times	0.1x ↑	H1 FY2023: 1.7

[1] Includes total operations. Refer to page 4 for the reconciliation of the continuing and total operations figures.

[2] This is a non-defined IFRS measure.

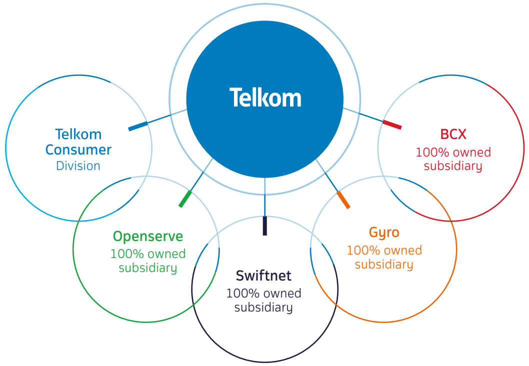
[3] During the year, we restated the HEPS comparative by 4.3 cents per share. Refer to page 3.

[4] Excluding R1 051 million restructuring cost paid.

Telkom operating structure

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

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



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

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

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

Swiftnet commercialises the masts and towers portfolio and is managed by Gyro.

Gyro manages the masts and towers portfolio (Swiftnet), Telkom and Gyro properties as well as data centres.

The United Nations Sustainable Development Goals (SDGs)

SUSTAINABLE DEVELOPMENT GOALS

The following four SDGs presented the most material opportunities for Telkom to enhance its positive impact and minimise its negative impact:

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

Telkom can further support and influence the following SDGs:

- **SDG 1** No poverty
- **SDG 10** Reduced inequalities
- **SDG 6** Clean water and sanitation
- **SDG 16** Peace, justice and strong institutions

The relevant SDG icon indicates where related information is discussed throughout this report.

Restatements and re-presentation

Restatement of prior period error

On 30 September 2022, the Group correctly calculated and accounted for tax in the Group income statement. However, the Group incorrectly adjusted for the headline earnings, relating to the profit on disposal and impairment of property, plant and equipment and intangible assets. The accounting result of this incorrect tax adjustment was a R21 million overstatement of headline earnings that was used in calculating prior year headline earnings per share[1] (HEPS) for period ended 30 September 2022. The consequences of this incorrect tax adjustment on the 31 March 2023 financial year end HEPS calculation will be adjusted for in the 31 March 2024 audited financial report to be issued after year end.

The impact of this restatement on the aggregated amounts previously disclosed is detailed below:

Reconciliation between earnings and headline earnings:	Previously reported September 2022 Rm	Restatement Rm	**Restated September 2022 Rm**
Profit for the period	641	–	**641**
Non-controlling interests	(2)	–	**(2)**
Profit attributable to owners of Telkom	639	–	**639**
Profit on disposal of property, plant and equipment and intangible assets	(43)	(15)	**(58)**
Write-offs and impairments of property, plant and equipment and intangible assets	70	(6)	**64**
Headline earnings	666	(21)	**645**
HEPS[1] (cents)	137.2	(4.3)	**132.9**

[1] *This is a non-defined IFRS measure.*

Re-presentation of financial information

Adoption of IFRS 17 (insurance contracts)

IFRS 17 (Insurance Contracts) has been adopted retrospectively with effect from 01 April 2023. IFRS 17 applies to Guardrisk short-term life insurance cell captive and Mutual and Federal Risk Financing Limited (MFRF) short-term handset and device insurance (third-party insurance cell captives).

The Group disaggregated the presentation of its insurance results business on the face of its statement of profit or loss and other comprehensive income. The disaggregation resulted in the Group introducing an insurance revenue line in the income statement of R135 million (H1 FY2023: R88 million) and an insurance service expense line of R95 million (H1 FY2023: R78 million). The impact is neutral on profit after tax.

The September 2022 comparative information is re-presented as follows:

Total operations	Restated September 2022 Rm	IFRS 17 Rm	Re-presented September 2022 Rm
Revenue	21 150	88	**21 238**
Insurance service result	9	(9)	**–**
Insurance expense	–	(78)	**(78)**
EBITDA[1]	4 942	1	**4 943**
Operating profit	1 393	1	**1 394**
Investment income	55	3	**58**
Profit before taxation	895	4	**899**
Taxation	(254)	(4)	**(258)**
Profit for the period	641	–	**641**
BEPS (cents)	131.6	–	**131.6**
HEPS[1,2] (cents)	132.9	–	**132.9**

[1] *This is a non-defined IFRS measure.*

[2] *During the year, we restated the HEPS comparative by 4.3 cents per share. Refer to page 3.*

Masts and towers classified as held for sale

The masts and towers business met the IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) requirements during the period ended September 2023 and has been classified as held for sale and subsequently presented as a discontinued operation in the reviewed condensed consolidated interim financial statements. Refer to note 16 of the reviewed condensed consolidated interim financial statements for details.

For the purpose of presenting and analysing the total performance of Telkom Group, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and all related key performance indicators and messages in this results announcement for the six months ended 30 September 2023 and 30 September 2022 were adjusted to include the profit as well as the assets and liabilities of the mast and towers business and are therefore based on Total operations amounts as per the tables below:

Extract of the condensed consolidated statement of profit or loss and other comprehensive income	Continuing operations September 2023 Rm	Discontinued operations Rm	Total operations September 2023 Rm
Revenue	21 407	371	**21 778**
Other expenses	(1 139)	(5)	**(1 144)**
Impairment of receivables and contract assets	(884)	(5)	**(889)**
Service fees	(1 948)	(71)	**(2 019)**
Lease-related expenses	(127)	(2)	**(129)**
EBITDA[1]	4 737	288	**5 025**
Depreciation, amortisation, impairment and write-offs	(2 784)	(35)	**(2 819)**
Operating profit	1 953	253	**2 206**
Investment income	74	10	**84**
Finance charges and fair value movements	(975)	(5)	**(980)**
Profit before taxation	1 052	258	**1 310**
Taxation	(264)	(70)	**(334)**
Profit for the period	788	188	**976**
BEPS (cents)	161.5	38.7	**200.2**
HEPS[1] (cents)	156.3	38.7	**195.0**

Extract of the condensed consolidated statement of profit or loss and other comprehensive income	Continuing operations September 2022 Rm	Discontinued operations Rm	Total operations September 2022 Rm
Revenue	20 879	359	**21 238**
Other expenses	(1 135)	(7)	**(1 142)**
Maintenance	(2 152)	(1)	**(2 153)**
Service fees	(1 837)	(113)	**(1 950)**
Lease-related expenses	(173)	(2)	**(175)**
EBITDA[3]	4 707	236	**4 943**
Depreciation, amortisation, impairment and write-offs	(3 532)	(17)	**(3 549)**
Operating profit	1 175	219	**1 394**
Investment income	57	–	**57**
Finance charges and fair value movements	(545)	(8)	**(553)**
Profit before taxation	687	211	**898**
Taxation	(200)	(57)	**(257)**
Profit for the period	487	154	**641**
BEPS (cents)	99.9	31.7	**131.6**
HEPS[1,3] (cents)	101.2	31.7	**132.9**

Extract of the condensed consolidated statement of financial position	Continuing operations September 2023 Rm	Held for sale Rm	Total operations September 2023 Rm
Assets			
Non-current assets	43 182	1 240	**44 422**
Property, plant and equipment	25 255	1 082	**26 337**
Right-of-use assets	6 150	147	**6 297**
Intangible assets	5 379	11	**5 390**
Current assets	16 663	347	**17 010**
Income tax receivable	87	2	**89**
Trade and other receivables	8 851	176	**9 027**
Cash and cash equivalents	3 416	169	**3 585**
Asset included in disposal group classified as held for sale	1 587	(1 587)	**–**
Total assets	61 432	–	**61 432**
Non-current liabilities	18 208	162	**18 370**
Lease liability	4 454	124	**4 578**
Deferred taxation	400	38	**438**
Current liabilities	17 718	169	**17 887**
Trade and other payables	9 538	133	**9 671**
Lease liabilities	2 324	35	**2 359**
Provisions	923	1	**924**
Liabilities included in disposal group classified as held for sale	331	(331)	**–**
Total liabilities	36 257	–	**36 257**

Segment reporting

Segment reporting is provided on pages 42 to 45 as part of the notes to the financial statements.

Results from operations

Group profit after tax[2] from total operations increased by 52.3% to R976 million (H1 FY2023: R641 million). This is mainly attributable to a 20.6% decrease in depreciation, amortisation, impairments, and write-offs[2], partially offset by an increase in finance charges and fair value movements[2] and taxation[2] of 77.2% and 30.0%, respectively. This resulted in a 46.7% increase in headline earnings per share (HEPS)[1,2,3] and 52.1% increase in basic earnings per share (BEPS)[2] to 195.0 and 200.2 cents per share, respectively.

[1] *During the year, we restated the HEPS comparative by 4.3 cents per share. Refer to page 3.*

[2] *Includes total operations. Refer to page 4 for the reconciliation of the continuing and total operations figures.*

[3] *This is a non-defined IFRS measure.*

Overview of our business

1

Telkom announced its Group interim results for the six months ended 30 September 2023 on 21 November 2023 in Centurion, South Africa.

Message from the Group Chief Executive Officer, Serame Taukobong

Telkom delivered solid earnings growth despite a tough trading environment. The first half of the year saw the economy struggle to grow with a high inflationary environment, propelling the highest interest rate levels South Africa has experienced in 14 years. Group performance was pleasing despite these challenges. We focused on driving top-line growth and cost-reduction initiatives to offset inflationary cost pressures and the added cost of loadshedding.

Telkom saw good growth in mobile service revenue driven by value-compelling propositions. We also sustained the growth trajectory in the fibre business from monetising fibre rollouts, as well as good growth of the IT business driven by increased demand of hardware and software by enterprise customers. The Group also continued to manage the migration to newer technologies as legacy and fixed voice revenues reduced as expected, and will continue to do so in the coming 12 to 18 months.

Telkom remains resolute in executing its strategic goals. We are proud to have made good progress on the Value Unlock programme. We have prioritised concluding the disposal of the masts and towers business while positioning the Telkom of Tomorrow as a leading Infrastructure Company (InfraCo). We are committed to facilitating a seamless management transition with the appointment of our new Group Chief Financial Officer and Chief Capital Projects Officer to focus on driving capital efficiency and realising optimal returns for Telkom InfraCo.

Operating environment

The period was characterised by strained economic conditions as the South African economy remained challenged by marginal economic growth and ongoing inflationary pressures for retail and enterprise consumers. Rolling power cuts were a recurring feature in H1 FY2024 as loadshedding days increased by 79% for the six months. While this has become the new norm, it came at a cost and rebased our operating expenditure (opex), placing pressure on our operating margins in FY2023. We responded swiftly to the impact of loadshedding and are investing in alternative backup energy to reduce diesel use. We began configuring our key infrastructure sites in H2 FY2023 by introducing solar energy as the primary backup form of energy. We upgraded backup batteries to lithium ion batteries to increase their capacity, time to recharge, and longevity to mitigate the cost of ensuring network availability and stability for both our fixed and mobile networks. This work continues in FY2024.

Loadshedding has also increased the strain on consumers along with higher interest rates, record-high fuel and energy prices and reduced discretionary disposable income. Our bad debt write-offs and expected credit loss provisions increased during the period, demonstrating these economic pressures on consumers.

The competitive landscape was also robust, and we focused on innovative offerings to protect Telkom's value proposition in the market.

Performance overview

Notwithstanding the challenging operating environment that persisted in the first half of FY2024, Telkom delivered solid earnings, with HEPS[1,2,3] and basic EPS[1] increasing by 46.7% and 52.1%, respectively. Profit for the period was boosted by lower depreciation charges and growth in EBITDA[3], while higher interest rates materially increased net finance costs compared to the comparative period.

[1] *Includes total operations. Refer to page 4 for the reconciliation of the continuing and total operations figures.*

[2] *During the year, we restated the HEPS comparative by 4.3 cents per share. Refer to page 3.*

[3] *This is a non-defined IFRS measure.*

Group revenue[1] advanced by 2.5% to R21 778 million, driven by growth in mobile traffic, the monetisation of the rollout of our fibre infrastructure and growth of the IT business. Our cost-reduction initiatives bore fruit, partially offset inflationary increases and resulted in operating expenses[1] increasing by below inflation at 2.4%. Despite this increase, Group EBITDA[1,3] grew by 1.7% to R5 025 million limited by higher bad debt provisions.

Openserve continued its journey to transform its technology, revenue, and channel mix, yielding a 6.9% increase in next-generation (NGN) revenue to R4 526 million. In comparison, total operating revenue declined by 2.7% for the period as legacy revenue declines impacted performance. Strong growth in NGN revenue was due to the growth in fixed data revenue, which increased by 9.1%, underpinned by significant growth in high-speed fibre broadband connectivity and a steady increase across carrier services and enterprise connectivity. As the ever-increasing demand for data continued, we saw a 17.6% increase in fixed data traffic to 1 081 petabytes. We are well positioned to provide a differentiated customer experience through additional capacity and diversity through our partnership with Google as its cable landing partner in South Africa and offer terrestrial services across the country. Openserve continued to drive market leadership with the highest fibre connectivity rate of 46.8% in the market, underpinned by a 22.4% increase of homes connected to 542 598 while homes passed grew by 20.6% to 1 158 761. The introduction of a sustainable energy mix coupled with improved efficiencies through an optimised headcount and exchange portfolios resulted in an increased EBITDA margin[3] to 31.8%, despite higher operating costs caused by loadshedding.

Revenue for **Telkom Consumer** grew by 1.4%, driven by the value-compelling propositions of Mobile operations. Total external revenue from Mobile operations grew by 4.1% to R11 035 million, driven by 5.8% growth in mobile service revenue as the demand for data surged by 22.9% to 676 petabytes for the period.

Our subscriber base now stands at 18.3 million with a blended average revenue per user (ARPU)[1] of R85. Our pre-paid customer base expanded by 1.0% to reach 15.3 million, while the post-paid segment grew by 3.6%, reaching 3.0 million subscribers. We continued to divest and manage the transition from legacy to next-generation technologies, with copper-based voice services now constituting a mere 4.5% of revenue, a decrease from the previous year's 6.2%.

The mobile broadband subscriber base increased by 10.5% to 12.2 million driven by the expansion of our LTE increasingly preferred offerings of affordable entry-level LTE pre-paid bundles and unlimited LTE post-paid offerings. Wireless broadband users now constitute 66.7% of the total mobile base.

BCX continued focusing on improving the quality of its revenue mix by accelerating IT services revenue while managing the migration to next-generation technologies. Revenue increased by 0.7% to R7 043 million, primarily due to the double-digit growth in the IT business, partially offset by legacy declines in the Converged Communications business. The IT business revenue increased by 10.3% to R4 192 million, driven by the strong performance of the hardware and software segment resulting from customers' renewals of software contracts along with cleared prior year backlogs. While this growth provided BCX with access to a broader client footprint, it came at lower margins and reduced overall profitability for the period.

Gyro's masts and towers business (Swiftnet) which is classified as held for sale and presented as a discontinued operation continued to commercialise, driven by additional tenancies on the existing portfolio and ongoing equipment upgrades by mobile network operators (MNOs) in enhancing their capacity and network, including deploying 5G. Eleven towers and one In-Building Solution site were constructed during the first half of the year, growing the total productive towers to 4 008. Revenue from continuing customers increased by 6.8% to R499 million, while total revenue was impacted by terminations and marginally reduced by 1.2% to R652 million. Refer to page 53 for details on the masts and towers business being classified as held for sale.

Gyro also focused on realising value and optimising its property portfolio along with Telkom's properties through the accelerated disposal of decommissioned assets no longer required for operational purposes. We concluded offers to purchase (OTPs) amounting to R304 million for 50 properties during the period. Execution of energy projects also progressed through various interventions across all Telkom business units to ensure the resilience and efficiency of Telkom's network and operations while contributing towards attaining our environmental, social and governance (ESG) targets.

Strategy update

Telkom is embarking on a journey to transform and reorganise itself as an infrastructure company (InfraCo) at its core. This is intended to promote strategic growth through consolidating core assets to drive capital efficiency, promote operational synergies to offset the impact of migrations to next-generation technologies and exploit the right to win.

This journey encompasses consolidating all of Telkom's infrastructure assets into the InfraCo, going to market as OneTelkom to harness synergies across the business while maintaining each business unit's identity, and disposing of non-core assets. The journey to the Telkom of Tomorrow is anticipated to emerge over 12 to 18 months and be in full effect by the end of FY2025. From here on, the focus will be to build from this base, grow and scale the business sustainably, and realise optimal returns for the Group going forward.

[1] *Refer to Operational data on page 27 for pre-paid and post-paid ARPUs.*

Committed to realising value

The Board is committed to the Value Unlock Strategy premised on Telkom's market capitalisation not representing the intrinsic value of its underlying assets. Value is realised by affirming the valuation of underlying businesses and their contribution to the valuation of Telkom while ensuring long-term sustainable growth for the Group. While the Board has approved an outright sale of the masts and towers business, other business units were investigated for minority and majority strategic equity partnerships to realise value and at the same time securing benefits from future capabilities and/or scale enhancements from potential strategic partnerships. The following progress was made in these areas during the period:

1) An official process was launched after the Telkom Board's approval for the outright sale of Swiftnet, the masts and towers business. The disposal process is at its final stages and Telkom has entered into an exclusivity period with a preferred bidder. As such, shareholders are advised to exercise caution, as indicated in the SENS announcement released on 21 November 2023, when dealing in Telkom's securities until a further announcement is made on the potential transaction. Accordingly, Swiftnet has been classified as an "Asset Held for Sale" in line with IFRS reporting requirements.

2) Telkom is focused on positioning itself as an infrastructure business at its core. Once the InfraCo structure is in place and the masts and towers transition is concluded, Telkom will consider further opportunities to realise value, including those in relation to the minority partnerships for Openserve and a strategic equity partner for BCX.

Management transitions to drive Telkom of Tomorrow

The appointment of our incoming Group Chief Financial Officer (CFO), Ms Nonkululeko Dlamini, effective 01 December 2023, will ensure the continued execution of Telkom's reinvigorated strategy. Her skills in capital projects, capital raising, cost management and strategy alignment are a strong fit for the executive team. This will lead Telkom's strategic direction as an InfraCo.

Our current Group CFO, Dirk Reyneke, will assume the role of Chief Capital Projects Officer. His in-depth knowledge of all Telkom business units positions him well for this strategic role focused on driving capital efficiency, realising optimal returns for capital deployed, and sharing his expertise and experience with his successor.

Regulatory and legal developments

Review of call termination rates

ICASA has regulated call termination rates since 2010 and began its latest review of call termination rates in May 2021. In initiating the process, ICASA stated that this was necessary in order to ensure that a pro-competitive landscape is maintained. On 28 March 2022, ICASA published its findings on call termination rates and found, amongst other things, that there is no longer a need to retain asymmetry in call termination rates and that only new entrants should qualify for asymmetric call termination rates, ICASA also stated that it intends to regulate the rates charged for incoming international calls. Subsequent to these findings, ICASA commenced with its cost modelling exercise in May 2023, which was aimed at determining the appropriate costs that should be applicable to call termination rates for both fixed and mobile services. ICASA stated, in a briefing note published in September 2023, that reducing call termination rates to a rate that is as low as possible, assists with promoting competition in the provision of voice services to the South African population. We await a conclusion to this matter and have submitted to ICASA that the outcome must be one that ensures pro-competitive market dynamics.

Radio Frequency Spectrum

The Minister of Communications and Digital Technologies confirmed that the final analogue television switch-off date in the frequency bands above 694 MHz would be 31 July 2023. The switch-off would make available for use nationally the sub 1 GHz spectrum obtained by Telkom during the auction held in March 2022. Following the switch-off date, Telkom, along with other market participants, informed ICASA that, although analogue broadcasting transmitters were switched off on 31 July 2023, interference was still being experienced in some areas. ICASA committed to investigating the issue and to have the sub 1 GHz IMT bands cleared by 30 September 2023. ICASA has confirmed that the issues with interference have now been resolved and that this spectrum should now be available nationally. Telkom has already deployed the acquired spectrum in those areas unaffected by television services interference and should now be able to deploy our spectrum anywhere in South Africa based on our commercial requirements. If further interference is present, these will be resolved by the Authority in accordance with the standard interference resolution processes. With the clearing of the sub 1 GHz (as confirmed by ICASA), the outstanding auction fees are payable. ICASA has stated that these outstanding fees must be paid on or before 31 December 2023.

ICASA has also begun the process of licensing additional high demand spectrum and has stated that it aims to conclude this process by 31 March 2024. Telkom has requested that ICASA postpone the second auction to the next financial year (i.e. 2025), on the basis that studies still need to be completed by ICASA in preparation for the next auction, and that the current challenging economic environment, including the impact of loadshedding, will make it particularly difficult for Telkom and other market participants to partake in the auction. ICASA has, to date, not responded to Telkom's request.

Electronic Communications Amendment Bill published

The Department of Communications and Digital Technologies published the Electronic Communications Amendment Bill, 2022 (the Bill) on 23 June 2023. The Bill deals with several critical issues such as spectrum trading and sharing, roaming, mobile virtual network operators (MVNOs), passive infrastructure, access to facilities, and competition. Telkom filed a comprehensive submission on the Bill on the extended due date of 31 August 2023. Key areas of concern for Telkom include:

- The insertion of proposed new licence categories applicable to electronic communications facility services and community networks. Telkom sees the inclusion of electronic communications facilities as superfluous given that electronic communications network services are already defined and are licensed under the current Electronic Communications Act, 2005. Furthermore, the licensing of community networks creates many uncertainties for primary spectrum licences regarding the continued use of high demand spectrum (HDS) for the deployment of mobile networks nationally, as the Bill states that community networks shall be prioritised in the assignment of spectrum in areas where the "use it or share it" principle applies
- The proposal that an electronic communications network service licensee may no longer reject a request for facilities leasing based on, inter alia, technical or economic feasibility or on the basis that the request does not promote the efficient use of electronic communication networks and services. We believe such commercial decisions should remain with licensees
- The Bill confuses spectrum trading and sharing. Telkom supports spectrum sharing as a standard spectrum management tool but would only support spectrum trading subject to an analysis of the relevant competition considerations. The Bill also does not specify the process that will be applied in determining which frequency bands are to be defined as HDS, especially in light of the treatment of HDS on secondary issues such as spectrum trading, spectrum pricing, obligations, etc.
- The Bill proposes provisions pertaining to national roaming and MVNOs. The Bill states that those with network coverage above 90% must provide roaming and MVNO access and must retain separate accounts for the radio access network, core network, and retail operations. Telkom supports the proposals due to the potential roaming benefits for smaller licensees
- The Bill lacks clarity on when ICASA will have jurisdiction on issues relating to competition and when the Competition Commission will have jurisdiction

SIU matter – Proclamation judgement appeal

On 19 July 2023, the Pretoria High Court handed down judgement setting aside Presidential Proclamation 49 of 2022 (the Proclamation). The Proclamation gave the Special Investigating Unit (SIU) authority to investigate various matters, including Telkom's contracting for network and advisory services, and the disposal of former Telkom subsidiaries. The Pretoria High Court declared both the Proclamation and the SIU investigation into Telkom as unconstitutional, invalid and of no force or effect. The President of the Republic and the SIU have filed an application for leave to appeal the judgement. The application for leave to appeal against the High Court judgement in the above matter will be argued on 27 November 2023.

Telkom remains committed to following robust corporate governance principles and will continue to uphold these principles.

Outlook

In the first half of FY2024, we prioritised driving cash generation by harnessing opex savings, managing working capital and focused on capital expenditure for growth and maintaining the availability of our fixed and mobile networks. This was underpinned by refreshing our Company's culture and aligning senior leadership with the Telkom of Tomorrow as we evolve into an InfraCo. While we saw positive momentum in the current period, the increasingly challenging economic environment we operate in will continue to impact the performance across the entire telecommunications industry as we manage loadshedding through prioritising alternative energy investments.

Despite the challenging macro-economic environment, our guidance for FY2024 remains unchanged. Group revenue and EBITDA are expected to grow at low to mid single digits as we focus on driving the top line and harnessing cost savings to improve our profitability by FY2025. We will continue to invest in our infrastructure to facilitate growth, with the capex-to-revenue ratio expected to be on the lower end of our 16% to 18% guidance for FY2024, in line with our prudent approach to capex for the year.

Serame Taukobong
Group Chief Executive Officer

Data demand drove underlying performance with mobile and fixed data traffic up 23% and 18%, respectively.

Financial capital

Financial information summary

Revenue[1] up **2.5%**

to R21 778 million

Group EBITDA[1,3] up **1.7%**

to R5 025 million
with an EBITDA margin[1,3] of **23.1%**

BEPS[1] and HEPS[1,2,3] up by

52.1% and **46.7%,** respectively

Financial performance

Total operations[1]	September 2023 Rm	Restated September 2022 Rm	Variance %
Revenue	**21 778**	21 238	2.5
EBITDA[3]	**5 025**	4 943	1.7
EBITDA margin (%)[3]	**23.1**	23.3	(0.2)
Capex	**3 143**	3 689	(14.8)
FCF[3,4]	**573**	(1 887)	130.4
BEPS (cents)	**200.2**	131.6	52.1
HEPS (cents)[2,3]	**195.0**	132.9	46.7
Net debt[3] to EBITDA[3] (times)	**1.8**	1.7	0.1

Group revenue supported by next-generation revenue growth

Group revenue[1] increased by 2.5% to R21 778 million, driven by an increase in mobile data and fixed data connectivity revenue of 10.3% and 6.4%, respectively, and a 26.2% increase in IT hardware and software sales revenue. This was partially offset by a 23.2% decrease in fixed voice revenue due to the ongoing migration to modern technologies such as fibre and LTE.

[1] *Includes total operations. Refer to page 4 for the reconciliation of the continuing and total operations figures.*

[2] *During the year, we restated the HEPS comparative by 4.3 cents per share. Refer to page 3.*

[3] *This is a non-defined IFRS measure.*

[4] *Excluding R1 051 million restructuring cost paid.*

EBITDA[3]

Group EBITDA[1,3] increased 1.7% to R5 025 million, with the EBITDA margin[1,3] contracting 0.2 percentage points (ppts) to 23.1% compared to the comparative period. The Group revenue[1] increase of 2.5% was offset by 2.4% higher operating expenditure[1] (opex), a 10.6% increase in sales commission and incentives from mobile and a 2.7% increase in the cost of handset, equipment and directories mainly attributable to the 26.2% increase in IT hardware and software revenue.

The opex increase is mainly attributable to a 77.8% increase in impairments of receivables[1] due to tough economic conditions, higher maintenance in line with the growth in mobile sites integrated, and accelerated loadshedding, partially offset by a 7.1% decrease in employee expenses due to the 16.3% lower headcount and no salary increases and performance incentives.

Mobile cost to serve deteriorated slightly by 0.3 ppts to 28.0% compared to 27.7% in the comparative period but recovered from 28.4% recorded for the year ended 31 March 2023. The year-on-year increase in cost to serve is driven by increased costs associated with the post-paid market, such as distribution channel costs. This was mitigated by optimising roaming costs as we maintain stringent roaming traffic thresholds and migrate traffic to our network.

HEPS[3] growth

HEPS[1,2,3] increased by 46.7% to 195.0 cents, while BEPS[1] increased by 52.1% to 200.2 cents compared to the prior period. This was mainly due to a 58.2% increase in operating profit[1] driven by lower depreciation and amortisation expenses[1], partially offset by a 77.2% increase in finance charges[1] and a higher taxation expense[1] driven by the 45.9% increase in profit before taxation[1].

Capital allocation

Capital investment decreased by 14.8% to R3 143 million with a capex-to-revenue ratio of 14.4%. The decrease aligns with our strategy and the cyclical nature of capital expenses. The decline in mobile capex spent is due to the investment in backup power in the comparative period to mitigate the impact of accelerated loadshedding not evident in the current period. We mainly invested in our Mobile business, which expanded its mobile footprint by 4.1% to 7 684 integrated sites. A fibre to the home (FTTH) connectivity rate of 46.8% was maintained while we continued to accelerate our fibre rollout, increasing homes passed by 20.6% and homes connected by 22.4% year on year. We will continue to focus on expanding our FTTH footprint while simultaneously connecting premises to ensure we maintain a high connectivity rate.

Capex	September 2023 Rm	September 2022 Rm	Variance %
Fibre related	**846**	967	(12.5)
Mobile	**1 626**	1 909	(14.8)
IT solutions	**129**	188	(31.4)
Network rehabilitation/sustainment	**54**	63	(14.3)
Core network	**298**	301	(1.0)
Masts and towers	**46**	89	(48.3)
Digital platforms and innovation	**35**	27	29.6
Property development and optimisation	**22**	47	(53.2)
Shared services and other	**87**	98	(11.2)
Total operations	**3 143**	3 689	(14.8)
Capex to revenue ratio (%)	**14.4%**	17.4%	

Statement of financial position

Bank and cash balances[1] increased by 3.3% to R3 585 million from 31 March 2023, and net debt[1] increased 8.2%. The impact of the R431 million additional debt raised to fund our strategic funding requirements was offset by the 1.7% increase in EBITDA[1,2] resulting in an unchanged net debt[2] to EBITDA[1,2] of 1.8x when compared to 31 March 2023.

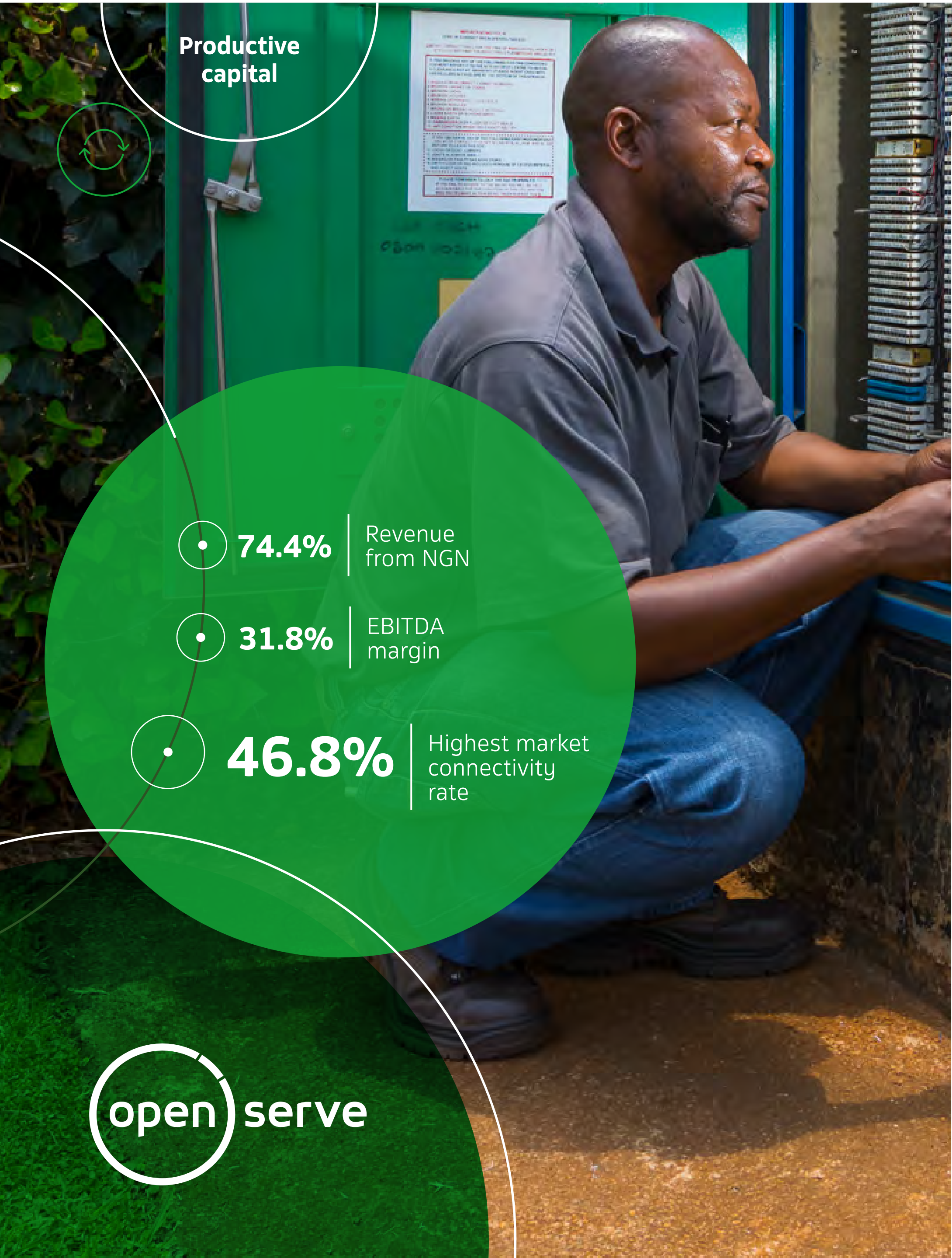
Total operations	September 2023 Rm	March 2023 Rm	Variance %
Bank and cash balances	**3 585**	3 469	3.3
Current borrowings	**(5 237)**	(3 629)	(44.3)
Non-current borrowings	**(16 504)**	(16 616)	0.7
Net debt[2]	**(18 156)**	(16 776)	(8.2)
Net debt[2] to EBITDA[1,2] (times)	**1.8**	1.8	–

[1] *Includes total operations. Refer to* *page 4* *for the reconciliation of the continuing and total operations figures.*
[2] *This is a non-defined IFRS measure.*

FCF[2] supported by improved working capital management

FCF[2], excluding restructuring costs, increased by 130.4% to R573 million (H1 FY2023: negative R1 887 million), primarily due to the 95.8% increase in cash generated from operations. This is mainly driven by the R872 million working capital improvement due to efficient working capital management and the increase in profit before taxation[1] of 45.9% or R412 million compared to the prior period.

FCF[2]	September 2023 Rm	September 2022 Rm	Variance %
Cash receipts from customers	**22 337**	20 360	9.7
Cash paid to suppliers and employees excluding restructuring cost paid	**(16 762)**	(17 513)	4.3
Cash paid to suppliers and employees	**(17 813)**	(17 513)	(1.7)
Add back: Restructuring cost paid	**1 051**	–	100.0
Cash generated from operations excluding restructuring cost paid	**5 575**	2 847	95.8
Repayment of lease liability	**(619)**	(523)	(18.4)
Interest received	**194**	102	90.2
Finance charges paid	**(1 007)**	(654)	(54.0)
Taxation paid	**(259)**	(301)	14.0
Cash generated from operations before dividend paid excluding restructuring cost paid	**3 884**	1 471	164.0
Cash paid for capex	**(3 311)**	(3 358)	1.4
Adjusted FCF[2] excluding restructuring cost paid	**573**	(1 887)	130.4
Restructuring cost paid	**(1 051)**	–	(100.0)
Total	**(478)**	(1 887)	74.7



Productive capital

74.4% Revenue from NGN

31.8% EBITDA margin

46.8% Highest market connectivity rate

Openserve

Openserve continued its market leadership in fibre connectivity while executing its strategic imperatives of creating a high-speed, scalable network through innovative connectivity solutions and focused execution on enabling superior customer experience. As it transforms its revenue mix, the next-generation data-led products have grown to 74.4% of its revenue base, creating a diverse portfolio of products for future growth. Openserve remained committed to focusing on growth through multiple channels and partnerships, delivering service excellence through network performance despite the continuing loadshedding stages, and executing its digital transformation journey to provide seamless connectivity in every interaction.

Performance overview

Supported by strong growth in our NGN revenue, the overall fixed data revenue increased by 9.1%, underpinned by significant growth in high-speed fibre broadband connectivity (20.3%) coupled with a steady increase across carrier services (4.0%) and enterprise connectivity (3.4%). This yielded an increase in total next-generation revenue of 6.9% to R4 526 million for the period as Openserve continues its journey to transform its technology, revenue, and channel mix. This transition has enabled Openserve to positively contribute to Telkom Group's revenue by 12.6%, driven by expanding its client base, creating commercial and strategic partnerships, and driving customer-centric solutions.

With customers' needs continuing to evolve, high speed, lower latency and higher bandwidth continue to drive technology evolution towards next-generation based connectivity, resulting in a continued decline in legacy-based products, including fixed voice revenue of R409 million (26.9%) for the period, attributed to an overall revenue decline of 2.7% to R6 261 million. Notwithstanding these challenges, Openserve remains committed to strong commercial execution by accelerating its product portfolio transformation from legacy to next-generation while delivering exceptional value to customers.

Considering the challenges of continued loadshedding, Openserve has prioritised its sustainable energy mix programme by implementing more cost-effective processes and alternate energy solutions, such as the utilisation of lithium ion batteries as the primary backup as well as the introduction of a new pricing and diesel delivery model. Openserve is also in the process of implementing green energy solutions through the deployment of solar backup as part of its continued focus to diversify its energy portfolio. While these initiatives have reduced the average diesel litres and cost per loadshedding hour by an average of 28% and 37%, respectively, the continued market volatility fuelled by the higher loadshedding stages remains a constraint on the business performance, resulting in an increase of R92 million in diesel spend. Despite these constraints, Openserve continued to focus on improving its operational efficiencies and optimised both its headcount and exchange portfolios, positively contributing to the EBITDA margin, which resulted in an increase of 2.5 ppts to 31.8%, ending the period with EBITDA of R1 990 million.

Scalable network

Openserve continued to invest in its strategic imperative of providing next-generation fibre access connectivity across South Africa by investing an additional R1 269 million in modernising its network. With its focused drive to accelerate its fibre reach and maintain its pervasive national fibre network, Openserve increased the number of homes passed with fibre by 20.6% to 1 158 761 and increased its coverage and ability to connect premises by upgrading fibre nodes.

Leveraging on its partnership with Google as its cable landing partner and offering terrestrial services across South Africa, Openserve is committed to providing a differentiated customer experience through additional capacity and diversity, catering for the ever-increasing consumption demands, which saw an increase of 17.6% in fixed data consumption to 1 081 petabytes. To this end, and as part of the consortium, Openserve played a pivotal role in successfully restoring the recent SAT3 and WACs cable breaks, thereby continuing its endeavour to provide redundancy and diversity across international internet access.

Commercialise the network

To enhance its connect-led strategy, Openserve continued to utilise innovative network planning and design principles coupled with market intelligence to drive its market leadership, with the highest connectivity rate of 46.8% in the market. This is underpinned by the increase in the number of homes connected to Openserve's fibre network by 22.4% to 542 598 during the period.

Aligned to Openserve's objective of providing differentiated value propositions across the fibre broadband ecosystem, it not only launched fibre to the room (FTTR), enabling users to enjoy a stable gigabit experience in every room and in every moment, but also introduced Openserve Web Connect Wireless, driving strong partnerships with community-based service providers by providing an uncapped broadband internet service and a Wi-Fi device to the larger community. These innovations, combined with other product enhancements, have resulted in the activation of more than 563 000 services, including broadband and other value-added services such as voice over internet protocol, intercom, and security.

Transform service delivery

Notwithstanding the substantial levels of loadshedding and power outages, Openserve continues to deliver service excellence through its high standards of network reliability and availability indices of 99.81%, 99.40% and 99.99% across its access, aggregation, and core network layers, respectively. With its continued drive to improve operational efficiencies coupled with the benefits of next-generation access technologies, Openserve experienced a decrease of 29.9% in assurance visits.

Despite the reduced headcount, maintaining these exceptional network standards was made possible by the high-performance culture and investment in innovation and digital transformation, which resulted in an average of 2.5 days to install next-generation broadband products. These customer-centric initiatives not only resulted in an interaction net promotor score of 72 but was also recognised by Internet Service Providers Association (ISPA) as they rated Openserve as the preferred Fibre Network Operator in South Africa.

As it continues its journey to transform its products, channel and revenue mix, Openserve remains confident that its efforts to enable a digital ecosystem through innovative products and services, create an exceptional customer experience through every interaction, and provide a scalable and cost-efficient network will continue to make Openserve the trusted wholesale connectivity partner of choice.

Telkom Consumer

The Consumer business steadfastly maintains its commitment to providing competitive high-speed broadband services in the mobile and fibre domains. This expansion has materialised in the face of relentless macro-economic headwinds and exacerbated occurrences of loadshedding.

Total external revenue from Mobile operations amounted to R11 035 million, reflecting a 4.1% uptick. This was fuelled by a 5.8% growth in mobile service revenue. Our strategic resolve to divest from conventional copper-based voice services continues, with a 26.1% decline in these services. In parallel, our fibre business exhibited remarkable revenue growth, soaring by 31.2% for the period, buoyed by a 13.9% expansion in our customer base. This growth was further solidified by a 12.5% increase in the fibre ARPU. Our fibre value propositions include unlimited portfolios, and fixed-mobile converged bundles, branded as Fusion, which combine fibre bundles with the mobile FlexOn bundle. These factors contributed to a 1.4% surge in total operating revenue, now amounting to R12 984 million for the Consumer business. This aligns with our calculated strategy to accelerate the transition from legacy to next-generation technologies, with copper-based voice services now constituting a mere 4.5% of operating revenue, a deliberate decrease from the previous year's 6.2%.

Accelerated Mobile growth

Amid the prevailing macro-economic headwinds faced by our customers, our subscriber base now stands at 18.3 million, a 1.5% increase, with a blended ARPU of R85 (H1 FY2022: R88). Our post-paid segment exhibited a 3.6% growth, reaching 3.0 million subscribers with an ARPU of R182 (H1 FY2022: R206). Concurrently, our pre-paid customer base expanded by 1.0% to reach 15.3 million, with a relatively stable ARPU of R64 (H1 FY2022: R65). This measured expansion results from a meticulous subscriber base evaluation intertwined with a fortified commitment to delivering unparalleled customer value and experiences.

The Mobile business maintained a stable EBITDA of R2 457 million, with an EBITDA margin of 22.2%. Mobile EBITDA faced pressures primarily due to (i) the adverse effects of loadshedding (R163 million); and (ii) the increase in impairment of receivables and contract assets (bad debt provision) (R268 million) stemming from an escalated allocation for impaired debt, driven by ongoing consumer stress.

Overall receivables ECL provisions remain high and currently show no visible signs of downward adjustments in the current financial year. Furthermore, we recalibrated our ratings scorecard for new customer acquisitions. Notwithstanding these challenges, the Mobile business delivered tangible results while trading under tough economic conditions. Our Mobile business focuses on nurturing sustainable growth by perpetually refining operational efficiency and optimising cost structures to achieve a commercial upswing. Excluding the increase in impairments, our operational costs movement declined by 3.6%.

At the broader Consumer level, the EBITDA margin advanced by 1.8%, reaching 15.4% at R1 997 million, reflecting a growth rate of 14.6%.

Drive high-speed broadband

Consumers persist in exercising prudence as economic pressures intensify. This is exemplified by a discernible shift in the portfolio contribution of new acquisitions during the first half of the year. Customers increasingly gravitate towards LTE post-paid, recognising its pivotal role in facilitating their daily lives. Notably, LTE pre-paid also showed a positive growth trajectory, with year-on-year purchase volumes increasing significantly. This upswing was primarily propelled by the availability of affordable entry-level LTE pre-paid bundles and unlimited LTE pre-paid offerings.

Pre-paid customers exhibited a discerning desire for value. They opted to use the private pricing platform, Mo'Nice, demonstrating a value-seeker behaviour, as shown by their increasing utilisation of the platform's value proposition. The contribution of Mo'Nice to pre-paid monthly revenue has expanded from 33% to over 43%, driven by a 21% uptick in its users, which has elevated Mo'Nice revenue by 26%.

To meet evolving consumer requirements, we have enhanced our post-paid portfolio. This enhancement included extending the FlexOn range, now encompassing bundle allocations up to 10GB, accompanied by a more generous allotment of voice minutes. This strategic adjustment caters to our mid-tier customers, while our high-end offering, the Infinite range, has garnered a favourable reception among our base.

Consumer sentiment towards Telkom's offerings is on a steady upward sloping gradient, as indicated by a 26% uptick in the most recent net sentiment scores. "Products" and "value for money" were the most frequently cited positive attributes, and "service" also showed signs of improvement. However, the effects of loadshedding somewhat tempered these scores.

Our mobile data revenue increased by 10.3% to R6 964 million. The mobile broadband subscriber base increased by 10.5% to 12.2 million, representing 66.7% of our total mobile base now using wireless broadband.

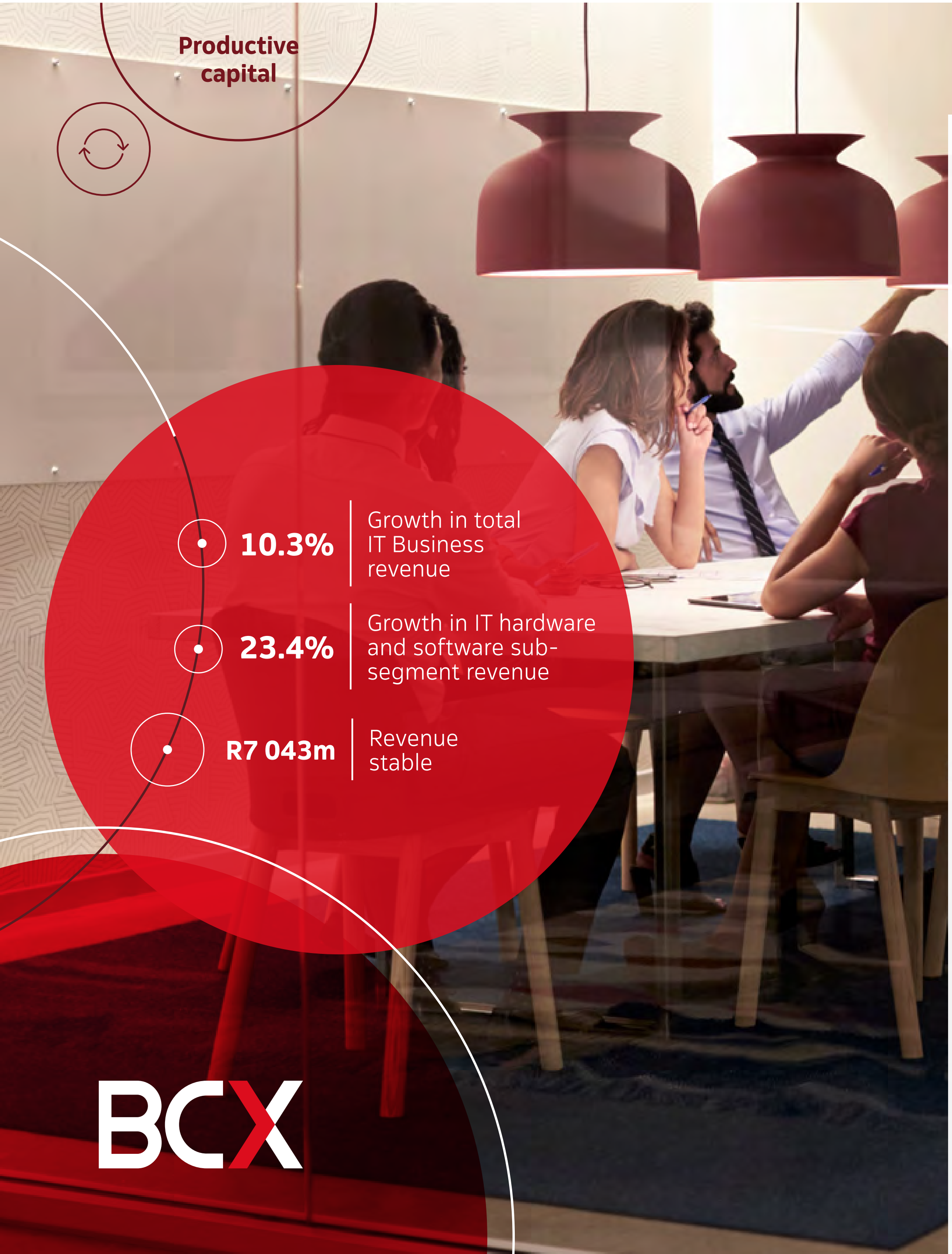
Expand mobile network

The insatiable demand for data again continued, leading to a substantial 22.9% increase in data traffic to 676 petabytes. To fortify our standing as a mobile network service provider, we maintained our commitment to the mobile programme, channelling a capital investment of R1 626 million, including R972 million allocated to spectrum investments. This facilitated a 4.1% expansion of our network's coverage, now encompassing 7 684 sites. Presently, 53% of data traffic is routed through the 4.5G network, primarily serving fixed wireless access, while 39% continues to traverse the 4G network, predominantly catering to mobile data services. Since the inception of our 5G services, we have successfully deployed 413 active 5G sites. Furthermore, rigorous testing and certification of 5G devices with all leading device manufacturers have positioned us for the forthcoming launch of 5G mobility in the second half of the year. Our 4G device adoption rate now surpasses 89% and aligns with financial prudence and regulatory directives to phase out all legacy technologies by 2025, including 3G.

We have been compelled to mitigate the escalating severity of loadshedding. This involved replacing more than 3 052 lithium ion backup batteries and conducting repairs on over 806 sites, an essential endeavour to restore services and uphold network resilience. Furthermore, 61 sites fell victim to total vandalism, necessitating reconstruction and reinforcement with security measures.

As we persist in our commitment to risk mitigation in our legacy operations and the strategic promotion of non-connectivity services, our focus lies in bolstering profitability and creating enduring customer loyalty. The strategic thrust will be further fortified through the meticulous formulation and tailored delivery of value propositions aimed at meeting the distinctive mobile broadband and fibre requisites of our customer base, poised to serve as the catalyst for our forthcoming phase. Our acquisition of the 800 MHz spectrum asset is earmarked to broaden our geographical coverage and enhance indoor connectivity. This is to be within the ambit of an effective realisation that hinges on the judicious application of sound cost-optimisation principles.

Productive capital



10.3% Growth in total IT Business revenue

23.4% Growth in IT hardware and software sub-segment revenue

R7 043m Revenue stable

BCX

BCX

The first half of FY2024 was marked by several macro challenges, increased market competition, the volatility of exchange rates, shifts in client business strategies, and the continuous commoditisation of ICT services. These external factors, coupled with internal business transformation initiatives, presented multi-faceted challenges. These were however cushioned by benefits from the improved chipset availability in the IT sector which resulted in the clearing of prior year backlogs and improved order fulfilment.

Performance overview

Our focus continues to be the improvement of the quality of the revenue mix by accelerating IT services revenue, as well as continuing with the controlled migration from legacy to next-generation technologies. As a result, revenue increased by 0.7% to R7 043 million. This was primarily due to the double-digit growth in the IT hardware and software business, however, partially offset by legacy declines in the Converged Communications business.

Our **IT business** revenue increased by 10.3% to R4 192 million, supported by the strong hardware and software business performance. The hardware and software offerings revenue growth of 23.4% resulted from existing customer renewals of software contracts (particularly in the technology integration space), as well as through the clearing of prior year backlogs, which resulted in the strong performance for the period. Whilst this growth provides us with access to a broader client footprint, it negatively affects the blended margins of our business.

The **Converged Communications** segment comprises both data and voice services. The business experienced a lower-than-expected uptake of the next-generation technologies, due to our customers still seeing value in our legacy services, specifically within the public sector. Our Converged Communications revenue declined by 10.8% to R2 851 million, owing mostly to the ongoing migration from legacy to next-generation offerings. Data services constitute 45.9% of the Converged Communications revenue. Data services revenue has reached an inflection point, whereby the next-generation data services constitute 77.6% of the total data connectivity revenues, up from 71.4% in the previous period. 82.6% of voice offerings still comprise legacy service revenues.

BCX continues to focus on enhancing the quality and sustainability of its client base and has grown the value derived from its top clients by 9.0%.

EBITDA has declined by 12.9% to R733 million mainly due to the unfavourable revenue mix in our IT business, as well as the impact of the migrations of legacy to next-generation offerings in Converged Communications. EBITDA margins were also affected by impairments of receivables mostly from public sector clients. This was partially offset by a decline in our employee expenses of 3.9% due to the staff restructuring initiative from the previous financial year. Compared to H1 prior year, EBITDA margins decreased by 1.6 ppts, resulting in an EBITDA margin of 10.4%.

Converged Communications

Considering the headwinds facing the industry and the need to invest in the growth of IT services, BCX has taken a deliberate decision to leverage the still lucrative legacy business, to fund the need to double down on its investments in the IT sector. Consequently, the originally expected five-year glide path on the Converged Communications' legacy migration will extend in line with the migration path of our key clients. The success of the legacy migration strategy is underpinned by BCX's ability to retain clients as we migrate them to next-generation technologies, albeit at lower margins, and then on-sell the higher-margin IT services.

The legacy fixed voice business has seen a decline in the number of lines, usage, and average revenue per client due to the impact of migration as we continue to migrate to the more cost-effective next-generation technologies of Unified Communications as a Service (UCaaS).

The Converged Communications business' focus remains the industrialisation of products and services, and cost-optimisation to reduce the cost to serve and the focus on legacy to next-generation migration. We introduced XaaS (Everything as a Service), UCaaS and CCaaS (Contact Centre as a Service) to manage the migration to next-generation services.

As we continue with our focus of growing the next-generation technologies, we have refreshed our operating model, and are currently re-engineering our technology offerings to the market and reskilling our employees on next-generation technologies.

Information Technology

Our IT business has historically comprised two key revenue pillars: the Cloud Platform Solutions (CPS) business, which is the ICT infrastructure services arm of BCX, as well as the Digital Platform Solutions (DPS) business, which comprises the digital services arm of BCX. The rise of cloud-driven convergence is changing the face of the tech industry and fundamentally shifting the way our clients do business, as they look for end-to-end solutions, making it more common to integrate infrastructure as a service, platform as a service and software as a service solutions as product offerings. Hybrid solutions are also becoming commonplace, offering flexibility between private cloud, public cloud and local server solutions, calling for managed services in cloud. Market players are increasing their datacentre footprint, in order to enable them to become hyperscalers.

In light of this, we are in the process of realigning our operating model with a more unified go-to-market approach that mirrors the way our customers consume our solutions and services. This will enable us to unlock efficiencies in our operating model by reducing duplications, reducing the cost to serve and increasing the attachment rate of additional services to our clients. The change will impact the segmentation of the revenue pillars in future reports.

Cloud Platform Solutions

The CPS business showed strong growth of 7.2%, driven primarily by the stellar performance of the IT hardware and software business which delivered a double-digit growth. In addition, existing customer renewals of software contracts (technology integrations), as well as the reduction in chip shortages, and clearing the prior year backlogs, led to strong growth in the IT hardware and software business.

The Service business also showed strong steady growth, maintaining its revenue performance in the face of significant market pressures. The Data Centre and Infrastructure Solutions business saw steady growth as the demand for outsourcing and service integration continues to grow. This bodes well as a foundational element for Cloud Infrastructure Solutions. Our clients continue to focus more on driving business value from their ICT infrastructure and looking for more cost-effective innovative ways to do so. This is evident as we saw our clients' demand for value for money when they embarked on their digital transformation projects.

Our Cybersecurity **services** business continued to grow year on year, with the demand for security advisory services, managed detection, and threat response services on the rise and continuing to gain traction. Cybersecurity **services** delivered a double-digit year on year revenue growth of 15.6%.

Digital Platform Solutions

DPS grew revenue by 3.8% in a challenging first half of the year. The revenue growth was driven by revenues from the Dotcom acquisition concluded during H2 of the prior year.

The artificial intelligence for IT operations (AIOps) business grew by 24.9%, albeit from a low base. The IoT business has declined by 18.3% year on year, owing to project delays within our customer environment. We also concluded acquisition of Dotcom in December 2022. Dotcom is a Microsoft Azure solutions company, that adds strong cloud offerings and solutions to our portfolio. Performance in the current year is in line with what was expected at the time of acquisition.

In line with the strengthening of our overall cloud offerings and solutions, we have continued to invest in the skills and capabilities required to assist our clients with their end-to-end cloud transformation journeys.

Augmenting capability through select partnerships

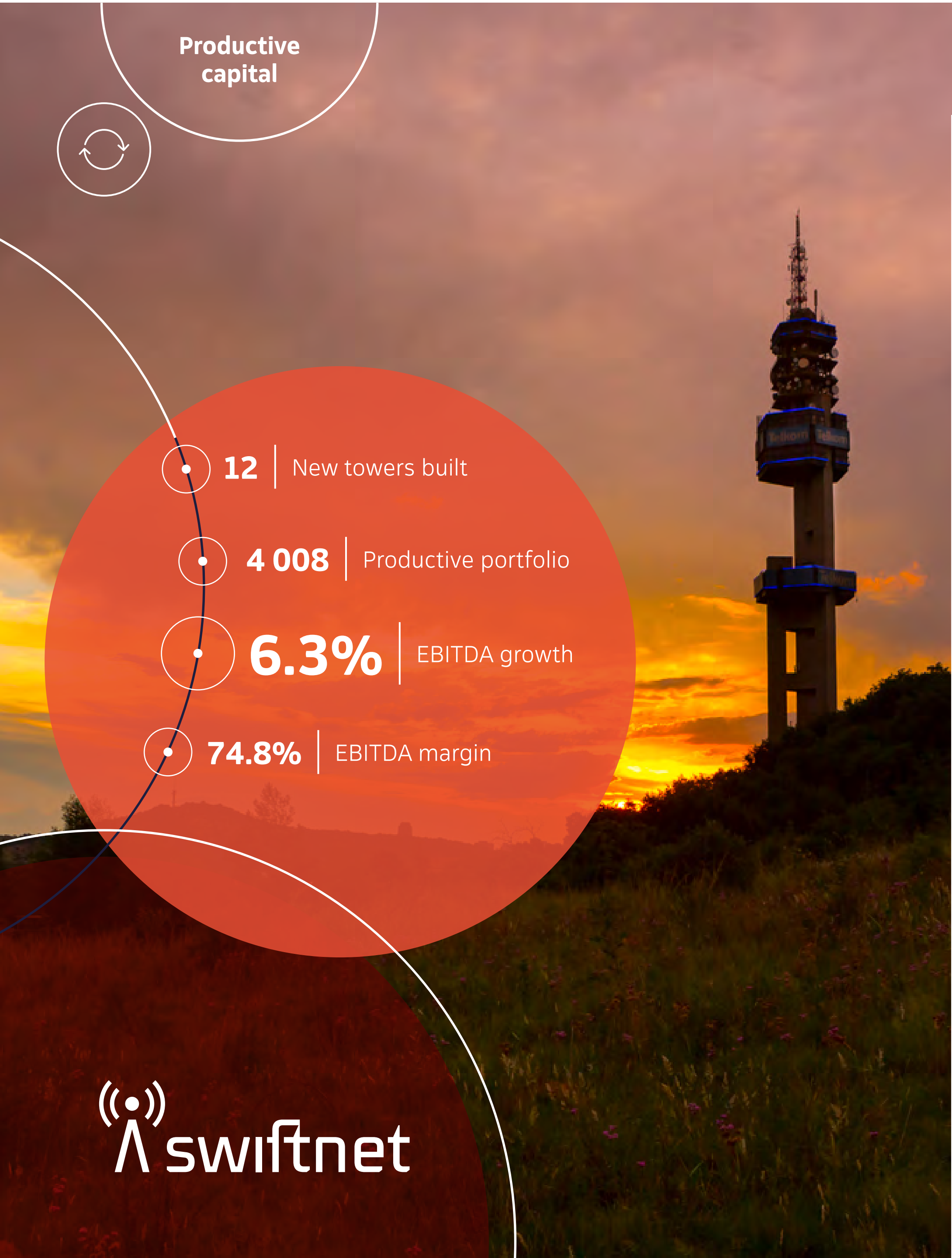
There has been considerable progress with the strategic partnership that BCX signed with Alibaba, with the official launch of the Alibaba Local Cloud (ALP) in South Africa on 05 October 2023 and Mozambique scheduled for later in the year. The partnership enables BCX to be the exclusive Alibaba Cloud distributor for South Africa and in African countries where the organisation has a presence. It provides an African local public cloud offering that speaks to many concerns cited by customers by:

- Ensuring data sovereignty, which is a challenge faced by financial services organisations and government departments across Africa
- Enabling billing in local currency, thus providing a natural currency hedge
- Supplying access to local operational support

BCX and Alibaba have also launched a training academy, with the first cohort of BCX_Alibaba Cloud graduates expected in February 2024.

In addition to supplying several industry solutions and best practices that will support organisations in financial services, retail, as well as gaming and media, Alibaba also provides access to technologies such as generative artificial intelligence (AI).

The finalisation of the availability zones in both South Africa and Mozambique enables the onboarding of clients from Q4 with a ramp-up from FY2025 and beyond. We expect that the business will reach its true potential in three to five years.



Productive capital

12 | New towers built

4 008 | Productive portfolio

6.3% | EBITDA growth

74.8% | EBITDA margin

Swiftnet

The masts and towers business (Swiftnet) continued to be commercialised as our customers improve connectivity coverage for their customers and enhance their network capacity and performance. This included new tower builds, in-building solutions (IBS), additional tenancy take-up on the existing portfolio, ongoing equipment upgrades as well as upgrades for 5G deployment. We continue to pursue various value-added services, mainly Power-as-a-Service (PaaS).

Swiftnet's financial performance was satisfactory with strong earnings growth achieved during the first half of the financial year.

Optimise and grow masts and towers portfolio

Revenue decreased marginally by 1.2% to R652 million for the period, impacted by terminations by an MNO customer and Openserve. Revenue from continuing customers increased by 6.8% to R499 million, underpinned by inflationary escalations, new tenancies, customers' 5G rollouts and existing tenant installation upgrades. This growth was offset by a combined 20.6% reduction in revenue to R153 million from ongoing terminations by an MNO customer and Openserve's continued optimisation of legacy-based technologies. Swiftnet's EBITDA increased by 6.3% to R488 million at an EBITDA margin of 74.8%. The growth of 5.3 ppts is attributable to the optimisation of tower operating costs and the non-occurrence of once-off transaction advisory costs incurred in the prior financial year.

Eleven (11) towers and one (1) IBS were constructed during the first half of the year, resulting in 4 008 total productive towers. Our proactive site acquisition and permitting initiatives resulted in a total of 456 approved building plans that are ready for construction when triggered by customer commitment. The primary focus remains on rolling out IBS, traditional towers, the 5G outdoor Distributed Antennae System (oDAS) and the small cells pipeline.

The planned PaaS first phase of the rollout will commence once commercial terms and sites are finalised with our customers. This value-add offering will provide our customers with an alternative source of power security, allowing them to focus on their core business of network expansion and additional antennae upgrades on our masts and towers.

Productive capital

R35m Property sale proceeds realised

R304m Property disposals concluded for Gyro Properties and Telkom

Property development opportunities in investment partnership stage

Gyro

Gyro

Gyro remains on course to realise value and optimise properties owned by Gyro Properties and Telkom.

Our property development projects are at various development planning stages and nearing the conclusion of binding agreements with investment partners for the execution of the individual projects. We plan to commence construction on some projects during the last quarter of this financial year.

We have further rationalised the property portfolio through the accelerated disposal of decommissioned properties that are no longer required for core operational purposes.

We continue to execute energy interventions on our core operational properties. We remain on course in our plan to implement more significant interventions that will improve the resilience of power supply and contribute meaningfully to reducing Telkom Group's carbon emissions.

Commercialise the property portfolio

The property development planning programme advanced with various investment partners indicating interest in various projects. We are nearing the conclusion of binding partnership agreements for various projects. These partnerships are structured at the individual property project level or encompass a cluster of similar property projects. We intend to commence construction on some development projects during the last quarter of this financial year.

Reduce building costs and enhance operational efficiencies

During the first half of the financial year, Gyro realised R35 million of proceeds from 28 properties sold in the previous financial year that transferred during the period under review. In addition, we concluded OTPs amounting to R304 million for 50 Gyro and Telkom properties during the first half of the financial year and aim to realise some of the proceeds in the second half of the financial year. We plan to dispose of further properties during the second half of the financial year to contribute to further reducing property operating costs.

The execution of energy projects is in progress through various interventions. The main objective is to enhance the resilience and efficiency in energy utilisation of Telkom Group's network and operations while reducing carbon emissions. Our plans prioritise technologies that maximise energy security and decarbonisation while optimising utilities and diesel costs. The solutions deployed include on-site mature generation technologies such as solar PV and batteries and other energy efficiency interventions impacting our network and equipment building utilisation and property operating cost reduction.

Human capital

Key strategic focus areas	Key achievements during the period
Building a sustainability mindset Transforming our culture Developing next-generation future leaders	- Telkom Group spent R69 million on employee training and development - 33.87% female representation in leadership positions - Telkom Board appointed a female Group CFO - We opened applications for our employees to study part-time for the 2024 academic year
Wellness	- We held wellness days in seven regions to ensure our employees are empowered and have access to wellbeing information - We reopened our Telkom Park gym post-COVID-19, offering a full suite of services, including personal trainers and exercise classes
Accountability and consequence management	- Completed the scorecard cascade at Group Executive Committee (Exco) and Business Unit (BU) Exco levels

Post the Section 189 process, it has become even more critical for us to ensure we have a robust talent management framework, and the learning voyage continues with its goal of developing potential leaders.

Restructuring

The organisation restructuring process that was implemented in FY2023 saw 1 165 voluntary and 566 involuntary exits. Around 10 employees with delayed exits are completing their fixed-term contracts, ensuring the successful conclusion of key deliverables and seamless handovers to facilitate a smooth transition in our business operations. In alignment with our revised structure, we actively engage in talent acquisition efforts to fill roles that remain unfilled post the S189 process, thus ensuring our continued success and growth.

Performance management: Variable pay framework

After extensive engagement and collaboration, we launched the variable pay initiative to enhance various critical aspects of our performance and compensation framework.

The redesigned scorecards are a strategic tool to help the Group achieve its objectives. The revised scorecards are focused on improving target setting and aligning it with our overarching Value Unlock Strategy. We are also committed to driving execution, promoting retention, fostering accountability, and ensuring a clear line of sight for all members of our organisation. Furthermore, we are resolute in creating shareholder value by establishing transparent links between pay and strategic outcomes while improving the alignment of executive and shareholder interests.

This comprehensive redesign of our scorecards enables us to concentrate on performance at multiple levels, including the Group, BU, and individual perspectives, all within the context of each participant's unique line of sight within the organisation.

We have completed the scorecard cascade at Group Exco and BU Exco levels. The performance interim assessments are anticipated to be conducted in Q3, marking a significant step in implementing our variable pay initiative.

These advancements underscore our unwavering dedication to realising our strategic goals and ensuring that our compensation structure harmonises seamlessly with our long-term vision.

Wellness

During Wellness month, we prioritised employee wellbeing through various interventions such as webinars, online exercise classes, and annual wellness days across seven regions, providing health services and promoting physical activity. In Q3, we will deploy a wellness dipstick survey to gather valuable employee input to guide our holistic wellness focus. Our Telkom Park gym, now with personal trainers and exercise classes, reopened in July. We continue to drive a holistic focus on employee wellness and are committed to a healthy, balanced work environment.

Leadership and talent development

Employees who have recently completed their learning programmes or are currently enrolled, are immersed and committed to their development, bringing renewed skills and proficiencies to Telkom as they apply the learnings.

Programmes

The graduation ceremony for the first cohort of the **Managers of Managers programme (MoMP)**, an NQF level 8 qualification aimed at middle management level employees, will take place in November 2023. There are 32 delegates in the current group, which is anticipated to conclude in June 2024.

Similarly, the graduation ceremony for the first cohort of the **Foundational Management programme (FMP)**, an NQF level 7 qualification aimed at junior management and specialist level employees, will take place in November 2023. There are 67 delegates in the current group, which is anticipated to conclude in June 2024.

There are currently 33 delegates enrolled in the **Innovation and Design Thinking programme**, which aims to enable human-centred problem-solving, creativity and innovation.

The first group enrolled in the **Digital Skills programme**, an NQF level 5 qualification aimed at cultivating digital skills across various disciplines, has concluded, and 90 delegates have completed the programme. There are 93 delegates in the current group, which is anticipated to conclude in April 2024.

Female leadership development

One of our flagship programmes, the **Female Leadership Development programme (FLDP)**, continues to aid in developing female leaders for Telkom. There are currently 49 delegates taking part in the FLDP Ascend programme and 22 delegates taking part in the FLDP Transcend programme.

The niche **Women in Operations programme (WIO)** is aimed at high-potential, high-performance women in Openserve, and supports its important goal of enabling workplace transformation. There are currently 27 delegates in the WIO 4.0 programme.

Talent review and succession planning

A talent review session with Group Exco in July 2023 focused on reviewing the talent landscape for Group executives across all the business units. The key agenda items were succession, attraction and retention, strategy building and female leadership targets. The session enabled Group Exco to conduct talent review, talent mapping and succession planning for all Group executives.

The talent review highlighted potential risk areas with limited ready successors, especially female succession in some areas. Based on this, our talent actions are geared to place a strong focus on building our talent pipeline:

- Accelerating short-term successors through targeted development, internal rotation and talent mobility
- Investing in a longer-term talent pipeline through our Graduate Internship programmes
- Being intentional about our sourcing, building a targeted talent succession pool for key positions

Intellectual capital

Key strategic focus areas	Key achievements during the period
Customer experience	- Openserve was rated the preferred Fibre Network Operator in South Africa by ISPA - Increased digital channel utilisation through MyTelkom app downloads and usage
Order to cash transformation	- BCX successfully consolidated ERP systems of BCX subsidiaries and implemented OneERP system - BCX consolidation CRM initiative to enhance the current process underway
Data-driven insights	- Telkom Consumer introduced AI capability in July 2023 to enhance customer capability in the small and medium enterprise domain
Operational efficiency	- Telkom Consumer successfully launched phase 1 of the consolidated e-commerce website in June 2023 - Openserve Operations Support Systems (OSS) transformation project gained traction in the period under review, with a launch of the fulfilment service of the Fibre National Private Leased Circuit (FNPLC) products in our Carrier Links NGN portfolio
Innovation	- The Telkom Industry Solutions Lab spent R10.2 million in H1 FY2024 - The Telkom Centre of Excellence (CoE) programme spent R7.4 million in H1 FY2024

Telkom has steadily progressed in all key strategic focus areas. The multi-year IT digital transformation initiatives have produced and are enhancing customer experience through self-service, end-user and partner portals at Openserve and Telkom Consumer. BCX is enhancing its opportunity to cash process by introducing a single CRM platform for its multiple business segments, improving the market to opportunity process and customer experience.

Openserve and Telkom Consumer have made steady progress on the multi-year OSS, Business Support Systems and digital channels transformation initiatives to improve operational efficiencies that will impact time to market (TTM) and enable next-generation capabilities. Telkom Consumer enhanced customer value by introducing AI capability in the small and medium enterprises landscape for rapid content creation and deep data analysis.

Customer experience

Openserve continued improving the digitising of applications, processes, and customer experience across all Openserve digital channels. In addition to the Openserve Connect app and Digital Experience Centre, our Unified Partner Platform internet service providers (ISPs) to easily promote and manage their deals while providing enhanced assurance and fulfilment capabilities. Such initiatives reshape Openserve's interactions with its customers, and provide an enriched digital channel that enables greater customer experience and improves efficiencies that ensure customers continue to make Openserve their connectivity partner of choice.

With a continued focus on executing our strategic imperatives of providing a superior customer experience in every interaction, we are proud that Openserve was rated the preferred Fibre Network Operator in South Africa by ISPA.

In Telkom Consumer, the modernised MyTelkom app was launched in February 2023 and provides our customers with a streamlined user experience, richer sales, and self-service features. This enablement already shows benefits and increases digital channel utilisation through app downloads and usage while decreasing calls to the call centre. Our agile approach to delivering value, enhancements and new features enabled us to respond faster to our customers' needs.

Order to cash transformation

BCX successfully consolidated and implemented one ERP system for its multiple subsidiaries, improving business reporting and customer experience. We further embarked on consolidating our multiple CRM platforms into a single CRM-enhancing Salesforce platform. This initiative is expected to improve the order to cash process and customer experience. The transformation project has enhanced capabilities, including:

- Stronger lead and opportunity management in capturing leads from various digital and physical channels
- Enhanced opportunity qualification, management of sales pipelines, and maintenance and tracking of the lifecycle of the opportunities
- Improved case management by the enhanced management of customer interactions for queries, requests and complaints, including the tracking of resolution and the management of related notification
- Enhanced unified customer view with the ability to present a full view of customers, orders, sales team, bills, etc. for internal and customer use

Data-driven insights

In Telkom Consumer, the Telkom business online marketplace small and medium enterprise (SME) platform introduced an AI capability in July 2023. The AI tool accompanies two new digital solutions to assist SMEs with reputation management and social marketing. Each solution has a standard version and a pro version that includes the AI functionality. The built-in AI capability available on the pro version assists users with rapidly creating content and delivers deep data analysis, enhancing our customers' capability.

Operational efficiency

Openserve is on track with the implementation of the BSS in line with the transformation of its business processes/operations towards automation and providing self-service capabilities through digital channels. This implementation leverages the TM Forum Standards framework and application programming interface and marks a significant milestone in its drive towards enhancing service delivery and improving customer experience while increasing operational efficiency.

Openserve's OSS transformation is a multi-year initiative modernising its operational environment to improve efficiency, standardisation, simplification, and automation. The project will optimise, build capability for introducing next-generation technology and simplify processes. Openserve's OSS transformation project gained traction during the period with a launch of the fulfilment service of the FNPLC products in our Carrier Links NGN portfolio on 22 September 2023.

With the merger of the Consumer and SMB business units, Telkom Consumer embarked on a web consolidation and technology rationalisation initiative. Phase 1 of the consolidated e-commerce website was launched in June 2023. The modernisation of our website and technology rationalisation provided our customers with a seamless e-commerce experience and enabled the following:

- Improved customer experience through standardised customer journeys with a common approach to user experience/user interface design by utilising best practices and benchmarks for an integrated e-commerce experience. Migrating customer interactions and engagements from traditional channels (i.e. stores and call centres) to digital channels and self-service capabilities
- Management and reduction of operating costs across the business by implementing common technologies and solutions for Telkom Consumer allowed for a more streamlined, go-to-market approach of features and an increased focus on digital channels to meet customer requirements in a more agile and personalised manner

Innovation

Telkom continued strengthening the research and development portfolio within the Group which includes:

The Telkom Industry Solutions Lab which was established in March 2023 as a strategic partnership with Wits University to drive commercially viable and socially impactful solutions through industry-led research and innovation, addressing the most pertinent challenges faced by industry and society in South Africa and beyond.

The Telkom Centres of Excellence (CoE) programme, now in its 26th year, is the longest-running co-ordinated research programme in the South African ICT sector. The CoE programme supports research and innovation at 15 South Africa universities in areas including Natural Languages Processing for African languages and digital solutions; 5G, 6G and beyond; Internet of Things (IoT); software-defined networks, alternative energy and a range of engineering and technology applications for industry and society. Alongside the research programme, Telkom and other CoE partners fund postgraduate research students at 15 South African universities towards the attainment of Masters and PhD degrees in Computer Science and Engineering.

As part of the R&D portfolio and in support of the CoE programme, Telkom hosts the prestigious annual research and industry conference, SATNAC – the Southern Africa Telecommunication Networks and Applications Conference. In its 25th event in August 2023, SATNAC attracted over 300 delegates from across the southern African region representing 53% industry delegates, 26% postgraduate student delegates, 17% faculty members and 4% government representatives. Through SATNAC, Telkom enables the publication of accredited research proceedings, with 50 full papers presented and published at SATNAC 2023.

Social and relationship capital

Key strategic focus areas	Key achievements during the period
Diversify our supply chain and sales value chain (such as dealers) and accelerate innovation in the technology sector, focusing on small, micro and medium enterprises (SMMEs)	- 350 SMMEs registered on our FutureMakers programme (H1 FY2023: 286) - A total of 66 536 jobs (direct: 1 439, indirect: 65 097) on the FutureMakers programme - Telkom spent R14 million (H1 FY2023: R11 million) in operational expenditure in our various supplier development programmes and innovation and incubation - Telkom invested R39 million in strategic SMMEs in our supply chain to enable SMME expansion
Digital skills development and digital literacy Holistic school development and integrating ICT in schools	- R39 million (including administration costs) invested in Telkom Foundation during the period - Our supplementary teaching programme has reached over 22 000 learners nationally
Supporting broad-based black economic empowerment (B-BBEE)	- Level 1 B-BBEE contributor status - Telkom Group continued investing in skills development and enterprise and supplier development to retain the current B-BBEE Level 1 status

Telkom FutureMakers continues to contribute to the achievement of the investing with purpose strategic pillar of the ESG strategy through SMME spend and development.

Supporting ESD: FutureMakers

Telkom Group's ESG aspiration is to impact 100 000 lives through our investment in SMMEs by 2025, via FutureMakers and our supply chain. Telkom FutureMakers continues to contribute to the achievement of the investing with purpose strategic pillar of the ESG strategy through SMME spend and development.

FutureMakers' programmes fall within two focus areas – diverse supply chain programmes and innovation programmes. Telkom has a total of 350 SMMEs (H1 FY2023: 286) consisting of 132 on the FutureMakers programme and 218 BCX SMMEs (H1 FY2023: 177), of which 30 are registered on the BCX supply chain with contracts in place. Our current portfolio of SMMEs has created 66 536 jobs, of which 1 439 are direct and 65 097 are indirect. This is a growth of 39 218 jobs from H1 FY2023 (total: 27 318; direct: 815; indirect: 26 503).

In April 2023, Telkom FutureMakers embarked on the first national cohort for its Township Innovation Incubator programme. Thirteen high-calibre SMMEs were selected to join the 12-month nationwide programme, after the programme was scaled across SA, following a successful trial in Soweto, Gauteng in 2021. The new participants from the North West, KwaZulu-Natal, Gauteng and Western Cape are a testament to FutureMakers' commitment to driving innovation, unlocking potential and fostering inclusive participation of all township-based ICT businesses.

The newly launched Gyro Supplier Development (SD) programme in July 2023 saw 15 SMMEs receiving a "Business-in-a-Box" – a transformative solution designed to equip entrepreneurs with the essential ICT resources needed to thrive in today's digital economy. In addition to the business mentorship and funding, this comprehensive technology support has enabled SMMEs to enhance their operations, productivity, and overall business performance. It reaffirms Telkom's commitment to transforming our supply chain and creating greater market access opportunities.

In September 2023, Telkom appointed Delivery Ka Speed, a 100% black youth-owned and township-based fast food delivery service SMME, as one of its strategic Consumer dealers to deliver its products in townships of Gauteng, Limpopo and the North West provinces. To enable Delivery Ka Speed, FutureMakers, in partnership with Telkom Consumer Service Business (CSB) Retail, delivered 10 new delivery bikes worth R300 000 and sponsored airtime worth R10 000. This support marks an important step towards Telkom's commitment to meet increasing connectivity, building brand affinity and community trust, and enhancing job opportunities and economic outcomes within our township communities.

Telkom continued its commitment to providing SMMEs with access to finance through the R58 million investment in Aions. By September 2023, applications from various SMMEs who will grow relevant Telkom digital value propositions and technology capabilities were under review by the Aions Investment Committee.

In partnership with Absa, Telkom invested R39 million in strategic SMMEs in our supply chain to enable SMME expansion. Through this partnership, Absa has committed an additional R100 million for FY2024 to fund an additional pipeline of black-owned SMME suppliers with a minimum three-year contract with Telkom.

To date, Telkom has spent R14 million (H1 FY2023: R11 million) in operational expenditure in our various supplier development programmes and innovation and incubation. Through our supply chain programmes, we have supported Consumer Dealers with R1.1 million in marketing and sales support, R186 000 with Gyro SMMEs, and R600 000 with Independent Field Technicians, respectively.

Despite our concerted efforts to empower and incorporate SMMEs into our supply chain, customer concentration risk remains a huge challenge for our SMMEs. Their long-term sustainability and growth require a more co-ordinated and collaborative effort to integrate them into local and global supply chains. FutureMakers has established a network of strategic ecosystem partners within the public and private sectors to create an enabling environment and facilitate broader access to markets and funding for our SMMEs by leveraging a shared pool of opportunities. We look forward to strengthening these ecosystem partnerships to unlock entrepreneurial potential, advancing investment in the digital economy and creating jobs.

Supporting education

The Foundation continued its integrated support programme focused on supporting learners and youth with academic and skills programmes that prepare them for employment and entrepreneurial opportunities in the ICT sector. The supplementary teaching programme continued its focus on maths and science as gateway subjects for careers in ICT, providing face-to-face support and virtual and interactive online support, reaching approximately 22 000 learners nationally. The total investment in communities for the period was R39 million (including administration costs).

In support of unemployed youth, the Foundation continued its investment in MICT SETA-accredited training programmes. The partnership with the Gauteng Department of Education, through its agency, the Gauteng City Region Academy, was expanded to 320 youth. The programme trains unemployed youth in IT technical support so that they can provide technical support in schools to enable digital access and ICT integration in teaching and learning.

Our teacher ICT training and support programme reached over 600 teachers nationally, equipping them with appropriate ICT skills to enhance their teaching practice. We also provided an additional 300 learners with introductory training in robotics and game development to develop their interests and skills.

Given the increasing psychosocial challenges in communities, the Foundation continues to support the partnership with Childline South Africa and Lifeline South Africa to provide zero-rated access to telephone and online chat counselling services nationally, providing urgent response and co-ordination of local referrals for additional support.

Despite challenges, such as the impact of loadshedding on access to our programmes by beneficiaries, the Foundation worked with communities and partners to ensure the impact is minimal. Going forward, the Foundation will continue its programmes in support of Telkom Group's ESG strategy, enhancing its reach and impact within South African communities.

The Telkom CoE programme has for a period of over 25 years contributed to a postgraduate student throughput (graduating cohort) of approximately 3 641 students (714 PhDs, 1 457 Masters and 1 470 Honours). At least 3 204 alumni have been employed within the technology industry, with 309 alumni building careers within Telkom. Research outputs benefit the technology sector as a whole. Statistical/econometric analyses of the programme data suggest the CoE programme has enabled 2 364 peer-reviewed publications, 3 973 conference papers and the development of 969 book chapters. This is 7 307 research outputs, delivered over the 25-year period.

Maintaining our Level 1 B-BBEE score

Telkom Group was verified in May 2023 and achieved a Level 1 contributor status, improving on the previous year's result. Telkom Group improved on all scorecard elements, specifically increasing procurement recognition and skills development. The current B-BBEE certificate expires in May 2024. Telkom continues investing in skills development and enterprise and supplier development to retain the current B-BBEE Level 1 status.

Natural capital

Key strategic focus areas	Key achievements during the period
Energy efficiency initiatives - Reducing Telkom's carbon footprint	- We achieved a 7% reduction in Scope 1 and 2 emissions from a total of 352 100 tCO_2e during H1 FY2023 - Telkom Park 3 MW PV produced 1 415 840 kWh of green energy and 1 472 tCO_2e emissions avoided since being fully repaired in March 2023 - We procured the EcoVadis platform, which will enable us to track our suppliers' Scope 1 and 2 emissions for our Scope 3 monitoring and reporting
Smart meters - Reducing our water consumption	- 26% decrease in water consumption compared to the prior period - 53 water smart metres installed by the end of H1 FY2024 - Disputes logged for high-consumption sites were successfully resolved with the municipalities
e-waste recycling	- 81% increase in e-waste recycling during the period mainly attributed to Openserve's ongoing legacy equipment decommissioning project

Telkom continues to focus on energy efficiency and providing alternative energy supply.

Reducing Telkom's carbon footprint

Telkom continued its focus on driving energy efficiency and providing alternative energy to reduce our Scope 1 and 2 emissions. Our goal is to be carbon neutral for emissions by 2035. Our Scope 1 emissions increased by 9% during the period due to loadshedding and the use of diesel-powered generators. Our Scope 2 emissions decreased by 9% due to a decrease in energy consumption due to site terminations.

Scope 3 emissions

In FY2023, we developed a baseline for our Scope 3 emissions using a predominantly spend-based method. Telkom has begun to engage its suppliers on the journey to reducing their own carbon footprint, with the assistance of a certification platform. Such partnerships will contribute to reducing our upstream emissions for categories 1 (purchased goods and services) and 2 (capital goods), which make up almost 50% of our total Scope 3 emissions. Plans to reduce our value chain emissions will be finalised in the next financial year as part of our journey to reach net-zero emissions by 2040.

Due to increased hours of loadshedding in H1 FY2024 compared to H1 FY2023, diesel consumption for standby generators increased by 49% to 8 551 070 litres. To optimise diesel costs, reduce Scope 1 emissions and provide a reliable supply of alternative energy, the Group accelerated the installation of lithium ion batteries at key exchanges and towers. There were 3 696 hours of loadshedding during the current period compared to 1 652 hours in H1 FY2023. Overall, Telkom spent R281 million during the period under review on diesel. A drop in loadshedding (1 899 hours) was seen in Q2 FY2024, compared to (2 072 hours) in the last quarter of FY2023.

Other highlights during the period are as follows:

- The repairs for Telkom Park 3 MW PV plant were completed in March 2023. The plant has since produced 1 415 840 kWh of green energy, with 1472 tCO_2e emissions avoided. The Belville 168 kWp solar PV has since produced 306 094 kWh of green energy, with 318 tCO_2e emissions avoided. Cumulative renewable energy produced by 3 MW Telkom Park solar PV and 168 kWp Belville solar PV to date is 1 721 934 kWh with 1791 tCO_2e emissions avoided
- Commenced with Phase 2 LED lighting installation on 43 Electronics and Telecommunications Equipment (ETE) sites
- Decommissioning of our legacy equipment and diesel optimisation projects reduced our CO_2 emissions, with 12 744 tCO_2e emissions avoided in H1
- The ongoing installation of lithium ion batteries as backup power as an alternative to diesel generators during power outages. 686 lithium ion batteries were installed in H1 FY2024
- The construction of an additional 1 MW solar PV plant at Telkom Park commenced in August 2023, and is currently 18% complete

Reducing our water consumption

Telkom's water consumption decreased by 26% compared to the prior period due to repaired water leaks in the identified sites. Telkom has put in place measures to avoid water leaks in future. Disputes previously lodged for high-consumption sites were successfully resolved with the municipalities. Telkom installed 53 water smart meters by the end of H1, which contributed to the decline in water consumption.

The following water-saving initiatives for FY2024 are already in the procurement stage and will enable Telkom to reduce water consumption in future years:

- Telkom Park water harvesting project planned for FY2024
- Borehole drilling at three sites in Eastern Cape Nelson Mandela Region
- Water harvesting on five sites in Eastern Cape Nelson Mandela Region

Managing our e-waste

Telkom continued to focus on reducing e-waste by implementing practices to reuse, resell or recycle network waste and other waste generated from our operations. We recorded an increase in e-waste recycling from 1 760 tonnes in H1 FY2023 to 3 181 tonnes in H1 FY2024. The increase is mainly due to Openserve's ongoing legacy equipment decommissioning project.

To reduce paper waste, we have implemented a paperless proof of delivery in some areas and will continue deploying this technology in other regions. The number of printers were reduced at Telkom Park Head Office, which decreased the use of paper for printing.

The increase in e-waste is a source of income for waste collectors and handlers. We sell our cabling to a leading e-waste recycling organisation, which processes the cabling by using environmentally and socially responsible techniques that do not use chemicals or burning. We sell copper recovered from the recycling process to local and international markets. This sensitive, labour-intensive process provides employment and empowerment for an Eastern Cape rural community through our Thembani project where more than 22 families rely solely on this project as a source of income.

Operational data

2

Subscribers	**September 2023**	September 2022	Variance %
Broadband subscribers			
Fixed broadband subscribers[1]	**554 809**	562 080	(1.3)
Mobile broadband subscribers	**12 194 883**	11 034 809	10.5
Fixed subscribers			
Internet all-access subscribers[2]	**273 236**	274 206	(0.4)
Fixed access lines ('000)[3]	**690**	882	(21.8)
Revenue per fixed access line (rand)	**2 380**	2 431	(2.1)
Fixed voice ARPU	**301.79**	306.98	(1.7)
Fixed broadband ARPU	**315.20**	287.62	9.6
Managed data network sites	**25 233**	31 726	(20.5)
Mobile subscribers			
Active mobile subscribers[4]	**18 286 160**	18 023 524	1.5
Pre-paid	**15 320 566**	15 161 977	1.0
Post-paid	**2 965 594**	2 861 547	3.6
ARPU (rand)	**84.59**	87.87	(3.7)
Pre-paid	**64.40**	64.47	(0.1)
Post-paid	**182.41**	205.92	(11.4)
Volumes			
Fixed broadband (petabytes)	**1 081**	919	17.6
Mobile broadband (petabytes)	**676**	550	22.9
Total fixed-line traffic (millions of minutes)	**2 093**	2 723	(23.1)
Network			
Fibre to the home	**1 158 761**	960 801	20.6
Fibre homes passed and connected	**542 598**	443 469	22.4
Enterprise business services	**42 444**	40 861	3.9
Next-generation technology services	**72 462**	71 647	1.1
Carrier services	**19 946**	19 937	0.0
Fibre to base station connections	**9 090**	8 877	2.4
Mobile sites integrated	**7 684**	7 384	4.1
Active fibre connectivity rate %	**46.8**	46.2	0.6
Group employees	**9 868**	11 788	(16.3)
Telkom Company employees	**1 224**	1 679	(27.1)
Consumer	**1 029**	1 325	(22.3)
Corporate Centre	**195**	354	(44.9)
Openserve	**4 546**	5 658	(19.7)
BCX group employees	**4 003**	4 339	(7.7)
Gyro employees	**95**	112	(15.2)

[1] *Includes xDSL and FTTH lines of which 2 235 (H1 FY2023: 3 389) 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.*

Financial performance

3

Group operating revenue

	September 2023 Rm	Re-presented September 2022 Rm	Variance %
Fixed	**6 787**	7 035	(3.5)
Voice and subscriptions	**1 642**	2 146	(23.5)
Usage	**627**	894	(29.9)
Subscriptions	**1 015**	1 252	(18.9)
Interconnection	**119**	146	(18.5)
Fixed-line domestic	**70**	94	(25.5)
Fixed-line international	**49**	52	(5.8)
Data	**4 122**	3 990	3.3
Data connectivity	**3 159**	2 970	6.4
Internet access and related services	**715**	724	(1.2)
Managed data network services	**247**	294	(16.0)
Multimedia services	**1**	2	(50.0)
Customer premises equipment sales and rentals	**565**	528	7.0
Sales	**158**	196	(19.4)
Rentals	**407**	332	22.6
Insurance revenue	**135**	88	53.3
Other revenue	**204**	137	48.9
Mobile	**11 035**	10 605	4.1
Mobile voice and subscriptions	**2 082**	2 213	(5.9)
Mobile interconnection	**247**	253	(2.5)
Mobile data	**6 964**	6 317	10.3
Mobile handset and equipment sales	**1 569**	1 671	(6.1)
Significant financing component revenue	**173**	151	14.7
Information technology	**3 469**	3 119	11.2
Information technology service solutions	**1 404**	1 373	2.3
Application solutions	**460**	477	(3.6)
IT hardware and software	**1 516**	1 201	26.2
Industrial technologies	**54**	53	1.9
Significant financing component revenue	**35**	15	133.3
Other	**487**	479	1.7
Yellow Pages – Directories	**102**	111	(8.1)
Gyro[1]	**385**	368	4.6
Total operations[1]	**21 778**	21 238	2.5

[1] *Includes total operations. Refer to* *page 4* *for the reconciliation of the continuing and total operations figures.*

Mobile statement of profit or loss

	Reported September 2023 Rm	Reported September 2022 Rm
Operating revenue	11 092	10 713
Payments to other operators	(1 344)	(1 322)
Cost of handsets, equipment and directories	(1 772)	(1 954)
Sales commission, incentive and logistical costs	(1 255)	(1 112)
Other income	224	173
Operating expenses	(4 488)	(4 086)
Employee expenses	(282)	(292)
Other expenses	(1 907)	(1 909)
Maintenance	(887)	(824)
Marketing	(265)	(278)
Impairment of receivables and contract assets	(656)	(388)
Service fees	(462)	(346)
Lease-related expenses	(29)	(49)
EBITDA	2 457	2 412

This has been extracted from management's internal financial reporting.

Masts and towers statement of profit or loss

	Reported September 2023 Rm	Reported September 2022 Rm
Operating revenue	652	660
Operating expenses	(164)	(201)
Other operating expenses	(84)	(81)
Impairment of receivables and contract assets	(5)	(5)
Service fees	(73)	(113)
Lease-related expenses	(2)	(2)
EBITDA	488	459

This has been extracted from management's internal financial reporting.

Condensed consolidated statement of profit or loss and other comprehensive income

	September 2023 Rm	Re-presented September 2022 Rm	Variance %
Total operations[1]			
Revenue	**21 778**	21 238	2.5
Payments to other operators	**(1 717)**	(1 705)	(0.7)
Cost of handsets, equipment and directories	**(3 310)**	(3 224)	(2.7)
Sales commission, incentive and logistical costs	**(1 308)**	(1 183)	(10.6)
Other income	**454**	434	4.6
Employee expenses	**(3 837)**	(4 132)	7.1
Other operating expenses	**(1 144)**	(1 206)	5.1
Insurance service expenses	**(95)**	(78)	(21.8)
Maintenance	**(2 366)**	(2 153)	(9.9)
Marketing	**(393)**	(423)	7.1
Impairment of receivables and contract assets	**(889)**	(500)	(77.8)
Service fees	**(2 019)**	(1 950)	(3.5)
Lease-related expenses	**(129)**	(175)	26.3
EBITDA	**5 025**	4 943	1.7
Depreciation, amortisation, impairment and write-offs	**(2 819)**	(3 549)	20.6
Operating profit	**2 206**	1 394	58.2
Investment income	**84**	57	47.4
Finance charges and fair value movements	**(980)**	(553)	(77.2)
Net finance charges on lease liabilities	**(260)**	(242)	(7.4)
Net finance charges	**(728)**	(413)	(76.3)
Foreign exchange and fair value movements	**8**	102	92.2
Profit before taxation	**1 310**	898	45.9
Taxation	**(334)**	(257)	(30.0)
Profit for the period	**976**	641	52.3

[1] *Includes total operations. Refer to* *page 4* *for the reconciliation of the continuing and total operations figures.*

Notes

Sales commission, incentive and logistical costs increased by 10.6% to R1 308 million, mainly due to increased costs associated with the post-paid market, such as distribution channel costs.

Employee expenses decreased by 7.1% to R3 837 million due to the 16.3% reduction in headcount and the 0% salary increase across the Group.

Impairment of receivables and contract assets increased by 77.8% to R889 million, largely as a result of the deterioration of the debtor's book due to a challenging economic environment and pressure on consumer disposable income.

Depreciation, amortisation, impairments and write-offs decreased by 20.6% to R2 819 million, mainly due to the impairment of assets in the previous financial year.

Investment income increased by 47.4% to R84 million, mainly due to higher bank and cash balances.

Finance charges and fair value movements increased by 77.2% to R980 million, mainly due to the increase in finance charges, which was largely due to increases in interest rates and higher debt levels during the period. This was partially offset by recognised gains in the valuation of FECs and interest rate swaps due to a weaker rand and aggressive interest rate increases, respectively. The Group pays the fixed interest leg of the swap and receives the floating interest leg while paying the floating interest to lenders on the underlined debt.

Taxation increased by 30.0% to R334 million due to the 45.9% increase in profit before taxation, offset by the 3.1 ppts decrease in the effective tax rate (ETR) to 25.5% (H1 FY2023: 28.6%). The decrease in ETR is mainly due to an increase in non-taxable fair value accounting (non-temporary) adjustments and a reduction in depreciation on buildings.

Condensed consolidated statement of financial position

	September 2023 Rm	March 2023 Rm	Variance %
Total operations[1]			
Assets			
Non-current assets	**44 422**	42 307	5.0
Property, plant and equipment	**26 337**	26 178	0.6
Right-of-use assets	**6 297**	5 360	17.5
Intangible assets	**5 390**	4 493	20.0
Other investments	**104**	108	(3.7)
Other receivables	**61**	72	(15.3)
Employee benefits	**1 232**	1 266	(2.7)
Other financial assets	**180**	182	(1.1)
Finance lease receivables	**369**	344	7.3
Deferred taxation	**4 452**	4 304	3.4
Current assets	**17 010**	17 317	(1.8)
Inventories	**1 129**	1 091	3.5
Income tax receivable	**89**	79	12.7
Finance lease receivables	**283**	304	(6.9)
Trade and other receivables	**9 027**	9 314	(3.1)
Contract assets	**2 179**	2 440	(10.7)
Other current assets	**495**	462	7.1
Other financial assets	**117**	93	25.8
Insurance contract asset	**96**	61	57.4
Cash and cash equivalents	**3 585**	3 469	3.3
Restricted cash	**10**	4	150.0
Total assets	**61 432**	59 624	3.0
Equity and liabilities			
Equity attributable to owners of the parent	**25 197**	24 184	4.2
Share capital	**5 050**	5 050	–
Share-based compensation reserve	**1 419**	1 414	0.4
Non-distributable reserves	**750**	739	1.5
Retained earnings	**17 978**	16 981	5.9
Non-controlling interest	**(22)**	(23)	(4.3)
Total equity	**25 175**	24 161	4.2
Non-current liabilities	**18 370**	17 550	4.7
Interest-bearing debt	**11 926**	11 999	(0.6)
Lease liability	**4 578**	4 617	(0.8)
Provisions	**334**	368	(9.2)
Other financial liabilities	**226**	198	14.1
Deferred revenue	**868**	128	578.1
Deferred taxation	**438**	240	82.5
Current liabilities	**17 887**	17 913	(0.1)
Trade and other payables	**9 671**	10 419	(7.2)
Shareholders for dividend	**24**	25	(4.0)
Interest-bearing debt	**2 878**	2 357	22.1
Lease liabilities	**2 359**	1 272	85.5
Provisions	**924**	1 893	(51.2)
Deferred revenue	**1 551**	1 475	5.2
Income tax payable	**19**	2	850.0
Other financial liabilities	**461**	470	(1.9)
Total liabilities	**36 257**	35 463	2.2
Total equity and liabilities	**61 432**	59 624	3.0

[1] *Includes total operations. Refer to page 4 for the reconciliation of the continuing and total operations figures.*

Notes

Intangible assets increased by 20.0% to R5 390 million largely due to the acquisition of spectrum.

Contract assets decreased by 10.7% to R2 179 million, due to the sale of the handset book for R832 million to financial institutions and offset by an increase in sales.

Provisions decreased by 44.4% to R1 258 million, mainly due to the restructuring cost provision of R1 065 million evident in the prior year.

Deferred revenue increased by 50.9% to R2 419 million attributable to the Openserve Google Equiano arrangement with Google and its affiliates which became effective in the current period and the full arrangement was accounted for.

Condensed consolidated statement of cash flows

	September 2023 Rm	September 2022 Rm	Variance %
Cash flows from operating activities	**3 488**	2 094	66.6
Cash receipts from customers	**22 337**	20 360	9.7
Cash paid to suppliers and employees	**(17 813)**	(17 513)	(1.7)
Cash generated from operations	**4 524**	2 847	58.9
Interest received	**194**	102	90.2
Finance charges paid	**(1 007)**	(654)	(54.0)
Taxation paid	**(259)**	(301)	14.0
Repayment of derivatives – FECs	**(22)**	(20)	(10.0)
Proceeds from derivatives – FECs	**61**	123	50.4
Cash generated from operations before dividend paid	**3 491**	2 097	66.5
Dividend paid	**(3)**	(3)	–
Cash flows from investing activities	**(3 189)**	(3 159)	0.9
Proceeds on disposal of property, plant and equipment and intangible assets	**59**	65	(9.2)
Additions to assets for capital expansion	**(3 311)**	(3 358)	1.4
Investments made by FutureMakers	**1**	(7)	114.3
ESD loan repayments received	**3**	–	100.0
Repayment of derivatives – FECs	**(38)**	(28)	(35.7)
Proceeds from derivatives – FECs	**103**	169	39.1
Restricted cash	**(6)**	–	100.0
Cash flows from financing activities	**(183)**	325	(156.3)
Loans raised	**8 749**	3 274	(167.2)
Loans repaid	**(8 318)**	(2 135)	(289.6)
Purchase of shares for the Telkom share plan and subsidiaries' long-term incentive share scheme	**–**	(250)	100.0
Repayment of lease liability	**(619)**	(523)	(18.4)
Repayment of derivatives – interest rate swaps	**–**	(41)	100.0
Proceeds from derivatives – Interest rate swaps	**5**	–	100.0
Net decrease in cash and cash equivalents	**116**	(740)	115.7
Net cash and cash equivalents at 1 April	**3 469**	3 239	7.1
Net cash and cash equivalents at end of the period	**3 585**	2 499	43.5

Notes

Cash generated from operations increased by 58.9% to R4 524 million, largely attributable to improved working capital management and the 45.9% increase in profit before taxation.

Finance charges paid increased by 54.0% to R1 007 million, in line with the 76.3% increase in finance charges provided in the profit or loss statement driven by higher debt levels and interest rates.

Taxation paid decreased by 14.0% to R259 million due to a reduction in the Group's taxable income, the utilisation of tax losses and lower refunds of tax overpaid.

Loans raised of R8 749 million as Group increased the utilisation of committed facilities during the current reporting period to repay maturing bonds, loans, and funding needs, while negotiating and securing long-term debt. The utilisation of committed facilities gave rise to higher amount of loans raised and the corresponding loans repaid with a net funding raised of R431 million.

Reviewed condensed consolidated interim financial statements for the six months ended 30 September 2023

4

Board approval

These condensed consolidated interim financial statements were authorised for issue on 20 November 2023 by the Telkom SA SOC Ltd Board of Directors and published on 21 November 2023. The Board has the power to amend and reissue these financial statements.

Directors' responsibility and audit review report

The Directors of the Company take full responsibility for the preparation of the condensed consolidated interim financial statements. The condensed consolidated interim financial statements have been reviewed by our independent external auditor (hereafter referred to as "auditor"), PricewaterhouseCoopers Inc.

Preparer and supervisor of the condensed consolidated interim financial statements

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

Independent auditor's review report on interim financial statements

pwc

To the Shareholders of Telkom SA SOC Limited

We have reviewed the condensed consolidated interim financial statements of Telkom SA SOC Limited in the accompanying interim report, which comprise the condensed consolidated statement of financial position as at 30 September 2023 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-months then ended, and selected explanatory notes.

Directors' Responsibility for the Interim Financial Statements

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

Auditor's Responsibility

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

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of Telkom SA SOC Limited for the six months ended 30 September 2023 are not prepared, in all material respects, in accordance with the International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting,* the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: SN Madikane
Registered Auditor
Johannesburg, South Africa

20 November 2023

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Chief Executive Officer: L S Machaba
The Company's principal place of business is at 4 Lisbon Lane, Waterfall City, Jukskei View, where a list of directors' names is available for inspection.
Reg. no. 1998/012055/21, VAT reg.no. 4950174682.

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

Condensed consolidated statement of profit or loss and other comprehensive income

for the period ended 30 September 2023

	Notes	Reviewed six months ended 30 September 2023 Rm	Re-presented six months ended 30 September 2022[1] Rm
Continuing operations			
Revenue		21 407	20 879
Operating revenue		21 064	20 625
Interest revenue		208	166
Insurance revenue	3.3.1	135	88
Other income		454	434
Payments to other operators		(1 717)	(1 705)
Cost of handsets, equipment, software and directories		(3 310)	(3 224)
Sales commission, incentives and logistical costs	6.1	(1 308)	(1 183)
Insurance service expenses	3.3.1	(95)	(78)
Employee expenses	6.2	(3 837)	(4 132)
Other expenses		(1 139)	(1 199)
Maintenance	6.4	(2 366)	(2 152)
Marketing		(393)	(423)
Impairment of receivables, contract assets and loans	6.5	(884)	(500)
Service fees	6.6	(1 948)	(1 837)
Lease-related expenses		(127)	(173)
EBITDA		4 737	4 707
Depreciation of property, plant and equipment	6.3	(1 733)	(2 468)
Depreciation of right-of-use assets	6.3	(723)	(609)
Amortisation of intangible assets	6.3	(313)	(370)
Write-offs and impairments of property, plant and equipment and intangible assets	6.3	(15)	(85)
Operating profit		1 953	1 175
Investment income		74	57
Net finance charges and fair value movements		(975)	(545)
Finance charges on lease liabilities		(255)	(238)
Net finance charges – other[2]		(728)	(413)
Foreign exchange and fair value movements[2]		8	106
Profit before taxation		1 052	687
Taxation	10.1	(264)	(200)
Profit for the period from continuing operations		788	487
Profit from discontinued operation	16	188	154
Profit for the period		976	641

	Notes	Reviewed six months ended 30 September 2023 Rm	Re-presented six months ended 30 September 2022[1] Rm
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange gains on translating foreign operations[3]		11	27
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gains		34	65
Income tax relating to other comprehensive income		(9)	(17)
Other comprehensive income for the period, net of taxation		36	75
Total comprehensive income for the period		1 012	716
Profit attributable to:			
Owners of Telkom		973	639
Non-controlling interests		3	2
Profit for the period		976	641
Total comprehensive income attributable to:			
Owners of Telkom		1 009	714
Non-controlling interests		3	2
Total comprehensive income for the period		1 012	716
Basic earnings per share (cents)			
Continuing operations	7	161.5	99.9
Discontinued operation	7	38.7	31.7
Total basic earnings per share (cents)		200.2	131.6
Diluted earnings per share (cents)			
Continuing operations	7	157.2	96.3
Discontinued operation	7	37.6	30.6
Total diluted earnings per share (cents)		194.8	126.9

[1] *Re-presented for IFRS 17 adoption and Swiftnet discontinued operation. Refer to notes 3.4 and 16 for details.*

[2] *The increase in finance charges is largely due to increases in interest rates and higher debt levels in the current financial period. The change in foreign exchange and fair value movement is largely due to the revaluation of forward exchange contracts and foreign exchange exposure.*

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

Condensed consolidated statement of financial position

as at 30 September 2023

	Notes	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm
Assets			
Non-current assets		**43 182**	42 307
Property, plant and equipment	8	**25 255**	26 178
Right-of-use assets	4.1	**6 150**	5 360
Intangible assets	8	**5 379**	4 493
Other investments		**104**	108
Other receivables[1]		**61**	72
Employee benefits		**1 232**	1 266
Other financial assets		**180**	182
Finance lease receivables		**369**	344
Deferred taxation	10.3	**4 452**	4 304
Current assets		**16 663**	17 317
Inventories		**1 129**	1 091
Income tax receivable	10.4	**87**	79
Finance lease receivables		**283**	304
Trade and other receivables	15.1	**8 851**	9 314
Contract assets	15.2	**2 179**	2 440
Other current assets		**495**	462
Other financial assets		**117**	93
Insurance contract asset[2]		**96**	61
Cash and cash equivalents	9	**3 416**	3 469
Restricted cash		**10**	4
Assets included in disposal group classified as held for sale	16	**1 587**	–
Total assets		**61 432**	59 624

	Notes	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm
Equity and liabilities			
Equity attributable to owners of the parent		**25 197**	24 184
Share capital		**5 050**	5 050
Share-based compensation reserve		**1 419**	1 414
Non-distributable reserves		**750**	739
Retained earnings		**17 978**	16 981
Non-controlling interests		**(22)**	(23)
Total equity		**25 175**	24 161
Non-current liabilities		**18 208**	17 550
Interest-bearing debt	12	**11 926**	11 999
Lease liabilities	4.1	**4 454**	4 617
Provisions	13	**334**	368
Other financial liabilities		**226**	198
Deferred revenue	4.2	**868**	128
Deferred taxation	10.3	**400**	240
Current liabilities		**17 718**	17 913
Trade and other payables[3]		**9 538**	10 419
Shareholders for dividend		**24**	25
Interest-bearing debt	12	**2 878**	2 357
Lease liabilities	4.1	**2 324**	1 272
Provisions	13	**923**	1 893
Deferred revenue	4.2	**1 551**	1 475
Income tax payable	10.4	**19**	2
Other financial liabilities		**461**	470
Liabilities included in disposal group classified as held for sale	16	**331**	–
Total liabilities		**36 257**	35 463
Total equity and liabilities		**61 432**	59 624

[1] *The other receivables relate to prepayment of services or goods that will not be received within the next 12 months. The current portion of prepayments is disclosed in trade and other receivables (refer to note 15.1).*

[2] *This was previously Investment in cell captives, renamed with the adoption of IFRS 17.*

[3] *Invoices subject to supplier finance are classified as trade payables based on management's judgement. R1 347 million of the total trade payables is subject to supplier financing. The Group continues to pay its suppliers based on the agreed payment terms and provides no guarantees to the participating funders. The arrangement does not have an impact on the Group's trade payables, net debt and cash flows. Trade payables decreased mainly due to lower amounts of payment deferrals in September 2023 when compared to March 2023, this resulted in a higher amount of payments made to creditors in the current period.*

Condensed consolidated statement of changes in equity

for the period ended 30 September 2023

	Reviewed six months ended 30 September 2023 Rm	Reviewed six months ended 30 September 2022 Rm
Balance at 1 April	**24 161**	34 044
Attributable to owners of Telkom	**24 184**	34 069
Non-controlling interests	**(23)**	(25)
Total comprehensive income for the period	**1 012**	716
Profit for the period	**976**	641
Other comprehensive income	**36**	75
Exchange gains on translating foreign operations	**11**	27
Net defined benefit plan remeasurements	**25**	48
Dividend declared	**(3)**	–
Increase in share-based compensation reserve	**5**	89
Increase in treasury shares[1]	**–**	(242)
Balance at 30 September	**25 175**	34 607
Attributable to owners of Telkom	**25 197**	34 630
Non-controlling interests	**(22)**	(23)

[1] *Treasury shares relate to the share buy-back for the Telkom Group share scheme, no repurchases occurred in the current period.*

Condensed consolidated statement of cash flows

for the period ended 30 September 2023

	Notes	Reviewed six months ended 30 September 2023 Rm	Reviewed six months ended 30 September 2022 Rm
Cash flows from operating activities		**3 488**	2 094
Cash receipts from customers		**22 337**	20 360
Cash paid to suppliers and employees		**(17 813)**	(17 513)
Cash generated from operations	19	**4 524**	2 847
Interest received		**194**	102
Finance charges paid		**(1 007)**	(654)
Taxation paid	10.2	**(259)**	(301)
Repayment of derivatives – FECs		**(22)**	(20)
Proceeds from derivatives – FECs		**61**	123
Cash generated from operations before dividend paid		**3 491**	2 097
Dividend paid		**(3)**	(3)
Cash flows utilised for investing activities		**(3 189)**	(3 159)
Proceeds on disposal of property, plant and equipment and intangible assets		**59**	65
Additions to property, plant and equipment and intangible assets		**(3 311)**	(3 358)
Disinvestment/(investments) made in FutureMakers		**1**	(7)
SMME loans repayments received		**3**	–
Repayment of derivatives – FECs		**(38)**	(28)
Proceeds from derivatives – FECs		**103**	169
Restricted cash		**(6)**	–
Cash flows from financing activities		**(183)**	325
Loans raised	12	**8 749**	3 274
Loans repaid	12	**(8 318)**	(2 135)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		**–**	(250)
Repayment of principal lease liability		**(619)**	(523)
Repayment of derivatives – interest rate swaps		**–**	(41)
Proceeds from derivatives – interest rate swaps		**5**	–
Increase/(decrease) in cash and cash equivalents		**116**	(740)
Net cash and cash equivalents at 1 April		**3 469**	3 239
Net cash and cash equivalents at the end of the period[1]	9	**3 585**	2 499

[1] *Included in the net cash and cash equivalents is the Swiftnet cash to the amount of R169 million (September 2022: R407 million). In the current period, Swiftnet has been disclosed as a non-current asset held for sale, refer to note 16.*

Notes to the condensed consolidated interim financial statements

for the period ended 30 September 2023

1. Independent review

The Directors of the Company take full responsibility for the preparation of the condensed consolidated interim financial statements. The condensed consolidated interim financial statements for the period ended 30 September 2023 have been reviewed by our auditor PricewaterhouseCoopers Inc., who has expressed an unmodified conclusion thereon. The auditor has performed its review in accordance with International Standards on Review Engagements (ISRE) 2410.

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 JSE Ltd. The main objective of the Group and its subsidiaries 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 material accounting policy information

3.1 Basis of preparation

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

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

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

The results for the period are not necessarily indicative of the results for the entire year and these reviewed condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended 31 March 2023, which have been prepared in accordance with IFRS.

3.2 Significant accounting judgements, estimates and assumptions

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the consolidated annual financial statements for the year ended 31 March 2023, with the exception of those listed below.

3.2.1 Significant judgements and estimates – change in useful lives of property, plant and equipment (PPE) and intangible assets (IA)

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 and intangible assets. Due to the rapid technological advancement in the telecommunications industry, the estimation of useful lives could differ significantly on an annual basis because of unexpected changes in the rollout strategy. Changes in the useful lives are accounted for as a change in accounting estimate. During the period under review, the Group reassessed the useful lives on PPE and IA. The reassessment decreased the depreciation expense by R35 million (30 September 2022: R113 million) for PPE and decreased the amortisation expense by R2 million (30 September 2022: R0 million) for IA.

3.2.2 Significant judgement in assessing if Swiftnet SOC Ltd (Swiftnet) meets the conditions to be classified as held for sale in accordance with IFRS 5 Non-current assets held for sale

For the period ended 30 September 2023, Swiftnet met the IFRS 5 Non-current assets held for sale requirements. Refer to note 16 for details.

The asset held for sale classification was met during the period ended 30 September 2023, after the current preferred bidder presented an offer that was within Telkom's acceptable range. The receipt of an offer within the acceptable range made the transaction structure more certain and the likelihood of finalising the transaction within 12 months highly probable considering the bidder's profile. The disposal is subject to approvals that are expected to be obtained within 12 months based on previous market precedents.

3.2.3 Significant judgement in measuring the significant financing component in the Google Equiano transaction

As part of the Google Equiano arrangement, Openserve will receive an upfront payment for granting the use of terrestrial network to Google for 15 years. Aligned with the Group policy and IFRS 15 principles, management concluded that this transaction has a significant financing element. Management applied judgement and determined an approximate USD rate at which Openserve could be granted USD finance for a similar amount and period to determine the significant financing component. A USD rate was used as the revenue will be earned in USD currency and the equipment used to build the network was paid for in USD currency.

The significant financing element is recognised as a finance cost and the transaction price (deferred revenue and revenue) is increased with the financing component over the 15-year contract period.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

3. Basis of preparation, significant accounting judgements, estimates, assumptions and material accounting policy information continued

3.3 New accounting pronouncements

3.3.1 Other standards, amendments to standards and interpretations

The standards and amendments to standards listed below were adopted effective 1 April 2023, and did not have a material impact on the Group.

Consideration	Effective date
IAS 1 (Presentation of Financial Statements) Amendments regarding the disclosure of accounting policies	Annual periods beginning on or after 1 January 2023
IAS 12 (Income Taxes) Amendments regarding deferred tax related to assets and liabilities arising from a single transaction	Annual periods beginning on or after 1 January 2023
IAS 12 (Income Taxes) Amendments regarding international tax reform – pillar two model rules	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

Adoption of IFRS 17 (Insurance Contracts)
The Group has retrospectively adopted IFRS 17 (Insurance Contracts) with effect from 1 April 2023. Through the cell captives, as part of the Group's core business, the Group sells life insurance and device insurance to its customers. Across the Group, IFRS 17 is only applicable to the third-party insurance cell captives (Guardrisk short-term life insurance cell captive and Mutual and Federal Risk Financing Limited (MFRF) short-term handset and device insurance). The Group qualified to use the premium allocation approach (PAA) IFRS 17 measurement for both cell captives, resulting in an immaterial quantitative impact on adoption.

The Group continues to invest in its insurance business and considers the revenue from insurance as part of its operating revenue. As required by IFRS 17, the Group has now disaggregated the presentation of its insurance results business on the face of its statement of profit or loss and other comprehensive income. The disaggregation resulted in the Group introducing an insurance revenue line of R135 million (September 2022: R88 million) and an insurance service expense line of R95 million (September 2022: R78 million) in the statement of profit or loss and other comprehensive income. The impact is neutral on net operating profit after tax.

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. The amendments are not expected to have a material impact.

Consideration	Effective date
IFRS 16 (Leases) Amendment regarding lease liability in a sale and leaseback, seller-lessee subsequent measurement in sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale	Annual periods beginning on or after 1 January 2024
IAS 1 (Presentation of Financial Statements) Amendment regarding non-current liabilities with covenants	Annual periods beginning on or after 1 January 2024
IAS 7 (Statement of Cash Flows) and IFRS 7 (Financial Instruments: Disclosures) Amendment regarding supplier finance arrangement disclosure	Annual periods beginning on or after 1 January 2024
IAS 21 (The Effects of Changes in Foreign Exchange Rates) Amendment regarding the entity's transaction or operation in a foreign currency that is not exchangeable into other currency at a measurement date for a specified purpose	Annual periods beginning on or after 1 January 2025

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

3. Basis of preparation, significant accounting judgements, estimates, assumptions and material accounting policy information continued

3.4 Re-presentation to the condensed consolidated statement of profit or loss and other comprehensive income

	As at 30 September 2022			
	As previously reported Rm	IFRS 17[1] Rm	Swiftnet discontinued operation[2] Rm	Re-presented Rm
Revenue	21 150	88	(359)	**20 879**
Operating revenue	20 984	–	(359)	**20 625**
Interest revenue	166	–	–	**166**
Insurance revenue	–	88	–	**88**
Other income	434	–	–	**434**
Insurance service result	9	(9)	–	**–**
Payments to other operators	(1 705)	–	–	**(1 705)**
Cost of handsets, equipment, software and directories	(3 224)	–	–	**(3 224)**
Sales commission, incentives and logistical costs	(1 183)	–	–	**(1 183)**
Insurance service expenses	–	(78)	–	**(78)**
Employee expenses	(4 132)	–	–	**(4 132)**
Other expenses	(1 206)	–	7	**(1 199)**
Maintenance	(2 153)	–	1	**(2 152)**
Marketing	(423)	–	–	**(423)**
Impairment of receivables, contract assets and loans	(500)	–	–	**(500)**
Service fees	(1 950)	–	113	**(1 837)**
Lease-related expenses	(175)	–	2	**(173)**
EBITDA	4 942	1	(236)	**4 707**
Depreciation of property, plant and equipment	(2 477)	–	9	**(2 468)**
Depreciation of right-of-use assets	(617)	–	8	**(609)**
Amortisation of intangible assets	(370)	–	–	**(370)**
Write-offs and impairments of property, plant and equipment and intangible assets	(85)	–	–	**(85)**

	As at 30 September 2022			
	As previously reported Rm	IFRS 17[1] Rm	Swiftnet discontinued operation[2] Rm	Re-presented Rm
Operating profit	1 393	1	(219)	**1 175**
Investment income	55	2	–	**57**
Net finance charges and fair value movements	(553)	–	8	**(545)**
Finance charges on lease liabilities	(242)	–	4	**(238)**
Net finance charges – other	(413)	–	–	**(413)**
Foreign exchange and fair value movements	102	–	4	**106**
Profit before taxation	895	3	(211)	**687**
Taxation	(254)	(3)	(57)	**(200)**
Profit for the period from continuing operations	641	–	(154)	**487**
Profit from discontinued operation	–	–	154	**154**
Profit for the period	641	–	–	**641**
Total comprehensive income for the period	716	–	–	**716**
Profit attributable to:				
Owners of Telkom	639	–	–	**639**
Non-controlling interests	2	–	–	**2**
Profit for the period	641	–	–	**641**
Total comprehensive income attributable to:				
Owners of Telkom	714	–	–	**714**
Non-controlling interests	2	–	–	**2**
Total comprehensive income for the period	716	–	–	**716**

[1] *Refer to note 3.3.1.*
[2] *Refer to notes 3.2.2 and 16.*

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

4. Significant changes in the current reporting period

Google Equiano undersea internet cable contract

The Openserve arrangement with Google (Google Equiano) and its affiliates (Google) became effective in the current financial year. The accounting policies as disclosed in the 31 March 2023 annual financial statements were used to account for the full arrangement.

The Google Equiano arrangement has the following elements:

	Transaction	Description	Significant accounting impact on the 30 September 2023 condensed consolidated interim financial statements
4.1	**Fibre pair right-of-use**	Google granted Openserve the right-of-use of a distinct fibre pair. The transaction contains a lease as defined in IFRS 16 which resulted in the recognition of a right-of-use asset and a corresponding lease liability. The lease is for a period of 15 years and the terms agreed upon resulted in Openserve having to pay for the lease in advance in the second half of the 2024 financial year and as such the lease liability as at 30 September 2023 is classified as a current liability.	Google handed over the fibre pair to Openserve in May 2023. A right-of-use asset as well as a corresponding lease liability of R994 million were recognised.
4.2A	**Cable landing station right-of-use**	Openserve granted Google the right to use a distinct space on its cable landing station. The lease period is for 15 years. The transaction met the classification criteria of an operating lease in accordance with IFRS 16. The terms of the arrangement requires Google to pay Openserve in advance for the use of the cable landing station and annually for the maintenance and operating costs. Google made the advance payment in May 2023 of USD3.6 million. USD3.4 million was recognised in deferred revenue and will be released to the statement of profit or loss and other comprehensive income as lease revenue on a straight-line basis over the lease period. USD0.2 million was recognised immediately in the statement of profit or loss and other comprehensive income as it related to the acquisition of permits. The maintenance and operating income are recognised as other income on an annual basis.	Openserve handed over the cable landing station to Google in April 2023. Cash and cash equivalents of R62 million has been recognised as well as deferred revenue of R62 million. The deferred revenue has been split between the current and non-current portion.
4.2B	**Grant of use of terrestrial network on system 1**	Openserve grants Google 50% terrestrial network capacity on the South African and Botswana border routes. The use of this network met the IFRS 15 revenue recognition criteria. The terms of the agreement provide that Google will pay Openserve USD17.7 million in advance for the use of the South African network and USD0.6 million in advance for the use of the Botswana border network, over a period of 15 years. The advance payment will be deferred and released to the statement of profit or loss and other comprehensive income as revenue over 15 years. In addition, a contract liability and trade receivable, adjusted for significant financing in terms of IFRS 15, were recognised for the advanced payment relating to the network. Refer to note 3.2.3 for the significant judgement applied in measuring the significant financing component. Google will pay annual maintenance and operating costs to Openserve, which are recognised as other income.	System 1 of the terrestrial network was provided to Google in June 2023. A trade receivable of R348 million was recognised in addition to R11.5 million cash and cash equivalents for the advance payment and R360 million as deferred revenue. The deferred revenue has been split between the current and non-current portion.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

4. Significant changes in the current reporting period continued

	Transaction	Description	Significant accounting impact on the 30 September 2023 condensed consolidated interim financial statements
4.2C	**Grant of use of submarine cable**	Openserve grants Google the use of its submarine network bandwidth capacity on the Eastern African Submarine Cable System (EASSy), West Africa Cable System (WACS) and South Atlantic 3 West Africa Submarine cable (S3WS) for an initial period of 15 years or the lifespan of the cable systems, whichever is shorter. The terms of the agreement provide that Google will pay Openserve in advance for the use of the cables. The advanced payment has been recognised as deferred revenue and will be released to the statement of profit or loss and other comprehensive income as revenue over 15 years. R42 million was recognised as an IFRS 9 financial liability for cables with a remaining life currently less than the 15 years as Openserve will have to refund that amount to Google if the cable life is not extended. In addition, Google will pay Openserve annually for maintenance and operating expenses, which are recognised as other income.	Openserve handed over the submarine cable and the services commenced in April 2023 (WACS and S3WS) and August 2023 (EASSy). R254 million was recognised as cash and cash equivalents for the advanced payment in addition to a R42 million financial liability and R212 million as deferred revenue. The deferred revenue has been split between the current and non-current portion.

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

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

Swiftnet forms part of the Gyro segment. In the current period, Swiftnet has been classified as a non-current asset held for sale and presented as a discontinued operation in the Group statement of profit or loss and other comprehensive income. The difference on financial statement line items between the segment and the statement of profit or loss and other comprehensive income relates to Swiftnet. Refer to note 16 for details.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

5. Segment information continued

September 2023	Openserve Rm	Telkom Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	IFRS 16 reversal Rm	Consolidated Rm
Revenue from external customers[1]	2 199	12 880	6 314	385	–	–	–	21 778
Revenue from contracts with customers recognised over time	2 145	11 129	4 671	–	–	–	–	17 945
Voice	–	2 667	1 057	–	–	–	–	3 724
Interconnection	119	247	–	–	–	–	–	366
Data	1 875	7 908	1 302	–	–	–	–	11 085
Information technology services	–	–	1 918	–	–	–	–	1 918
Customer premises equipment related services	–	48	359	–	–	–	–	407
Interest revenue	–	173	35	–	–	–	–	208
Sundry revenue	151	86	–	–	–	–	–	237
Revenue from contracts with customers recognised at a point in time	–	1 616	1 643	–	–	–	–	3 259
Customer premises equipment	–	1 600	127	–	–	–	–	1 727
Information technology hardware	–	–	1 516	–	–	–	–	1 516
Sundry revenue	–	16	–	–	–	–	–	16
Lease revenue	54	–	–	385	–	–	–	439
Insurance revenue	–	135	–	–	–	–	–	135
Intersegmental operating revenue	4 062	104	729	419	133	(5 051)	(396)	–
Other income	125	408	28	12	499	(618)	–	454
Total expenses	(4 396)	(11 395)	(6 338)	(220)	(527)	5 669	–	(17 207)
Cost of handsets, equipment, software and directories	–	(1 857)	(1 622)	–	–	169	–	(3 310)
Sales commission, incentives and logistical costs	–	(1 308)	–	–	–	–	–	(1 308)
Payments to other operators	(398)	(1 361)	(191)	–	–	233	–	(1 717)
Employee expenses	(1 313)	(562)	(1 667)	(57)	(238)	–	–	(3 837)
Other expenses[2]	(139)	(3 265)	(1 946)	(15)	(130)	4 351	–	(1 144)
Insurance service expense	–	(95)	–	–	–	–	–	(95)
Maintenance[2]	(984)	(1 292)	(523)	(14)	(44)	491	–	(2 366)
Marketing[2]	(14)	(319)	(58)	–	(2)	–	–	(393)
Impairment of receivables, contract assets and loans[2]	(45)	(716)	(112)	(5)	(11)	–	–	(889)
Service fees[2]	(1 413)	(579)	(206)	(127)	(89)	395	–	(2 019)
Lease-related expenses[2]	(90)	(41)	(13)	(2)	(13)	30	–	(129)
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	1 990	1 997	733	596	105	–	(396)	5 025
Depreciation, amortisation, impairments and write-offs								(2 819)
Operating profit								2 206
Investment income								84
Net finance charges and fair value movements								(980)
Profit before taxation								1 310
Other segment information								
Capital expenditure of property, plant and equipment and intangible assets	1 269	1 653	141	46	34	–	–	3 143

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

5. Segment information continued

Re-presented September 2022	Openserve Rm	Telkom Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	IFRS 16 reversal Rm	Consolidated Rm
Revenue from external customers[1]	1 953	12 609	6 308	368	–	–	–	21 238
Revenue from contracts with customers recognised over time	1 899	10 806	4 934	–	–	–	–	17 639
Voice	–	3 005	1 354	–	–	–	–	4 359
Interconnection	146	253	–	–	–	–	–	399
Data	1 672	7 255	1 380	–	–	–	–	10 307
Information technology services	–	–	1 903	–	–	–	–	1 903
Customer premises equipment related services	–	50	282	–	–	–	–	332
Interest revenue	–	151	15	–	–	–	–	166
Sundry revenue	81	92	–	–	–	–	–	173
Revenue from contracts with customers recognised at a point in time	–	1 715	1 374	–	–	–	–	3 089
Customer premises equipment	–	1 694	173	–	–	–	–	1 867
Information technology hardware	–	–	1 201	–	–	–	–	1 201
Sundry revenue	–	21	–	–	–	–	–	21
Lease revenue	54	–	–	368	–	–	–	422
Insurance revenue (refer to note 3.4)	–	88	–	–	–	–	–	88
Intersegmental operating revenue	4 481	196	688	451	412	(5 805)	(423)	–
Other income	141	354	23	6	252	(342)	–	434
Total expenses	(4 691)	(11 416)	(6 177)	(272)	(320)	6 147	–	(16 729)
Cost of handsets, equipment, software and directories	(7)	(2 061)	(1 345)	–	–	189	–	(3 224)
Sales commission, incentives and logistical costs	–	(1 170)	(13)	–	–	–	–	(1 183)
Payments to other operators	(335)	(1 328)	(224)	–	–	182	–	(1 705)
Employee expenses	(1 611)	(639)	(1 735)	(70)	(77)	–	–	(4 132)
Other expenses[2]	(589)	(3 612)	(2 133)	(14)	(80)	5 222	–	(1 206)
Insurance service expense (refer to note 3.4)	–	(78)	–	–	–	–	–	(78)
Maintenance[2]	(869)	(1 237)	(429)	(12)	(30)	424	–	(2 153)
Marketing[2]	(16)	(343)	(46)	(1)	(17)	–	–	(423)
Impairment of receivables, contract assets and loans[2]	(5)	(428)	(63)	(4)	–	–	–	(500)
Service fees[2]	(1 187)	(461)	(179)	(168)	(115)	160	–	(1 950)
Lease-related expenses[2]	(72)	(59)	(10)	(3)	(1)	(30)	–	(175)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	1 884	1 743	842	553	344	–	(423)	4 943
Depreciation, amortisation, impairments and write-offs								(3 549)
Operating profit								1 394
Investment income								57
Net finance charges and fair value movements								(553)
Profit before taxation								898
Other segment information								
Capital expenditure of property, plant and equipment and intangible assets	1 419	1 937	177	104	52	–	–	3 689

[1] *Revenue includes transactions generated by subsidiaries of BCX in countries outside of South Africa. These are however not considered material to the Group and are thus not disclosed separately. Group revenue increased marginally, driven by an increase in mobile service revenue, growth in fibre connections and an increase in customer premises equipment sales. This was partially offset by a decrease in fixed-line revenue due to continued migrations from legacy products and lower post-paid sales.*

[2] *In the current period, the selling, general and administrative expenses line item has been expanded to disclose the material income and expense line items in order to comply with the JSE proactive monitoring process in respect of the application of IFRS 8. The prior period segment has been re-presented for comparability purposes.*

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

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 as a whole.

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

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

6. Expenses

		Reviewed six months ended 30 September 2023 Rm	Re-presented six months ended 30 September 2022[1] Rm
6.1	**Sales commission, incentives and logistical costs**	**(1 308)**	(1 183)
	Sales commission, incentives and logistical costs increased due to growth in the commissionable base as a result of increased connections via commissionable channels.		
6.2	**Employee expenses**	**(3 837)**	(4 132)
	Employee expenses decreased mainly due to no provision for short-term incentives, lower total salaries as a result of unfilled vacancies and the impact of the internal organisational restructuring. Refer to 31 March 2023 financial statements for details.		
6.3	**Depreciation, amortisation and write-offs of non-financial assets**	**(2 784)**	(3 532)
	Depreciation of property, plant and equipment	**(1 733)**	(2 468)
	Depreciation of right-of-use assets	**(723)**	(609)
	Amortisation of intangible assets	**(313)**	(370)
	Write-offs and impairments of property, plant and equipment and intangible assets	**(15)**	(85)
	The decrease in depreciation, amortisation and write-offs and impairments of non-financial assets relates to the impact of the property, plant and equipment impairments arising from the impairment on the Openserve and Telkom cash-generating units (CGUs) that took place at March 2023. The Group reviewed its CGU's recoverable amounts and confirmed that for the period ended 30 September 2023, there was no further impairment or impairment reversals required.		
6.4	**Maintenance**	**(2 366)**	(2 152)
	Maintenance costs increased for the Group due to an increase in support contracts, end-to-end turnkey solutions and higher maintenance material costs.		
6.5	**Impairment of receivables, contract assets and loans**	**(884)**	(500)
	Impairment of receivables, contract assets and loans increased mainly due to an increase in impairment of receivables, which is largely as a result of the deterioration of the debtor's book due to a challenging economic environment and pressure on consumer disposable income.		
6.6	**Service fees**	**(1 948)**	(1 837)
	Service fees increased due to higher property management expenses as a result of higher diesel refuelling and standby generator costs associated with increased levels of loadshedding and higher costs on services rendered.		

[1] *Refer to* note 3.4.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

7. Earnings and dividend per share

Continuing operations	Reviewed six months ended 30 September 2023	Re-presented six months ended 30 September 2022[2]
Basic earnings per share (cents)	**161.5**	99.9
Diluted earnings per share (cents)	**157.2**	96.3
Headline earnings per share (cents)[1, 3]	**156.3**	101.2
Diluted headline earnings per share (cents)[1, 3]	**152.2**	97.5
Discontinued operation		
Basic earnings per share (cents)	**38.7**	31.7
Diluted earnings per share (cents)	**37.6**	30.6
Headline earnings per share (cents)[1]	**38.7**	31.7
Diluted headline earnings per share (cents)[1]	**37.6**	30.6

Reconciliation of weighted average number of ordinary shares:	Number of shares	Number of shares
Ordinary shares in issue	**511 140 239**	511 140 239
Weighted average number of treasury shares	**(25 040 739)**	(25 735 040)
Weighted average number of shares outstanding	**486 099 500**	485 405 199
Reconciliation of diluted weighted average number of ordinary shares:		
Weighted average number of shares outstanding	**486 099 500**	485 405 199
Expected future vesting of shares related to Group share scheme incentive plans	**13 401 479**	17 983 582
Diluted weighted average number of shares outstanding	**499 500 979**	503 388 781

Treasury shares
The Group holds 22 175 329 (30 September 2022: 25 062 168) treasury shares.

	Reviewed 30 September 2023 Rm		Restated 30 September 2022[3] Rm	
Continuing operations	**Gross**	**Net**	**Gross**	**Net**
Reconciliation between earnings and headline earnings:				
Profit for the period		**788**		487
Non-controlling interests		**(3)**		(2)
Profit attributable to owners of Telkom		**785**		485
Profit on disposal of property, plant and equipment and intangible assets	**(31)**	**(39)**	(43)	(58)
Write-offs and impairments of property, plant and equipment and intangible assets	**15**	**14**	85	64
Headline earnings		**760**		491
Discontinued operation				
Reconciliation between earnings and headline earnings:				
Profit for the period		**188**		154
Headline earnings		**188**		154

[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 1/2023 issued in this regard as well as the relevant requirements of IAS 33.*

[2] *Refer to* *note 3.4*.

[3] *Headline earnings has been restated for the prior period error detailed below which impacted headline and diluted headline earnings per share. The "As previously reported" column takes into account the re-presentation of the discontinued operation as referred to in footnote 2.*

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

7. Earnings and dividend per share continued

Restatement of prior period error

On 30 September 2022, the Group correctly calculated and accounted for tax in the Group statement of profit or loss and other comprehensive income. However, the Group incorrectly adjusted for tax on the headline earnings, relating to the profit on disposal of property, plant and equipment and intangible assets and write-offs and impairments of property, plant and equipment and intangible assets.

The tax impact of the profit on disposal of property, plant and equipment and intangible assets was incorrectly adjusted for as an impact to write-offs and impairments of property, plant and equipment and intangible assets, and the tax impact on the write-offs and impairment of property, plant and equipment and intangible assets was not accounted for when adjusting the headline earnings.

The accounting consequences of this incorrect tax adjustment was a R21 million overstatement of headline earnings that was used in calculating headline earnings per share and diluted headline earnings per share for the period ended 30 September 2022. The restatement only impacted the continuing operations.

The impact of this restatement on the aggregated amounts previously disclosed were:

	As at 30 September 2022		
	As previously reported	Restatement	Restated
Continuing operations (Rm)	Net	Net	Net
Reconciliation between earnings and headline earnings:			
Profit for the period	487	–	487
Non-controlling interests	(2)	–	(2)
Profit attributable to owners of Telkom	485	–	485
Profit on disposal of property, plant and equipment and intangible assets	(43)	(15)	(58)
Write-offs and impairments of property, plant and equipment and intangible assets	70	(6)	64
Headline earnings	512	(21)	491
Headline earnings per share (cents)			
Continuing operations	105.5	(4.3)	101.2
Discontinued operation	31.7	–	31.7
Total headline earnings	137.2	(4.3)	132.9
Diluted headline earnings per share (cents)			
Continuing operations	101.7	(4.2)	97.5
Discontinued operation	30.6	–	30.6
Total headline earnings	132.3	(4.2)	128.1

8. Capital additions and disposals

	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm
Property, plant and equipment		
Additions	1 907	5 518
Disposals	(27)	(29)
	1 880	5 489
Intangible assets		
Additions	1 190	1 883
Disposals	(2)	(50)
	1 188	1833

Finance charges of R25 million (31 March 2023: R61 million) were capitalised to property, plant and equipment and intangible assets in the current financial period.

The current period balances exclude additions of property, plant and equipment and intangible assets of R44 million and R2 million, respectively, relating to Swiftnet which has been classified as held for sale, refer to note 16.

Inclusive of Swiftnet for the six months ended 30 September 2023, total Group additions for property, plant and equipment and intangible assets were R3 143 million (30 September 2022: R3 689 million). The reduction in additions is largely due to the value of the new spectrum purchased in the current period being lower than the spectrum purchased in September 2022.

Property, plant and equipment of R1 082 million and intangible assets of R11 million were transferred to non-current assets held for sale. Refer to note 16.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

9. Net cash and cash equivalents

	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm
Cash disclosed as current assets	**3 416**	3 469
Cash and bank balances	**1 826**	2 120
Short-term deposits	**1 590**	1 349
Net cash and cash equivalents	**3 416**	3 469
Undrawn borrowing facilities	**4 553**	2 837

The current period net cash and cash equivalents is excluding the cash of the discontinued operation of Swiftnet of R169 million, refer to note 16, and the prior year net cash and cash equivalents is inclusive of the discontinued operation.

The increase in undrawn borrowing facilities is due to the repayment of R730 million previously utilised committed facility and the new facility of R1 billion signed during the period under review.

The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 30 September 2023, R4 billion (31 March 2023: R2.27 billion) of these undrawn facilities were committed by the banks. The R553 million uncommitted portion is subject to bank approval.

10. Taxation and deferred taxation

10.1 Taxation

	Reviewed six months ended 30 September 2023 Rm	Re-presented six months ended 30 September 2022[1] Rm
Taxation	**(264)**	(200)

[1] *Refer to note 3.4.*

The taxation expense increased mainly due to an increase in the Group's profit before tax, offset by a decrease in the Group's effective tax rate (ETR). The decrease in ETR is mainly due to an increase in non-taxable fair value accounting adjustments relating to IFRS 2 Share-based payment and a reduction in non-deductible depreciation on buildings due to the impairment of property that occurred during the 2023 financial year.

10.2 Taxation paid

	Reviewed six months ended 30 September 2023 Rm	Reviewed six months ended 30 September 2022 Rm
Taxation paid	**(259)**	(301)

Taxation paid in the current financial period is lower than in the comparative period due to a reduction in the Group's taxable income, the utilisation of tax losses and lower refunds of tax overpaid.

10.3 Deferred taxation

	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm
Deferred taxation balance is made up as follows:	**4 052**	4 064
Deferred taxation assets	**4 452**	4 304
Deferred taxation liabilities	**(400)**	(240)

The decrease in the net deferred tax asset (DTA) is attributable to the utilisation of the DTA that arose on the impairment of property, plant and equipment and intangible assets during the 2023 financial year, offset by an increase in the DTA on deferred revenue in relation to the Google Equiano arrangement (refer to note 4).

The Group considered the following factors in assessing whether it is probable that the Group will have future taxable profits against which the DTA can be utilised:

- It is expected that the circumstances resulting in the Group's tax losses will not continue and that no additional tax losses will arise within the next two to three years; and
- The Group has started realising the DTA that arose on the impairment of property, plant and equipment and intangible assets in financial year 2023. It is forecasted that the full DTA in relation to this impairment will be utilised within approximately seven years.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

10. Taxation and deferred taxation continued

10.4 Net income tax receivable

	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm
The income tax receivable is made up as follows:	68	77
Income tax receivable	87	79
Income tax payable	(19)	(2)

11. Financial risk management

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

11.1 Fair value measurement

11.1.1 Fair value of financial instruments

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

Type of financial instrument	Fair value at 30 September 2023 Rm	Valuation techniques	Significant inputs
Derivative assets	106	Discounted cash flows	Yield curves
Derivative liabilities	(114)		Market interest rates
Investment in FutureMakers entities	94	Discounted cash flows	Cash flow forecasts and market-related discount rates
Investment in equity fund	10	Discounted cash flows	Cash flow forecasts and market-related discount rates
Investment in first-party cell captive	7	Discounted cash flows	Cash flow forecasts and market-related discount rates
Interest-bearing debt	(14 838)	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 R147 million (30 September 2022: R321 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 foreign 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 to 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 credit losses (ECL) of these receivables. As at the reporting date, the carrying amount of such receivables, net of allowances, are not materially different from their calculated fair values. Fair values of quoted bonds are based on price quotations at the reporting date.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

11. Financial risk management continued

11.1 Fair value measurement continued

11.1.2 Fair value hierarchy

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

The different levels have been defined as follows:

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

	Hierarchy levels[1]	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm
Assets measured at fair value			
Derivative assets			
Forward exchange contracts	Level 2	**84**	45
Firm commitments	Level 2	**3**	21
Interest rate swaps	Level 2	**19**	15
Investment made by FutureMakers	Level 3	**94**	99
Investment in equity fund	Level 3	**10**	10
Investment in first-party cell captive	Level 3	**7**	7
Liabilities measured at fair value			
Derivative liabilities			
Forward exchange contracts	Level 2	**(49)**	(45)
Firm commitments	Level 2	**(65)**	(86)
Financial guarantees	Level 3	**–**	(11)
Liabilities measured at amortised cost			
Interest-bearing debt[2]	Level 2	**(14 838)**	(14 395)

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

[2] The carrying amount of interest-bearing debt is R14 804 million (31 March 2023: R14 356 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 fair value.

11.2 Liquidity risk management

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

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

- The Group continuously monitors the short and long-term liquidity needs, taking into consideration the cash balances, cash generated from operations as well as available borrowing facilities;
- The Group continues to generate positive cash flows from core business activities, evidenced by the positive cash generated from operating activities of R3 488 million for the period ended 30 September 2023 (30 September 2022: R2 094 million);
- In the current reporting period, the Group entered into new long-term borrowings, paid some of its short-term debt and increased its liquidity facilities to R4 553 million (31 March 2023: R2 837 million) in undrawn borrowing facilities; and
- The Group has cash and cash equivalents of R3 585 million (31 March 2023: R3 469 million).

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

	Carrying amount Rm	Contractual cash flows Rm	0 – 12 months Rm	1 – 2 years Rm	2 – 5 years Rm	>5 years Rm
Interest-bearing debt (note 12)	**14 804**	**20 016**	**4 071**	**4 621**	**7 999**	**3 325**

11.3 Interest rate risk management

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

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

	Average maturity	Notional amount Rm
2024		
Interest rate swaps outstanding		
Pay fixed and receive floating	**1.04 years**	**1 777**

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

11. Financial risk management continued

11.4 Foreign currency exchange rate risk management

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

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

Purchased	Foreign contract value m	Contract value Rm
2024		
Currency		
USD	131	2 452
EUR	8	169
Chinese yuan	70	194
		2 815

12. Interest-bearing debt

	Reviewed six months ended 30 September 2023 Rm	Restated 31 March 2023[1] Rm
Non-current interest-bearing debt	11 926	11 999
Local debt	11 899	11 948
Foreign debt	27	51
Current portion of interest-bearing debt	2 878	2 357
Local debt	2 804	2 308
Foreign debt	74	49

[1] *R680 million of the non-current portion and R113 million of the current portion of interest-bearing debt was incorrectly classified as foreign debt as at 31 March 2023. The loan is granted and repaid in South African rand and therefore has been restated accordingly as local debt. This has no impact on the statement of financial position and only impacts the disclosure within the notes.*

The current portion of interest-bearing debt of R2 878 million (31 March 2023: R2 357 million) at 30 September 2023 is expected to be repaid from available cash, operational cash flow or the issue of new debt instruments.

During the period, R8 749 million (30 September 2022: R3 274 million) debt was raised and R8 318 million (30 September 2022: R2 135 million) debt was repaid for the Group.

13. Provisions

	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm
Non-current provisions	334	368
Non-current employee-related provisions	282	321
Subsidiary defined benefit plans	4	8
Telephone rebates	278	313
Non-current non-employee-related provisions		
Other	52	47
Current provisions	923	1 893
Current portion of employee-related provisions	562	1 544
Annual leave	453	499
Telephone rebates	43	43
Bonus, termination packages and other benefits[1]	66	1 002
Current portion of non-employee-related provisions		
Other	361	349

[1] *The decrease in the current period is due to lower employee costs as a result of the retrenchment process that occurred in the prior period.*

Annual leave
In terms of the Group's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 22 - 30 days (31 March 2023: 10 - 30 days) which must be taken within a 12 - 19 month (31 March 2023: 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, with a 14th cheque payable to a certain group of employees.

Non-employee-related provisions
Other current provisions relate to the ICASA licence fee provision, onerous contracts, labour dispute and other general provisions.

Notes to the condensed consolidated interim financial statements continued

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14. Commitments

	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm
Capital commitments authorised	**3 539**	6 366
Commitments against authorised capital expenditure	**1 038**	1 964
Authorised capital expenditure not yet contracted	**2 501**	4 402

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.

15. Trade and other receivables and contract assets

15.1 Trade and other receivables

	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm
Trade and other receivables	**8 851**	9 314
Trade receivables	**6 491**	6 877
Gross trade receivables	**9 743**	9 785
Impairment of receivables	**(3 252)**	(2 908)
Prepayments and other receivables	**2 360**	2 437
Allowance account for expected credit losses – trade receivables	**3 252**	2 908
Opening balance as previously reported	**2 908**	2 296
Charged to statement of profit or loss and other comprehensive income	**767**	1 112
Receivables written off	**(423)**	(500)

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.

The gross trade receivables balance remained fairly constant. The decrease in net trade receivables is caused by the deterioration of the debtor's book evidenced by slow collection, resulting in higher ECL coverage ratio and amount.

Included in the allowance for impairment are individually impaired receivables with a balance of R392 million (31 March 2023: R169 million), which have been identified as being unable to service their debt obligation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the future cash flows. The Group does not hold any collateral over these balances.

15.2 Contract assets

	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm
Contract assets	**2 179**	2 440
Gross contract assets	**2 687**	2 948
Impairment of contract assets	**(508)**	(508)
Allowance account for expected credit losses – contract assets	**508**	508
Opening balance as previously reported	**508**	496
Charged to statement of profit or loss and other comprehensive income	**117**	116
Contract assets written off	**(117)**	(104)

Contract assets have decreased from the prior year due to the sale of the handset book for R832 million to financial institutions and offset by an increase in sales.

Sale of contract assets

Telkom recognised a derecognition gain of R86 million (30 September 2022: R106 million) within other income in the statement of profit or loss and other comprehensive income. Telkom will continue to explore similar initiatives to improve cash flow.

Per the arrangements, Telkom retains the contractual right to receive cash flows, and has assumed a contractual obligation to pay the 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 portfolio was derecognised in its entirety as significant risks and rewards were transferred. The total cash inflow related to the derecognition is included in cash flows from operating activities in the statement of cash flows.

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

Notes to the condensed consolidated interim financial statements continued

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16. Non-current asset held for sale and discontinued operation

During the 2023 financial year, as part of the Telkom group value unlock for shareholders strategy, the Telkom Board approved for the commencement of the process of disposal of Swiftnet SOC Ltd (Swiftnet), a 100% owned subsidiary. Swiftnet is a Masts and Towers business with multi-tenant leases on existing and new towers. Swiftnet also owns an electronic communications network licence and is one of the leading tower companies in South Africa.

Non-current assets held for sale classification

The Value Unlock Strategy is aimed at, amongst others, realising the intrinsic value of the underlying business in the Telkom Group. The disposal of Swiftnet will result in loss of control of the subsidiary. During the period ended 30 September 2023, management considered it highly probable that the structure of the Swiftnet disposal is unlikely to change significantly, and that the transaction will be concluded within 12 months and therefore Swiftnet met the IFRS 5 held for sale criteria. Consequently, the Swiftnet assets and liabilities have been classified as held for sale. Refer to note 3.2.2 for the significant judgements applied in assessing the IFRS 5 conditions to be classified as held for sale. In line with IFRS 5 requirements, the statement of financial position and the statement of cash flows have not been re-presented for prior periods to reflect the classification as held for sale.

Discontinued operation assessment

In addition to being classified as held for sale, it was confirmed that Swiftnet is a separate component of Telkom and represented a separate major line of business. Consequently, it meets the requirements to be a discontinued operation. This resulted in Swiftnet's operating results (revenue and expenses) being separately disclosed as a single line item in the consolidated statement of profit or loss and other comprehensive income. The comparative statement of profit or loss and other comprehensive income has been re-presented accordingly for the discontinued operation.

Statement of profit or loss and other comprehensive income	Reviewed six months ended 30 September 2023 Rm	Reviewed six months ended 30 September 2022 Rm
Operating revenue	371	359
Other expenses	(5)	(7)
Maintenance	–	(1)
Impairment of receivables	(5)	–
Service fees	(71)	(113)
Lease-related expenses	(2)	(2)
EBITDA	288	236
Depreciation of property, plant and equipment	(20)	(9)
Depreciation of right-of-use assets	(12)	(8)
Amortisation of intangible assets	(3)	–
Operating profit	253	219
Investment income	10	–
Net finance charges and fair value movements	(5)	(8)
Profit from discontinued operation before taxation	258	211
Taxation	(70)	(57)
Profit from discontinued operation[1]	188	154

[1] *Presented net of intercompany transactions between Swiftnet and other Telkom Group entities.*

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

16. Non-current asset held for sale and discontinued operation continued

Statement of financial position	Reviewed six months ended 30 September 2023 Rm
The carrying amounts of assets and liabilities in this disposal group are summarised as follows:	
Assets	
Non-current assets	**1 240**
Property, plant and equipment	1 082
Right-of-use assets	147
Intangible assets	11
Current assets	**347**
Trade and other receivables	176
Cash and cash equivalents	169
Income tax receivable	2
Assets included in disposal group classified as held for sale	**1 587**
Liabilities	
Non-current liabilities	**162**
Lease liabilities	124
Deferred taxation	38
Current liabilities	**169**
Trade and other payables	133
Lease liabilities	35
Provisions	1
Liabilities included in disposal group classified as held for sale	**331**

Statement of cash flows	Reviewed six months ended 30 September 2023 Rm	Reviewed six months ended 30 September 2022 Rm
Cash flows generated by Swiftnet for the reporting period under review are as follows:		
Cash flows from operating activities	(150)	233
Cash flows utilised for investing activities	(80)	(162)
Cash flows from financing activities	(9)	(6)
Net (decrease)/increase in cash and cash equivalents from discontinued operation	**(239)**	65
Net cash and cash equivalents at 1 April	408	342
Net cash and cash equivalents at the end of the period of the discontinued operation	**169**	407

Notes to the condensed consolidated interim financial statements continued

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17. 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 2023 financial statements.

High court
Radio Surveillance Security Services (RSSS)
On 27 August 2020, RSSS served a new summons on Telkom based largely on the same events which gave rise to its previous unsuccessful action. RSSS is claiming the return of 444 disputed alarm systems, alternatively payment of R210 million and a payment of R319 million for alleged outstanding rentals for the disputed alarm monitoring systems. Pleadings have closed in the matter. Telkom is in the process of applying for security for costs against RSSS, and has placed RSSS into provisional liquidation.

Class action against Telkom and Mutual and Federal Risk Financing Ltd
During June 2021, Telkom received a High Court application to certify a class action against it. The application arises from minor billing discrepancies on device insurance premiums relating to VAT. Mutual and Federal Risk Financing Ltd acts as underwriter for the device insurance and has also been cited in the court proceedings. Telkom has filed its answering affidavit in the application, and will continue to take the necessary steps to oppose the certification of the class.

Phutuma Networks (Pty) Ltd (Phutuma)
In August 2009, Phutuma served a summons on Telkom claiming damages in the amount of R5.5 billion, arising from a tender published by Telkom in November 2007. The High Court granted absolution from the instance in Telkom's favour. The Supreme Court of Appeal (SCA) had initially dismissed Phutuma's application for leave to appeal in October 2014. On 4 November 2014, the SCA rescinded its order granted in October 2014. In early 2015, the SCA referred the application for leave to appeal back to the full bench of the North Gauteng High Court. The leave to appeal was heard in September 2016 and was upheld. The matter now needs to be re-enrolled for trial. To date, Phutuma has failed to set down the matter for hearing before the same judge who granted absolution. Telkom has proposed that the matter begins anew before another judge. Telkom has not heard from Phutuma and it has taken no further steps to advance the litigation since 2016.

Masstores (Pty) Ltd (Masstores)
During November 2021, Masstores (a subsidiary of Massmart Ltd) launched arbitration proceedings against BCX claiming for damages in the amount of approximately R160 million as a result of alleged breach of contract. BCX has filed its statement of defence and counterclaims. Pleadings have now closed and the parties will meet to discuss the further conduct of the matter.

Government Gazette authorising SIU investigation into Telkom
On 19 July 2023, the Pretoria High Court handed down judgment setting aside the Presidential Proclamation 49 of 2022 (the "Proclamation"). The Proclamation gave the SIU authority to investigate various matters including the contracting for network and advisory services, and the disposal of former Telkom subsidiaries. The Pretoria High Court declared both the Proclamation and the SIU investigation into Telkom as unconstitutional, invalid and of no force or effect. The President of the Republic of South Africa and the SIU have filed application for leave to appeal the judgment, which will be heard on 27 November 2023.

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.

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for the period ended 30 September 2023

18. Related parties

	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm	Reviewed six months ended 30 September 2022 Rm
Related parties			
Details of material transactions and balances with related parties not disclosed separately in the condensed consolidated interim financial statements were as follows:			
With shareholders:			
Government of South Africa			
Related party balances			
Finance lease receivables	**242**	248	184
Trade receivables	**957**	1 253	995
Impairment of trade receivables	**(170)**	(217)	(280)
Related party transactions			
Revenue	**(2 180)**	(4 748)	(2 174)

At 30 September 2023, the Government of South Africa held 40.5% (31 March 2023: 40.5%) of Telkom's shares and had the ability to exercise significant influence, and the Public Investment Corporation held 15.63% (31 March 2023: 15.63%) of Telkom's shares.

	Reviewed six months ended 30 September 2023 Rm	Restated 31 March 2023[1] Rm	Restated six months ended 30 September 2022[1] Rm
With entities under common control:			
Major public entities			
Related party balances			
Finance lease receivables	**111**	116	56
Trade receivables	**567**	761	335
Impairment of trade receivables	**(332)**	(142)	(177)
Trade payables	**(1)**	–	–
Related party transactions			
Revenue (excluding lease income)	**(402)**	(1 003)	(133)
Operating expenses (excluding lease expense)	**130**	243	140
Lease income	**(20)**	(39)	(16)
Lease expense	**19**	41	19

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

	Reviewed six months ended 30 September 2023 Rm	Audited 31 March 2023 Rm	Reviewed six months ended 30 September 2022 Rm
Key management personnel compensation (including Directors and Prescribed Officers' remuneration):			
Related party transactions			
Short-term employee benefits	**119**	192	140
Post-employment benefits	**6**	14	8
Termination benefits	**–**	22	1
Equity compensation benefits	**(26)**	51	27

Terms and conditions of transactions with related parties

Except as indicated above, outstanding balances at 30 September 2023 are unsecured, include interest and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Except as indicated above, for the period ended 30 September 2023, the Group has not impaired any of the amounts owed by the related parties. This assessment is undertaken in each financial period through examining the financial position of the related party and the market in which the related party operates.

Notes to the condensed consolidated interim financial statements continued

for the period ended 30 September 2023

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

	Reviewed six months ended 30 September 2023 Rm	Re-presented six months ended 30 September 2022[1] Rm
Reconciliation of profit before tax to cash generated from operations		
Cash generated from operations[2]	**4 524**	2 847
Profit before tax	**1 310**	898
Finance charges and fair value movements	**980**	553
Investment income	**(84)**	(57)
Interest received from trade receivables	**(105)**	(44)
Non-cash items	**3 541**	3 487
Depreciation, amortisation, impairment and write-offs	**2 820**	3 549
Increase in expected credit loss provision	**343**	100
Bad debts written off	**546**	400
Decrease in provisions	**(937)**	(631)
Insurance revenue	**(135)**	(88)
Insurance service expenses	**95**	78
Reversal of FutureMakers impairment	**–**	(10)
Gain on termination of leases	**(5)**	(9)
Profit from disposal of property, plant and equipment	**(31)**	(43)
Gain on sale of contract assets	**(86)**	(106)
Foreign exchange movements	**109**	204
Share-based payment expenses	**5**	89
Movement in deferred revenue	**817**	(46)
Movement in working capital	**(1 118)**	(1 990)
Movement in inventories	**(41)**	(221)
Increase in trade receivables, contract assets, finance lease receivables and other receivables	**(350)**	(976)
Decrease in trade and other payables and prepayments	**(727)**	(793)

[1] *Re-presented for IFRS 17 adoption, refer to note 3.4 for details.*

[2] *This includes Swiftnet's negative cash generated from operations of R150 million (September 2022: R233 million – positive). In the current period, Swiftnet has been disclosed as a non-current asset held for sale, refer to note 16.*

20. Significant events and transactions

Appointment of a single external auditor

On 12 July 2023, Telkom announced the proposed appointment of PricewaterhouseCoopers Inc. as the single auditor of the Group for the financial year ending 31 March 2024. The appointment was subsequently approved at the annual general meeting held on 24 August 2023.

Results of the Telkom annual general meeting regarding Directors reappointments

On 24 August 2023, the following Board members were elected or re-elected as per the annual general meeting ordinary resolutions:

- N Ford-Hoon
- MG Qhena
- O Ighodaro
- PCS Luthuli
- KA Rayner
- SP Sibisi
- LL Von Zeuner

Resignation of Non-executive Directors

Telkom announced on 6 September 2023 that Ms Ford-Hoon, an Independent Non-executive Director, had resigned from the Board with effect from 6 September 2023.

Telkom announced on 29 September 2023 that Mr Mteto Nyati, an Independent Non-executive Director, had resigned from the Board with effect from 29 September 2023.

Resignation and appointment of Group CFO

Telkom announced on 29 September 2023 the appointment of Ms Nonkululeko Dlamini as the Group CFO and an Executive Director with effect from 1 December 2023. Mr Dirk Reyneke, the incumbent Group CFO will be stepping down from the Board with effect from 30 November 2023 and will assume the role of Chief Capital Projects Officer within the Company.

Appointment of Acting Group Company Secetary

On 29 August 2023, Mr Karabelo Mosia was appointed as Acting Group Company Secretary of Telkom with effect from 1 September 2023 to 30 November 2023. This follows the resignation of Ms Ayanda Ceba as disclosed in the 31 March 2023 annual financial statements.

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for the period ended 30 September 2023

20. Significant events and transactions continued

Classification of Swiftnet SOC Ltd (Swiftnet) as a non-current asset held for sale
As part of the Value Unlock Strategy, the Board has resolved to dispose of its investment in Swifnet. The disposal of Swiftnet will result in loss of control of the subsidiary. During the period ended 30 September 2023, management considered it highly probable that the structure of the Swiftnet disposal is unlikely to change significantly, and that the transaction will be concluded within 12 months and therefore Swiftnet met the IFRS 5 held for sale criteria.

21. Events after the reporting date

Appointment of Group Company Secretary
Telkom announced on 30 October 2023 that Ms E Motlhamme has been appointed as Group Company Secretary with effect from 1 December 2023.

BCX and Alibaba Cloud partnership
On 5 October 2023, BCX launched the Africa Local Public (ALP) Cloud, powered by Alibaba Cloud, in two data centres in Johannesburg. This comes after BCX signed an exclusive distribution contract with Alibaba Cloud during the 2023 financial period, which grants BCX exclusive right and authority to distribute Alibaba Cloud's products and services in South Africa. The parties plan to expand the ALP Cloud into other African countries, with the Mozambique planned expansion underway to be launched later in the year. BCX expects that the partnership will reach its true potential in 3 to 5 years.

Alibaba Cloud offers a broad range of cloud computing products and several industry solutions. In addition, Alibaba also provides access to technologies such as generative artificial intelligence (AI).

Other matters
The Directors are not aware of any other matter or circumstance since the financial period ended 30 September 2023 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.

Abbreviations

ARPU	Average revenue per user
BCX	Business Connexion (Pty) Ltd
BEPS	Basic earnings per share
BU	Business unit
CAPEX	Capital expenditure
CFO	Chief Financial Officer
CGU	Cash-generating unit
CODM	Chief operating decision maker
EBITDA	Earnings before investment income and finance cost, tax, depreciation, amortisation and write-offs, impairments and losses
ECL	Expected credit loss
ETR	Effective tax rate
EXCO	Group Executive Committee
FECs	Forward exchange contracts
FTTH	Fibre to the home
HEPS	Headline earnings per share
IAS	International Accounting Standard
ICASA	Independent Communications Authority of South Africa
ICT	Information and communications technology
IFRS	International Financial Reporting Standards
ISRE	International Standards on Review Engagements
IT	Information technology
JSE	Johannesburg Stock Exchange
NGN	Next-generation network
SMB	Telkom Small and Medium Business
SMME	Small Medium Macro Enterprise
SIU	Special Investigating Unit
USD	United States dollar

Administration

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BCX

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