2020

Telkom SA SOC Limited

Group Abridged Annual Results

for the year ended 31 March 2020

Telkom SA SOC Ltd

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

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

Special note regarding forward-looking statements

Many statements in this document, and verbal statements that may be made by Telkom or by officers, directors or employees acting on Telkom's behalf, constitute or are based on forward-looking statements.

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

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

Any forward-looking financial information disclosed in these group annual results for the year ended 31 March 2020 (the "results announcement") has not been reviewed or audited or otherwise reported on by our external joint auditors.

Pro forma information

Certain financial information presented in this results announcement constitutes pro forma financial information in terms of the JSE Listings Requirements. This is presented for illustrative purposes only.

Because of its nature, the pro forma financial information may not fairly present Telkom's financial position, changes in equity and results of operations or cash flows. The pro forma financial information is the responsibility of the board of directors of Telkom. The pro forma financial information contained in this results announcement was reported on by the group's joint independent external auditors. Their unmodified limited assurance report prepared in terms of ISAE 3420 is available for inspection at Telkom's registered office during office hours.

All financial information presented in the results announcement was prepared excluding the impact of the adoption of International Financial Reporting Standard (IFRS) 16 (Leases), the additional impairment of financial assets as a result of COVID-19, and voluntary early retirement package (VERP) and voluntary severance package (VSP) costs in the current period, and VERP, VSP and section 189 costs in the comparative period and the related tax impact on results and free cash flow (the "pro forma adjustments"). This constitutes pro forma financial information to the extent that it is not extracted from the segment disclosure included in the audited consolidated abridged financial statements for the year ended 31 March 2020. This pro forma financial information was presented to eliminate the impact of the pro forma adjustments from the audited consolidated abridged financial statements for the years ended 31 March 2019 and 2020 to achieve a comparable year-on-year analysis and show the underlying performance of the business. The pro forma adjustments were determined in terms of the group accounting policies disclosed in the audited consolidated abridged financial statements for the year ended 31 March 2020, except for the changes in accounting policies due to adopting the accounting pronouncements effective 1 January 2019.

Reported IFRS 16 March 2020 refers to financial information for the year ended March 2020 as included in the audited consolidated abridged financial statements.

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

The board of directors takes full responsibility for the preparation of this results announcement (including the pro forma financial information) that has been correctly extracted from the underlying audited financial statements.

The information contained in this document is also available on Telkom's investor relations website **www.telkom.co.za/ir**.

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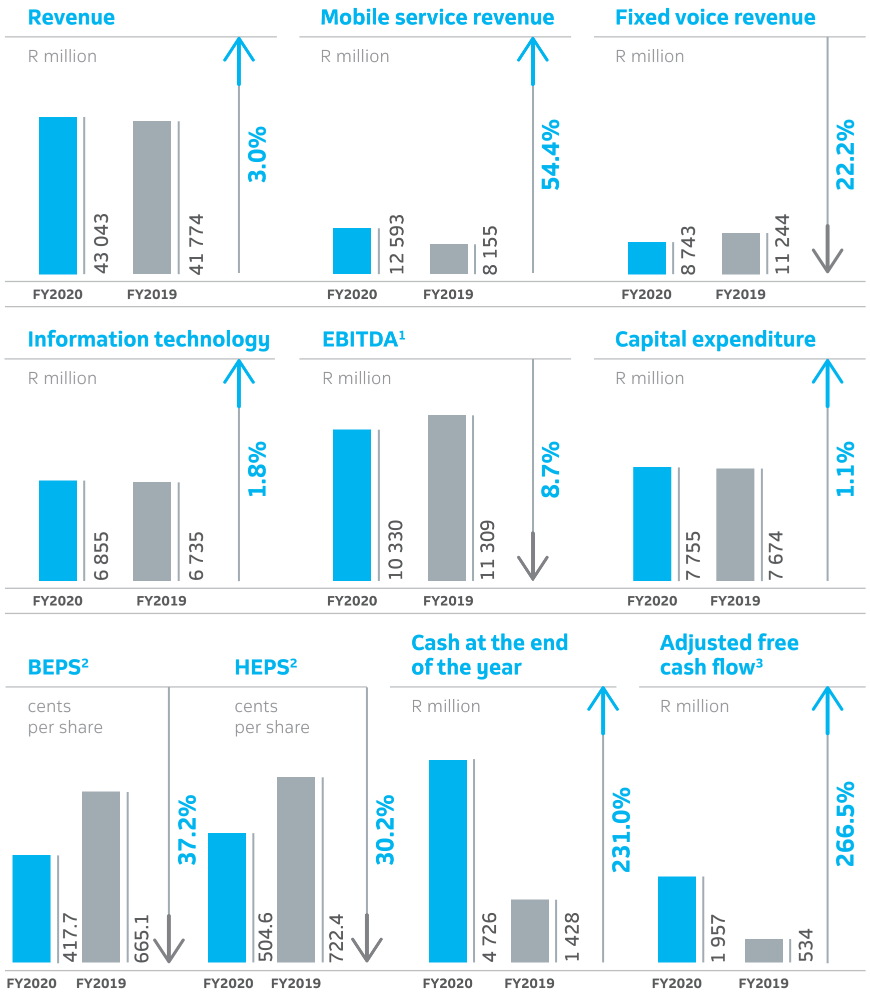
Key indicators

All commentary, messaging, and indicators in this report for the year ended 31 March 2020 are presented on an International Accounting Standard (IAS) 17 basis for comparative purposes and exclude VSP and VERP costs of R1 186 million and the related tax impact of R332 million and the additional impairment of financial assets as a result of COVID-19 of R626 million and the related tax impact of R175 million. FY2019 excludes VSP, VERP and section 189 costs of R728 million and the related tax impact of R215 million. Refer to page 46 for the IFRS-compliant audited consolidated abridged financial statements.



[1] *EBITDA as defined in the IFRS 8 segment note in the consolidated financial information and includes the pro forma adjustments. Refer to pages 5-7 for the reconciliation of the reported figures to the adjusted figures.*
[2] *Refer to pages 5-7 for the reconciliation of the reported figures to the adjusted figures.*
[3] *Excludes R175 million paid for VSP, VERP and section 189 costs during FY2020 and R566 million in the comparative year.*

Telkom structure

Telkom SA SOC Ltd represents Telkom group (Telkom or "the group"), which comprises Telkom company and its subsidiaries. The Telkom company comprises divisions, namely Openserve, Telkom Consumer and Telkom Small and Medium Business (SMB). Telkom group subsidiaries are BCX, Gyro and Yellow Pages (known as Trudon).

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

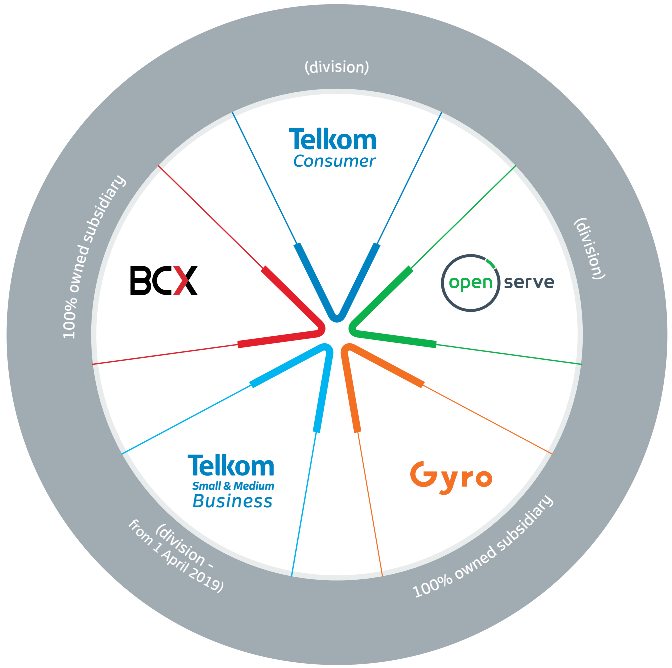
Openserve is South Africa's leading wholesale infrastructure connectivity provider with the largest open-access network across South Africa.

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

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

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

Telkom SMB The Competition Commission approved the sale of the 35.1% stake of Yellow Pages by minority shareholders to Telkom SOC (Pty) Ltd without conditions during the year. The business unit is now optimally resourced. The process of the financial separation is currently underway.



Adjustments and restatements

Restatements

In the current financial year, it was identified that certain BCX expenses were incorrectly classified on the statement of profit or loss and other comprehensive income for the year ended 31 March 2019. This was identified through a focused accounting records clean-up.

The error only impacted group. There was no impact on EBITDA, profit before tax, basic earnings per share and headline earnings per share. The previous accounting treatment had no impact on the statement of financial position as it only resulted in an overstatement of the other expenses line item and understatement of maintenance and costs of handset, equipment, software and other directories line items.

The 31 March 2019 comparative financial information was restated.

	Reported March 2019 Rm	Reclassification Rm	Restated March 2019 Rm
Cost of handset, equipment, software and directories	5 205	15	5 220
Reclassification		15	
Other operating expenses	3 153	(1 150)	2 003
Reclassification		(1 150)	
Maintenance	3 074	1 135	4 209
Reclassification		1 135	

Pro forma financial information

Certain financial information presented in this results announcement constitutes pro forma financial information in terms of the JSE Listings Requirements. The pro forma financial information is presented to assist the reader to analyse the underlying performance of the business.

The pro forma adjustments include the impact of the adoption of IFRS 16 (Leases) and the current and comparative period impact of VSP, VERP and section 189 costs of R1 186 million and the related tax impact of R332 million in FY2020 and R728 million and the related tax impact of R215 million in FY2019, and the additional impairment of financial assets as a result of COVID-19 of R626 million and the related tax impact of R175 million. Unless otherwise stated, the pro forma consolidated income statement and the pro forma consolidated cash flow statement and all related key performance indicators (KPIs) and messages in this results announcement are based on this adjusted base.

The applicable criteria on which this pro forma financial information is reported and prepared for the year ended 31 March 2020 are set out on the next page.

IFRS 16 impact

The group adopted IFRS 16 (Leases) with effect from 1 April 2019. The group has adopted the new standard retrospectively, but has not restated comparatives as permitted under the specific transitional provisions in the standard. Therefore, the prior periods are still reported under IAS 17. Below is the impact of the adoption of IFRS 16.

March 2020

The pro forma adjustments entail the impact of the adoption of IFRS 16 based on the audited consolidated abridged financial statements.

Extract of the audited consolidated abridged statement of profit and loss	Reported IFRS 16 March 2020 Rm	IFRS 16 impact Rm	IAS 17 March 2020 Rm
Lease expenses	478^	1 084^^	1 562^^
EBITDA	9 602	(1 084)	8 518
Depreciation	6 915	(954)	5 961
Operating profit	2 687	(130)	2 557
Finance charges	1 570	(368)	1 202
Profit before taxation	974	238	1 212
Taxation	366	67	433
Profit for the year	608	171	779
BEPS (cents)	121.1		155.5
HEPS (cents)	208.1		242.5

Extract of the audited consolidated abridged statement of the financial position	Reported IFRS 16 March 2020 Rm	IFRS 16 impact Rm	IAS 17 March 2020 Rm
Non-current assets	45 071	(4 502)	40 569
Non-current liabilites	14 767	(3 708)	11 059
Current liabilites	17 144	(1 067)	16 077
Net debt	12 054	(4 775)	7 279
Net debt to EBITDA (times)	1.3		0.7*

^ *Represents low-value and short-term leases as defined by IFRS 16.*
^^ *Represents lease expenses as defined by IAS 17.*
* *Refer to page 7 for the reconciliation of the reported figures to the adjusted figure.*

Pro forma adjustments

Additional impairment of trade receivables and contract assets due to COVID-19

COVID-19 impacted the last two weeks of FY2020. In line with the JSE and SAICA guidance, COVID-19 has been concluded as an adjusting post balance sheet event for companies with a year end of 31 March 2020. IFRS 9 requires that the impairment of trade receivables and contract assets be based on expected credit loss principles. This requires that we take a forward-looking view of macro-economic impact on debtors' behaviour.

The negative impact of COVID-19 on the South African economy is expected to put further pressure on consumers, with studies predicting that a number of customers are likely to default on their obligations as they fall due. As a result, Telkom took a prudent approach in line with the SAICA guidance by estimating an increase in default rates on the customer base, and this has been incorporated in the calculation of the group's expected credit losses.

Therefore, the group recognised a total provision of R1 140 million, of which R626 million is an additional impairment of trade receivables and contract assets due to the expected impact of COVID-19. The additional impairment is significantly impacted by the forward-looking assumptions used in calculating the expected credit losses to cater for the depressed economy. Notwithstanding the expected economic challenges, the group has not seen a deterioration in its debtors' book performance from March 2020 to May 2020 due to COVID-19.

VSP and VERP

Telkom announced phase one of the two-phase restructuring programme offering VSP and VERP to 2 271 employees at a cost of R1 186 million with a related tax impact of R332 million.

	IAS 17* March 2020 Rm	Pro forma adjustments		Pro forma IAS 17 March 2020 Rm
		VERP/VSP costs Rm	COVID-19 Rm	
Operating expenses				
Employee expenses	10 713	(1 186)		9 527
Impairment of receivables and contract assets	1 140		(626)	514
EBITDA	8 518	1 186	626	10 330
Profit before tax	1 212	1 186	626	3 024
Taxation	433	332	175	940
Profit for the year	779	854	451	2 084
BEPS (cents)	155.5			417.7
HEPS (cents)	242.5			504.6

March 2019

The pro forma adjustments for the prior year include the impact of the VSP, VERP and section 189 costs of R728 million and related tax impact of R215 million.

Extract of the audited consolidated abridged statement of profit and loss	Restated March 2019 Rm	Pro forma adjustment Rm	Pro forma March 2019 Rm
Operating expenses	22 295	(728)	21 567
Employee expenses	10 777	(728)	10 049
EBITDA	10 581	728	11 309
Operating profit	4 767	728	5 495
Taxation	1 176	215	1 391
Profit for the year	2 831	513	3 344
BEPS (cents)	561.9		665.1
HEPS (cents)	619.2		722.4

Segment reporting

Segment reporting is provided on page 78 as part of the notes to the financial statements. The current year's segmental information excludes the impact of the adoption of IFRS 16.

At a group level, the impact of IFRS 16 is a decrease of R1 084 million on lease expenses, and an increase in the depreciation and finance charges increased by R954 million and R368 million respectively.

Results from operations

The group profit after tax decreased to R2 084** million (FY2019: R3 344** million). This is mainly attributable to lower EBITDA due to the impact of the fixed voice revenue decline of 22.2% on group EBITDA and the increase in finance charges and fair value movements resulting in a 30.2%** decrease in adjusted HEPS.

** Based on information for the current year excluding the impact of IFRS 16 for comparative purposes as defined on page 5.*
*** Refer to pages 5-7 for the reconciliation of the reported figures to the adjusted figures.*

COVID-19 response

Adopted the principle of saving lives and livelihoods, Telkom is prioritising the health and safety of its workforce. The group has taken a dynamic approach to the COVID-19 pandemic, which continues to disrupt every aspect of our daily lives and business operations. We proactively designed and implemented several precautionary measures to mitigate the risk and lessen the impact of the COVID-19 pandemic, focusing on the wellbeing and safety of employees; continuity of supply and service to customers; supply chain, infrastructure and network; information and cyber security; and liquidity.

Safety of our employees

Telkom's focus is and will always be on the wellbeing of its employees, with approximately 80% being empowered to productively work from home.

The global COVID-19 pandemic has forced us to embrace the centrality of technological advancements. The way we connect, communicate and conduct business has forever been altered.

Amid troubled times, we need to ensure full engagement from every team member, whether working from home or on the field, while reducing the stress that tomorrow may bring.

Telkom is not only providing safety gear for essential staff, but also increased education and awareness to those working from home. Telkom has an internal dashboard to track all internal positive cases. Employees have access to a dedicated COVID-19 portal which keeps all employees up to date with COVID-19 developments. Additionally, employees have access to a dedicated COVID-19 helpline to report any possible infection. Employees get free screening and testing, and should they test positive, employees also get case management through our partner, ICAS, to ensure they get the best care possible.

While 80% of our workforce can work effectively from home, our frontline employees and field service technicians continue to serve customers, and therefore are constantly exposed to the risk of transmission, especially considering the rising COVID-19 cases in South Africa. Understanding the seriousness of both the disease and the risk our essential members are facing, Telkom is supplying all necessary Personal Protective Equipment (PPE), such as face masks, face shields, gloves, sanitiser, personal thermometers and Hazmat suits for our field technicians.

The world is living in trepidation, surrounded by uncertainty as COVID-19 continues to loom, and with no vaccine as of yet. At Telkom, concerns over low productivity, high absenteeism, a growing fear to engage with service providers, and the psychological impact the pandemic may have on employees is not a far-off reality.

Telecommunications is an essential service

It is a time of uncertainty, but it is also a time when the work we are doing is most critical. When President Cyril Ramaphosa first announced the nationwide lockdown in March, telecommunications was declared an essential service in South Africa. As an essential service and as one of the largest telecommunications companies in South Africa, the country has been looking to us to provide support and keep them connected. Our supply chain remained resilient during the lockdown period.

We assessed the adequacy of current inventory levels for short-term and medium-term consumption. Identifying strategic suppliers to ensure higher priority from them and reviewed suppliers' business continuity plans. We identified single source suppliers and accelerated qualification of new suppliers for alternative sources of supply. Telkom also mapped its high-risk supplier footprint to manage global supply shortages caused by COVID-19.

How Telkom is managing increased demand

The COVID-19 pandemic is fast-tracking digital transformation in companies. Businesses need to quickly adapt or risk redundancy during the lockdown. Telkom has seen a surge in fixed and mobile network traffic for our telecommunications services due to more people working from home. Fortunately, Telkom has a scalable network and enough redundancy to manage the increase in demand. The significant investments we have made in modernising the network, including fibre backhaul, have enabled us to carry more traffic on our network and provided a resilient system to support growing demand. Telkom's mobile footprint capacity has been improved with new sites and increased radio capacity on existing sites. The assignment of additional spectrum, on a temporary basis, enabled us to alleviate congestion in certain sites.

In response to COVID-19, we enhanced our broadband-led propositions across our customer segments. We took advantage of our existing copper network, where we launched broadband on copper services and utilised spare capacity ports to cater for individuals working from home and for students engaging in distance online learning with aggressive price points to ensure customers have access to broadband where it is both available and viable. For the national lockdown, we scaled up our digital platforms as stores were closed.

We launched the Telkom business e-commerce platform. This allowed business customers to purchase Telkom connectivity products online 24/7. We managed to successfully launch the platform with the help of various logistics partners and our very own Openserve for fibre-related products. This goes to show how the role of technology has changed since the start of the outbreak, and as each day passes our dependency on technological innovation grows.

Telkom, supporting a nation through crisis

To assist the government in its objective to contain the virus, Telkom set out on many initiatives to help combat the effects of the virus on the economy and on society. We began developing the novel track-and-trace COVID-19 system, after partnering with the National Institute for Communicable Diseases, and donated 1 500 devices and data to the Department of Health to assist with track and trace. We zero-rated educational sites of institutions of higher learning and expanded free high school learning content through our BCXLearn platform.

Telkom further pledged R15 million and formed a disaster relief fund that supports the Red Cross in support of our unsung heroes – the frontline healthcare workers. Over and above this, we managed to convey the importance of contributing to the COVID-19 pandemic, relaying the detrimental effect it is having on communities, economies, and health systems. The public took notice and the group has seen an increase in contributions as donations are being made via SMS.

Our "new normal" going forward

As we embrace our "new normal", we must come to terms with the fact that the pandemic has not only disrupted our lives but permanently changed the way the world operates. We will continue to do everything in our power to support our people and our country. As global conditions shift, we will swiftly respond to changing market dynamics, minimising impacts to our business and disruptions to our customers who depend on us.

Overview of our business

Telkom announced its group annual results for the year ended 31 March 2020 on 22 June 2020 in Centurion, South Africa.

Message from group chief executive officer (GCEO)

Sipho Maseko

Telkom operates in a constantly evolving environment where advances in technology and changing customer needs are impacting traditional revenue streams and requiring the business to transform for long-term growth. Our group performance depicts the evolution of technologies and revenue mix. Notwithstanding the decline in our fixed business that impacted EBITDA, Telkom delivered solid performance with the mobile business driving growth, FCF improved threefold and our balance sheet strengthened.

Operating environment

This year was characterised by a tough economic environment where we saw the country slipping into a technical recession in the fourth quarter of the year. The President of South Africa declared a national state of disaster in response to the unprecedented COVID-19 pandemic in the fourth quarter of the year. In the reporting period, the Competition Commission's data market enquiry affirmed that the South African market is a duopoly with no effective competition. The finding and recommendations have changed pricing in the lower price bands to enable greater access.

The policy on high demand spectrum was published in the first half of the financial year providing much needed clarity for the sector. While we await the Independent Communications Authority of South Africa (ICASA) to give effect to the policy, the market has proceeded with spectrum sharing agreements that have changed the nature of spectrum access. Telkom benefited from the emergency spectrum assignment to support increased broadband demand brought about by South Africa's national lockdown in response to COVID-19. The spectrum is assigned temporarily to be returned no later than three months after the country's lifting of the national lockdown.

Performance overview

Our group performance depicts the evolution of technologies and revenue mix. Group revenue grew 3.0% to R43.0 billion despite a 22.2% decline in fixed voice revenue. The ongoing capex investment enabled Telkom to grow new revenue streams and showed growth in evolving technology, offsetting the traditional business decline. Mobile, information technology (IT) and masts and towers contributed positively to group revenue. Capex of R7.8 billion, with capex to revenue of 18.0%, underpins revenue growth. We focused our investment programmes on key growth areas and we are seeing good returns, with mobile service revenue increasing by 54.4% and the connectivity rate for fibre to the home (FTTH) improving from 38.4% in the prior year to 48.2% in the current year – the highest in the market.

The mobile business grew 54.4% in service revenue from a higher base to R12.6 billion to remain the fastest growing mobile business in South Africa with 12 million customers. This was underpinned by our ongoing network investment and successful broadband-led proposition, which continue to resonate well with customers. Despite ongoing competitive threats with changes implemented by our competitors in the mobile space, our broadband-led propositions are market leading being best in class for value and effective pricing. The mobile business remains profitable, with its EBITDA margin improving from 1.4% to 14.9%* over the past three years.

BCX IT business contributed positively to group revenue, despite the challenging economic environment BCX operates in. The performance was supported by the drive to grow the industry-specific owned intellectual property (IP).

The strategy to separate our property and masts and towers portfolio to increase management focus and unlock value for the group continues to be successful. Gyro contributed positively to the group revenue, driven by our masts and tower portfolio as the demand for external leases increases.

Our challenge for the year was the impact of the fixed voice revenue on group EBITDA as the decline intensified. The growth in new revenue streams was not sufficient to offset the decline caused by high margin fixed voice on group EBITDA. Over time, as the revenue mix evolves, we expect the contribution from the fixed voice revenue to reduce and the contribution from the mobile business, with improved EBITDA, to increase and offset the impact of fixed voice on group EBITDA.

Until we reach this inflection point, management will focus on sustainable cost management which includes the benefits of the restructuring programme and other levers to ensure that we offset the gap caused by the decline in fixed voice.

In line with this technology shift, the business requires a new skill set to respond to customer needs. Telkom offered VSP and VERPs to 2 271 employees at a cost of R1 186 million in the current year. 75% of the employees took early retirement packages. There were no retrenchments in the current year.

To mitigate the pressure on free cash flow (FCF), Telkom implemented working capital optimisation initiatives. I am pleased that, despite the margin pressure experienced, our FCF improved three-fold to R2.0 billion compared to the previous year, the best FCF performance in several years. We will continue to focus on Telkom's liquidity during the tough trading environment.

During the year we strengthened our balance sheet, refinancing debt at a cheaper rate and repaying maturing debt totalling R1.2 billion. As a result, our gearing improved in the second half of the year, with net debt to EBITDA reducing to 0.7x** (1.3x on a reported basis). The Net debt to EBITDA ratio was also positively impacted by the liquidation of the short-term investment of R1.5 billion to fund phase one of the restructuring programme, and a significant improvement of approximately R1.4 billion in our FCF compared to the prior year.

Sipho Maseko
Group chief executive officer

* *Excludes the impact of IFRS 16, VSP and VERP costs and the additional impairment of trade and receivables and contract assets as a result of COVID-19.*

** *Refer to pages 5-7 for the reconciliation of the reported figures to the adjusted figures.*

Overview of our business
Financial capital

Key features

Financial information summary	Reported IFRS 16 March 2020 Rm	Pro forma* IAS 17 March 2020 Rm	Pro forma* March 2019 Rm	Variance** %
Revenue	43 043	43 043	41 774	3.0
EBITDA	9 602	10 330	11 309	(8.7)
EBITDA margin (%)	22.3	24.0	27.1	(3.1)
Capex	7 755	7 755	7 674	1.1
FCF	1 782	1 957	534	266.5
Net debt	12 054	7 279	8 813	17.4
BEPS (cents)	121.1	417.7	665.1	(37.2)
HEPS (cents)	208.1	504.6	722.4	(30.2)
Net debt to EBITDA (times)	1.3	0.7	0.8	0.1
Final dividend (cents)	50	50	249	(79.9)

Group revenue growth driven by the mobile business

Group revenue increased by 3.0% to R43 043 million, mainly driven by a 54.4% increase in mobile service revenue underpinned by accelerated capital investment and the mobile broadband-led proposition.

The growth in group revenue was partially offset by the fixed business, where fixed business revenue declined by 13.5%. This was impacted by the migration of customers to new technologies. Within the fixed business, we are seeing good revenue growth in the next-generation technologies, albeit from a lower base and not yet sufficient to offset the decline in the traditional business. The revenue from the next-generation technologies is at a lower price point and requires a significant increase in traffic to make up for the price differential – in certain instances we need 2 to 2.5 times more traffic.

Group EBITDA impacted by the decline in fixed voice business

On a pro forma IAS 17 basis, group EBITDA decreased by 8.7%* to R10 330* million, with an EBITDA margin of 24.0%*. The impact of the fixed voice revenue decline was not offset by the growth in new revenue streams. This is attributable to the change in the revenue mix as high margin fixed business is replaced by new revenue streams at lower margins.

Notwithstanding the impact of fixed voice revenue on group EBITDA, management contained the growth in operating expenses at below inflation as the benefits of the headcount restructuring programme implemented in the previous year were realised, despite an average annual salary increase of 6% implemented on 1 April 2019. Direct expenses relating to mobile business were optimised from 52.6% direct cost to revenue ratio reported in the first half to 44.3% in the second half of the year resulting in improved mobile business profitability.

* *Refer to pages 5-7 for the reconciliation of the reported figures to the adjusted figures.*
** *Pro forma IAS 17 March 2020 vs pro forma March 2019.*

Group HEPS mainly impacted by once-off items

Reported HEPS decreased 66.4% to 208.1 cents per share and reported BEPS decreased 78.4% to 121.1 cents per share impacted by once off costs relating to VSP and VERP costs, COVID-19 and a higher effective tax rate.

On a pro forma IAS17 basis, HEPS decreased 30.2%* to 504.6* cents and BEPS decreased 37.2%* to 417.7* cents impacted by lower EBITDA as a result of the impact of the decline in fixed voice as well as the increase in finance changes and fair value movements.

Group capital investment for future growth

Capital investment of R7.8 billion, with capex to revenue of 18.0%, underpins growth. More than 47% of the capital investment was in the mobile business, increasing by 22.1% to R3.7 billion. We are seeing good returns, with mobile service revenue increasing by 54.4%. The accelerated investment was to support growth in the mobile business and to prepare for the accelerated migration of customers to LTE/LTE-A and fibre. The investment in FTTH was rationalised as we focus on areas showing a propensity for higher connectivity rates. Our FTTH connectivity rate improved to 48.2%, which is the highest connectivity rate in the market. We increased our investment in the packet optical transport network, which will future-proof the core network. This is the foundation for software-defined networks and network function virtualisation capability.

Group capital expenditure	March 2020 Rm	March 2019 Rm	Variance %
Fibre	703	1 216	(42.2)
Mobile	3 676	3 011	22.1
Operations support system (OSS)/business support system (BSS)	289	223	29.6
Network rehabilitation/sustainment	153	261	(41.4)
Service on demand	1 055	1 195	(11.7)
Core network	924	1 172	(21.2)
Other	182	208	(12.5)
Telkom	6 982	7 286	(4.2)
BCX	552	304	81.6
Gyro	203	60	238.3
Other			
Yellow Pages	18	24	(25.0)
Total	**7 755**	**7 674**	**1.1**
Capex to revenue ratio (%)	18.0	18.4	

Financial capital continued

Strong balance sheet to fund future growth

On a pro forma IAS 17 basis, Telkom's net debt to EBITDA is 0.7* times. Net debt excluding the impact of IFRS 16 decreased to R7 279* million (FY2019: R8 813 million). Group cash balances increased to R4 726 million (FY2019: R1 428 million), mainly due to working capital optimisation and liquidation of the short-term investment which will be used for phase one restructuring payments.

The growth in borrowings is in line with our strategy to fund capex through long-term debt as the group strives towards an optimal capital structure.

Statement of financial position	IFRS 16 March 2020 Rm	Pro forma* IAS 17 March 2020 Rm	Pro forma* March 2019 Rm	Variance** %
Bank and cash balances	4 726	4 726	1 428	231
Current borrowings	(2 967)	(1 900)	(5 401)	64.8
Non-current borrowings	(13 813)	(10 105)	(4 840)	(108.8)
Net debt	**(12 054)**	**(7 279)**	**(8 813)**	**17.4**
Net debt to EBITDA (times)	**1.3**	**0.7**	**0.8**	**0.1**

FCF improved threefold due to working capital management

FCF improved to R1 957 million (FY2019: positive R534 million) due to improved working capital management in the second half of the year.

Free cash flow	March 2020 Rm	March 2019 Rm	Variance %
Cash generated from operations	12 756	8 903	43.3
Add back: Repayment of lease liability	(1 148)	–	(100.0)
Interest received	212	441	(51.9)
Finance charges paid	(1 006)	(847)	(18.8)
Taxation paid	(1 320)	(945)	(39.7)
Cash generated from operations before dividend paid	9 494	7 552	25.7
Cash paid for capital expenditure	(7 712)	(7 584)	(1.7)
Free cash flow	**1 782**	**(32)**	**5 668.8**
Add back: Package cost paid	175	566	(69.1)
Adjusted free cash flow	**1 957**	**534**	**266.5**

* *Refer to pages 5-7 for the reconciliation of the reported figures to the adjusted figures.*
** *Pro forma IAS 17 March 2020 vs pro forma March 2019.*

Progress against medium-term guidance

	FY2019 – FY2021 Guidance	FY2020 Actual	FY2019 – FY2020 CAGR 2 years
Operating revenue	Mid-single digit	3.0%	4.2%
EBITDA growth	Mid-single digit	(8.7%)	(0.4%)
Capex to revenue	16% – 20%	18.0%	18.2%
Net debt to EBITDA (times)	≤1.5x	1.3x	1.3x

Note: Medium-term guidance excludes corporate action (M&A and Acquisition of Spectrum).

Achievements

- Accelerated home connectivity rate
- Growth in fibre to the base stations and fibre to the business
- Reduced cost to pass and connect a home

The shift from legacy to next-generation technologies such as fibre and LTE/LTE-A as new sources of revenue continue to impact Openserve's performance. This was compounded by a rapid decline in traditional high-margin fixed voice business, in line with global trends.

Performance overview

Revenue declined by 10.7% to R15 134 million, driven by a 25% decline in fixed voice revenue due to customers migrating from legacy to next-generation technologies.

The impact of the fixed voice decline on EBITDA is significant as it has high margins. Underlying EBITDA reduced by 39.4%* to R3 813* million. Our cost optimisation programme, including extracting efficiencies from network modernisation and service delivery optimisation, was not sufficient to offset the flow-through of the fixed voice revenue decline. Due to the pressure on revenue and the resulting change in revenue mix, EBITDA margins declined from 37.1%* to 25.2%*.

Modernise the network

Our journey towards an all IP network continues to drive down the cost per bit and has enabled us to do so over the past few years.

The ongoing investment in next-generation technologies continues to scale up the network and cater for the growing broadband demand. During the year, we invested R2.7 billion to modernise the network. To date, we have more than 2.4 million homes with fibre to the cabinet and have passed approximately 455 600 homes with fibre to support our broadband strategy.

* Excludes the impact of IFRS 16 and VSP and VERP costs.

Key strategic focus areas:

Modernise the network

Commercialise the network

Transform service delivery

KPIs and key measures

FTTH connectivity rate up 9.8 ppts to	Fibre to the base stations up	Fibre to the business up	Cost to deploy FTTH reduced by
48.2%	9.8%	25.9%	40%
	to 7 704	to 47 179 services	

This investment enabled a 33% reduction of legacy services footprint by upgrading them to next-generation access technologies.

Commercialise the network

Our ability to commercialise our network footprint has enabled us to mitigate the pressure on revenue. The growing data demand in the enterprise market is catered for by providing fibre-based ethernet links, which increased 25.9% to 47 179 services connected. Fibre to the base station increased by 9.8% to 7 704 base stations as mobile operators expand their networks.

Our investment in FTTH was rationalised to focus on areas showing a propensity for higher connectivity rates. The FTTH connectivity rate improved from 38.4% to 48.2% – the highest in the market. In line with our cost reduction drive, we reduced the unit cost to deploy fibre to the home by 40% and we continue to look at opportunities to optimise the cost further. Which will enable a more aggressive future deployment.

Transform service delivery

Through modernising our network, we extract operational efficiencies by utilising digital processes, which improves our service delivery capability. This improved the average time to repair by 27.3% and the average time to install next-generation access services by 28.4%. Our drive to migrate legacy access technologies plays a significant part in improving productivity. Assurance visits reduced by 42.6% and the redispatch rate reduced by 42.3%. This progress gave us the confidence to position Openserve to deliver a seamless client experience across all segments. The 25.4% improvement in net promoter score results is testament to our quest to improve service delivery.

Telkom Consumer

Achievements

- Continued growth in mobile business
- Emphasis on high-speed large bundle broadband products
- Scaled up value compelling fixed-line look alike (FLLA) products provision over the mobile network

The mobile business continues to be the group's driver of growth, underpinned by the ongoing investment and affordable broadband-led propositions.

Performance overview

Telkom Consumer's revenue performance improved by 13.0% to R21.7 billion. This was driven by the mobile business's continued growth trajectory, with service revenue increasing 54.4% to R12 593 million, underpinned by a successful data-led value proposition and ongoing network investment. We have seen a decline in fixed voice revenue due to the migration of traditional generation copper-based network customers to newer technologies.

Telkom Consumer's EBITDA breached the R1.5 billion mark, supported by a strong mobile business and cost containment initiatives. The Telkom Mobile underlying EBITDA grew 80.6%* to R2 294* million, notwithstanding the once-off costs relating to the roaming cost of R132 million from two operators in the first half of FY2020. Telkom Mobile's EBITDA margin has improved from 1.4% to 14.9%* over the past three years.

Accelerate mobile growth

The solid growth in mobile business was supported by a 23.9% increase in customers to 12 million with a blended average revenue per user (ARPU) of R91. Pre-paid customers grew 20.8% to 9.4 million, with net additions of 1.6 million. Despite the growth in pre-paid customers, pre-paid ARPU declined by 8.2% to R66. The post-paid customer base increased 36.8% to 2.6 million at an ARPU of R188. Post-paid ARPU trends have improved following a 7% decline in the first half of the year, and demonstrated marginal growth compared to FY2019.

* *Excludes the impact of IFRS 16 costs and the additional impairment of trade receivables and contract assets as a result of COVID-19.*

Key strategic focus areas:

- **Accelerate** mobile growth
- **Drive** high-speed broadband
- **Expand** the mobile network
- **Grow** content and VAS
- **Improve** customer experience

KPIs and key measures

Active **customers** up	Service **revenue** up	Mobile **data traffic** up	**Mobile sites** integrated up
23.9%	54.4%	69%	14.6%
to **12 million**	to **R12.6 billion**		to **5 862**

The high-speed broadband products and prudent customer value management underscore the growth in our customer base and positive ARPU growth trajectory.

Drive high-speed broadband

Data remains a key strategic driver for Telkom in the fixed-line and mobile product portfolios. The two products are set to continue to complement each other as the strategy seeks to evolve customers from wireless to fibre in specific areas, where applicable.

The strategic intent of focusing spectrum resources towards 4G contributed to an increase in smartphone sales. Mobile data revenue grew 48.2% to R8.8 billion, supported by a 28.0% increase in mobile broadband subscribers, as well as attractive data propositions.

We will continue to drive aggressive broadband growth in untapped segments to ensure competitiveness. We will lead with high-speed mobile broadband in these markets, with an option to switch to fibre.

Expand the mobile network

We continued with the mobile network expansion programme with an emphasis on 4G. We increased our capex investment by 22.1% to R3.7 billion, increasing our base stations. We increased our base stations by 14.6% to 5 862, of which 71.1% are LTE time division duplex (TDD) capable and 100% are LTE frequency division duplex (FDD) capable. The expansion aligns with the strategy of building a 4G and 4.5G data network to carry big volumes of data traffic and is the largest mobile data network in South Africa. We refarmed a significant portion of the 1 800 MHz spectrum and started refarming portions of 2 100 MHz for LTE and LTE-A. Refarming the 1 800 MHz spectrum allowed us to switch off and decommission most 2G access nationally, resulting in an improved 4G experience. We upgraded over 30% of base station backhaul to cater for data growth.

Grow content and value-added services (VAS)

Our objective is to drive broadband adoption in the South African consumer market through content and other VAS. We are strengthening relationships with our content partner's. During the year, fibre campaigns included bundling with streaming services such as Netflix and Showmax. Device bundling included gaming consoles and smart TVs to enable broadband consumption and customer loyalty. We introduced our first fixed broadband carrier billing partner, Netflix, which allows fixed customers to add third-party services through their account.

We launched Telkom Plus, a VAS aggregation platform, providing customers with value-adding content and services in categories such as lifestyle, short-form video and mobile gaming. The platform saw over 100 000 subscriptions in the first two months. We also enhanced the existing emergency airtime service by adding additional denominations and data bundles. Airtime advancements increased threefold in the four months since the enhancement in August 2019.

BCX

The trading environment continues to be challenging. Customers remain under pressure and continue to delay and reduce spending while seeking ways to optimise their resources. There were marginal improvements in the public sector and downward pressures on the mid-market, the financial services and the retail sectors, resulting in private sector revenue deterioration.

Achievements

Increase in next-generation voice and data access revenues, driven by migration from legacy to next-generation solutions

Sustainably reduced our cost base

Performance review

Revenue was resilient and declined by 4.3% to R18 742 million, despite a 15.8% decline in fixed voice business as we shift from legacy voice to next-generation voice and from voice to data. This was partially offset by the growth in IT business of 2.3% to R9 089 million, due to specialised solutions as we drive and grow industry-specific owned IP. These results include divestments of international subsidiaries whereas excluding the international operations, the IT business revenue growth is 3.7%. We took advantage of hardware refresh cycles. Hardware sales will improve opportunities to cross-sell other ICT services and increase our share of the customer wallet.

IT services revenue was negatively impacted by the disposal of the Tanzania and Nigeria businesses. There were also downward pressures on original equipment manufacturers' application solutions, especially SAP, and a decline in hosting services revenues as demand for traditional hosting platforms diminishes. Cloud revenue saw a marginal increase, as we continue to see convergence to cloud and consumption as a service.

Through the optimisation process, BCX reduced costs, resulting in a year-on-year cost reduction of 3.9%*. Employee costs are down 7.4%*, underpinned by an 8.1% permanent headcount reduction.

Excluding the impact of once-off adjustments, BCX underlying EBITDA declined 6.9%* to R3 016* million with an EBITDA margin of 16.1%*.

** Excludes the impact of IFRS 16, VSP and VERP costs and the additional impairment of trade receivables and contract assets as a result of COVID-19.*

Key strategic focus areas:

Drive revenue growth

Improve operational efficiencies

Drive digital transformation

KPIs and key measures

B-BBEE **level 1** retained

IT business revenue up **2.3%**

EBITDA margin at **16.1%***

Drive revenue growth – new product launches

In defending fixed voice revenue decline, pay per user and call centres, we launched on-demand products to competitively position BCX and win back some contact centre contracts. We launched competitive customer value propositions to arrest churn.

Three key initiatives were identified to defend the core revenue streams and grow connectivity:

- Defended fixed voice revenue decline through the Innovative Voice campaign, launched in December 2019
- Launched the software-defined wide area network solution suite in August 2019
- Launched a network security service in March 2020

We developed vertical industry frameworks for industries in financial services, government, healthcare, mining and energy, and retail – which created integrated solutions for client needs. These solutions were shared through various forums with clients and show positive results in securing future business in contract renewals and new business. Furthermore, it resulted in mid-market and corporate customer base revenue growth.

Improve operational efficiencies

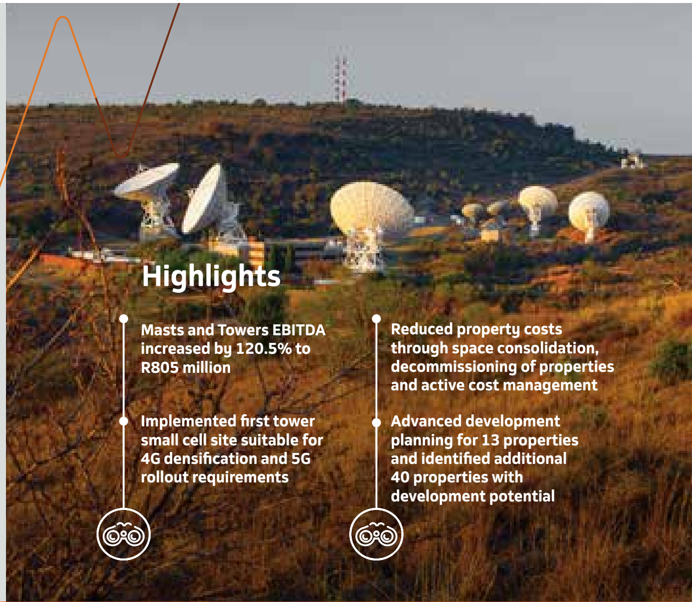
Improving operational efficiencies entailed fundamentally changing the way the business unit works and reinventing the way we serve our clients and their customers. With a relentless focus on improving the customer experience, we improved back-office efficiency through a reduction of human intervention while maintaining service levels, as well as introducing new cloud-based service technologies. BCX is also developing a customer insights engine that will provide a 360˚ view for and of customers' IT environments.

We focused on streamlining the product portfolio, driving the automation of IT operations processes and reducing product overheads. Part of this focus is enhanced monitoring that enables proactive problem resolution in complex IT environments to reduce the cost to serve.

Drive digital transformation

BCX leverages digital transformation to innovate solutions for value realisation. This resulted in the incubation of the robotic process automation and artificial intelligence business, which will scale in the next few years. A fundamental component of digital transformation is the cybersecurity that underpins it. Hence, we made an investment in operationalising the security operations centre using in-house IP and vendor technologies. This is a hub for managed cybersecurity operations and monitoring services within the group and for serving customers going forward.

Gyro



Highlights

- Masts and Towers EBITDA increased by 120.5% to R805 million
- Implemented first tower small cell site suitable for 4G densification and 5G rollout requirements
- Reduced property costs through space consolidation, decommissioning of properties and active cost management
- Advanced development planning for 13 properties and identified additional 40 properties with development potential

Key strategic focus areas:

Optimise and grow the masts and towers portfolio

Commercialise the property portfolio

Enhance building costs and operation efficiencies

KPIs and key measures

- M&T revenue up **34.0%** to **R1.2 billion**
- **3 648** mature towers
- **600** sites in the new build pipeline
- **R121 million** savings on utility expenditure

Gyro performed well, underpinned by revenue-enhancement initiatives in the masts and towers portfolio, in spite of the challenging macro-economic environment. We remain focused on optimising the masts and towers portfolio as the anchor business for Gyro. We continued with the development planning activities for properties in the development pipeline and identified additional properties that are suitable for development opportunities. We optimised the Group's property-related expenditure.

Performance overview

Gyro revenue grew by 29.5% to R1 514 million, mainly driven by our masts and towers portfolio. The masts and towers revenue increased by 34.0% to R 1 246 million. The demand for sites by Telkom Mobile and new external leases augmented Gyro's revenue.

Underlying EBITDA* increased by 74.7% to R1 197 million and the EBITDA margin expanded to 79.1%, driven by revenue growth and active cost management.

Optimise and grow masts and towers

Our productive capital portfolio comprises 3 648 towers, consisting of 1 119 mature towers and 2 529 growth towers. Over and above the productive portfolio revenue growth initiatives, we aim to build 1 000 new towers by FY2023. There are 600 sites in the new build pipeline.

As part of enhancing penetration of 4G and preparation for 5G requirements, we are pursuing small cell opportunities. We went live with the first small cell site with a full service offering to mobile network operators. We believe this plug-and-play solution will be suitable for mobile network operators' 4G densification and 5G rollout requirements. We started rolling out "in building solutions" to enhance mobile network coverage in commercial buildings. This new initiative enhances our customers' ability to service their clients and presents new revenue opportunities for Gyro.

** Excludes the additional impairment of trade receivables and contract assets as a result of COVID-19.*

Commercialise the property portfolio

We continue to evaluate individual properties for highest and best use, and for hold or sell investment decisions. Properties core to Telkom operations are retained and space usage is optimised where feasible. All development projects are based on the best use approach as informed by the demand and supply dynamics of the particular market. 13 properties suitable for greenfield and brownfield developments are under development planning. These projects consist of mixed-use and residential (apartment and student accommodation) opportunities. A further 40 properties with development potential will undergo research assessment to determine best use and suitable development projects.

We continue to decommission, dispose or repurpose non-core properties not suitable for operational use or development. From the 520 sites (equipment, infrastructure, containers and properties) earmarked for decommissioning, 73 were listed for auction during FY2020. We received offers for a combined purchase consideration of R25.3 million for 46 properties, following auctions that took place in FY2020. Although the properties have not transferred, proceeds from sale are anticipated to flow during FY2021.

The balance of unsold properties will be reissued to the market, together with new properties that are earmarked for disposal. Current market conditions have made it more challenging to dispose of properties at satisfactory prices; and this will be exacerbated by the negative impact of COVID-19 on the economy. It may be inopportune to dispose of further assets during FY2021. We began the permitting of sites for outdoor media to take advantage of the vast property portfolio to generate alternative revenue streams.

Enhance building costs and operation efficiencies

We advanced our efforts of consolidating office and warehouse space in major cities. This should reduce property occupancy expenditure across Telkom. Our continuous effort to reduce and optimise utility consumption and related expenditure resulted in R121 million of savings. We implemented initiatives to this end, including electricity tariff assessments, smart meters and data analytics. Through our decommissioning and disposal programmes, occupancy costs are anticipated to further decrease, primarily through utility consumption and utility charges reductions.

Telkom Small & Medium Business

Achievements

- Launched an e-commerce platform to enable SMEs to buy Telkom products and manage accounts online
- Re-contracted significant portion of out-of-contract PABX customers and drove growth of customers on fibre.
- Developed and launched a small business portal for the Department of Small Business Development to drive registration and tracking of SMEs in South Africa. Portal Utilised to manage Covid relief efforts by Government.

Small and medium businesses have the biggest impact on a successful gross domestic product. However, South Africa has one of the highest failure rates for these businesses compared to other developing countries. Telkom SMB aims to be a go-to place for all small and medium-sized enterprises (SMEs) to connect and to grow. Telkom SMB's goal is to shift from pure connectivity products to e-commerce and expand to adjacent offerings in IT, procurement, financial services and many more – all delivered through a digital platform powered marketplace.

The board approved the new Telkom SMB division to take the opportunity to capture lost market share and venture into adjacent markets to create new revenue lines. The business unit was created with effect from 1 April 2019.

The SMB division was built ground-up with a lean operating model. The group had approximately 250 employees servicing the small and medium business segment. We formed a new management structure and recruited key leadership positions. The Telkom SMB executive committee was fully resourced from January 2020.

Integration of Yellow Pages capabilities started, and cross-functional teams are working on platform and product development. Sales teams are being upskilled to sell mobile and fixed connectivity products. We completed the identification, reclassification, profiling and segmentation of customers. We designed a customer-led strategy supported by products and services to ensure these areas are adequately serviced. We started operationalising the strategy and relevant workstreams are active.

Key strategic focus areas:

- **Establish** dedicated SMB division
- **Utilise** the fixed business as a springboard for growth
- **Enhance value** propositions and customer experience
- **Build** a digital platform capability

Enhance value propositions and customer experience

Our strategic approach provides customers with converged products and services on a single bill to improve customer experience and simplify the process to order products and services required to start or uplift a business. To this end, in January 2020 we launched a "business in a box" named BizExpander to start up and/or uplift businesses.

We conducted a gap analysis to identify channel gaps to service small and medium business customers with easy access to products and services. We identified third-party call centres as cost-effective channels that can reach most customers nationally. Telkom appointed four call centres to increase our footprint to target mainly mobile customers and contributed to the increase in mobile this year. We increased our direct sales force footprint to reach customers and advise on tailored solution requirements. We appointed 18 third-party dealers to increase our channel footprint and service customers.

Build a digital platform capability

We are creating a new customer experience by following a digital-first approach. We want to bring to life Telkom's product portfolio through a digital-first, end-to-end e-commerce journey. This will allow customers to complete a needs analysis, explore products, and purchase online conveniently using their chosen payment method.

We launched the first phase of the platform, following an agile methodology of delivering solutions to our customers. This phase included redesigning the user journey and building a new SMB website. Customers can already commence to explore and buy some of Telkom's connectivity, productivity and marketing products from the convenience of their phone, tablet or computer.

Coming soon is an e-marketplace for SMEs, which will enhance the current Yellow Pages platforms (web and app) and introduce functionality that enables customers to sell their products online, buy from the marketplace, and access business opportunities on the platform from other SMEs and corporates.

Human capital

Our world of work is changing faster than ever before. Human capital is becoming a complex landscape with rising demands on its people agenda. There is an increasing need to unlock the people value that will, in turn, unlock business value for organisations. External future drivers of change in the economy, globalisation, technological advancements, and the rise of the knowledge economy are creating shifts within the telecommunications sector.

The people strategy represents our vision and identity as a business and is designed and informed by a future-led, yet enduring approach. It is informed by our strategic direction, our people, our workforce data, and the evolving world of work.

Telkom embraces the philosophy of enabling a sustainability mindset which encourages employees to analyse complex management challenges and drive innovation. It incorporates a systemic approach which transcends technical knowledge in enhancing Telkom's social, human and economic capitals. As employees navigate the new world of work, Telkom will continue to deepen knowledge around technology and relevant human skills for the future of work, which include emotional intelligence, a growth mindset, an ability to solve complex problems, and communicating effectively. Telkom's headcount decreased by 536 employees from 15 635 employees in FY2019 to 15 099 in FY2020.

In the last quarter of the 2019/2020 financial year, VSPs/VERSPs were also offered, where 2 271 applications at the company were approved with employees leaving during FY2021. Yellow Pages approved 62 applications and employees left on 31 March 2020.

These were driven by operational requirements including the evolving needs of our customers, technological advancements and the evolving world of work. Openserve, Telkom Consumer and Yellow Pages embarked on a judicious process to redefine their operating and service delivery models. Given the delicate balance we must manage, we sought to partner with organised labour. Despite a legal challenge to the introduction of VSPs and VERPs, the court affirmed that Telkom conducted itself in the best interest of our employees and the group.

We continue to maintain positive relationships with trade unions. We held a joint workshop with organised labour representatives on the impact of the fourth industrial revolution on our sector. We expect that this was the beginning of an ongoing conversation as we seek to find innovative ways to ensure our people are ready for the new skills that this revolution has to offer. Telkom has invested in a number of digital skills across the business for its own needs and those of the digital economy.

Telkom's occupational health and safety vision is to provide a safe working environment and create a culture where every employee, service provider, contractor, supplier and visitor believes that zero safety incidents is achievable. Health and safety are an integral part of our operations, and we are committed to ensuring sustainable occupational health, safety and environmental considerations throughout all our operations.

Intellectual capital

We continued to focus on the key transformation drivers by using fit-for-purpose applications. Telkom embraced multiple facets of digitisation, including updating and improving our web technologies, using cloud-based services, mobility-led interface designs, design thinking, and robotic process automation, underpinned by adaptive governance.

In aligning with Telkom's strategy, the digital strategy and operating model were developed to usher Telkom into the digital era. Customer experience remains a focal point of our digital enablement journey, ensuring easier, faster interactions. The elements of the digital strategy framework are customer experience; end-to-end operation; technology engine; flexible organisation; and innovation, driven by effective partnering and alliances. The digital strategy is based on the open digital architecture (ODA), which embraces partner models which were previously silo-based. The ODA enables zero-touch orchestration of operations and creates a digital ecosystem which is ready to partner and transact with other digital platforms or ecosystems.

The focus areas for FY2020 were informed by Telkom's strategic pillars, namely integrated solutions; portfolio diversification; and operational efficiency. We achieved integrated solutions through the multiple technologies that enable a digitalised future. These technologies include migrating our web-based applications to newer technologies; embracing big data-based analytics; inculcating design thinking through machine learning; and robotic process automation.

We enhanced the customer experience through deploying the application programming interface-enabled ecosystem, driving self-service, simplicity, and channel standardisation. The improved technology stack further enabled reduced time-to-market, enabling Telkom to respond to market demands promptly.

The migration to cloud, and enhanced analytics capability, enabled portfolio diversification. This enabled Telkom to provide solutions outside traditional telecommunications, and venture into financial and niche technology offerings. In addition, our focus on enabling an ODA allows for a more flexible and agile enhancement to the traditional OSS/BSS architecture. This will allow for effective fulfilment, assurance, and billing across each business unit.

We achieved operational efficiency through moving to cloud-based platforms for enterprise, productivity, and collaboration services. These enabled a full remote and secure office capability that saw a seamless transition during the work-from-home requirement as part of the COVID-19 management strategy and national protocols.

To address cyberthreats, we deployed machine learning capability to enhance information security. Telkom was awarded ISO/IEC 27001:2013 certification for information security management for the effectiveness and adequacy of our comprehensive information security management system. This confirms Telkom's ability to prevent, detect, respond to and manage cyberthreats, through actively deploying an international standards-based security control and process.

Social and relationship capital

Telkom strives to create shared value for its business and society through strategic interventions that meaningfully impact the South African economy, creating social and commercial value.

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

Telecommunications companies are enablers of a digital economy, one of the few growth certainties in an uncertain world. In the South African context, with the challenges of inequality, unemployment, and negative growth in the economy, it is incumbent upon us to play a proactive and leading role in navigating the impact of the fourth industrial revolution. We need to use our core assets to enhance productivity, efficiency, future skills, and social progress, and to build trust and accountability in an era of increasing concern about digital rights, data pricing and transparency.

We are mindful that moving to a shared value strategy will be a complex and long-term process. We believe this is necessary to build a resilient, relevant, and sustainable Telkom of the future. Having undertaken a consultative exercise in the group, Telkom's key pillars and goals of our shared value strategy are as follows:

- **Digital inclusion:** Make digital connectivity more accessible
- **Digital services:** Help people transform their lives through digital-led services
- **Digital economy:** Help build sustainable livelihoods
- **Digital planet:** Partner for positive environmental impact

Our commitment to these is aligned to four of the United Nations Sustainable Development Goals (SDGs), which we regard being of most relevance to our business:

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

Since 2015, FutureMakers (Telkom's enterprise and supplier development unit) has supported over 2 600 small, medium and micro-sized enterprises through incubation, investment, connectivity, and business development support services. In FY2020, FutureMakers directly supported 482 enterprises, of which 156 were new. These 482 enterprises have created 5 600 direct and indirect jobs, with 5 000 coming from the portfolio of enterprises invested in by the IDF Future Fund.

We spent R29 million to support these enterprises in connectivity, business development support services and incubation (FY2019: R20 million). The IDF Future Fund had net approvals of R173 million (FY2019: R127 million).

The total value invested by the Telkom Foundation was R74.8 million including administration costs, with R50.5 million invested in education, R6 million in digital skills, R6 million in youth support initiatives, and a further R5.9 million invested in social development programmes.

Natural capital

Telkom's focus is to minimise its energy intensity and carbon footprint by improving the energy efficiency of our activities.

Natural capital management is guided by our environmental and climate change policy statements. Telkom closely measures, monitors and manages the group's carbon emissions, as energy efficiency is a primary contributor to reducing operational costs and to mitigating the impacts of climate change. Our environmental and climate change policy statements are available at **www.telkom.co.za/ir/Sustainability/Sustainability.html**

Telkom participated in the CDP (formerly the Carbon Disclosure Project) for the eighth year, and our CDP score improved from a D to a C. We aim to move to a B over the next three years and will implement measures to achieve this.

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

We incorporated regional environmental awareness in the safety, health and environment "safety starts with me" campaign and focused on water saving and waste management.

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

With the introduction of phase 1 of the Carbon Tax Act, 15 of 2019 (Carbon Tax Act), we engaged an external service provider to evaluate whether Telkom's operations exceed the electricity and heat production of 10 MW installed thermal capacity (the threshold for carbon tax under fuel combustion activities). The initial assessment concluded that the first phase (2019 to 2022) of the Carbon Tax Act will not significantly impact Telkom. We will continue to monitor existing regulations, in the event of possible future amendments. The full report on carbon tax readiness was shared with the risk, and social and ethics committees.

The Department of Environmental Affairs promulgated the phasing out of ozone-depleting substances in 2014. The regulation outlines 2020, 2025 and 2030 phase-out requirements to comply with the regulations for phasing out and managing ozone-depleting substances. In 2016 (the baseline year) Telkom had 97 tonnes of R22 gas in the system. To date, Telkom has reduced R22 gas to 57 tonnes, complying with the 2020 requirement of a reduction to 63.1 tonnes. To meet the 2025 target of 31.5 tonnes, Telkom must reduce R22 gas by 25.5 tonnes.

Declaration of dividend

Our current dividend policy is to pay an annual dividend of 60% of headline earnings with an interim dividend of 40% of interim headline earnings.

In line with our dividend policy, the board declared a final ordinary dividend number 26 of 50.08410 cents per share. This follows an interim dividend of 71.52636 cents per share in the interim results. This takes the annual dividend for FY2020 to 121.61046 cents per share (FY2019: 361.54461 cents per share).

The declared dividend is payable on Monday, 13 July 2020 to shareholders recorded in the register of the company at close of business on Friday, 10 July 2020. The dividend will be subject to a local dividend withholding tax rate of 20%, which will result in a net final dividend of 40.06728 cents per ordinary share to those shareholders not exempt from paying dividend withholding tax. The ordinary dividend will be paid out of available cash balances.

The number of ordinary shares in issue at date of this declaration is 511 140 239. Telkom SA SOC Ltd's tax reference number is 9/414/001/710.

Salient dates with regard to the ordinary final dividend

Declaration date	**Monday, 22 June 2020**
Last date to trade cum dividend	**Tuesday, 7 July 2020**
Shares trade ex-dividend	**Wednesday, 8 July 2020**
Record date	**Friday, 10 July 2020**
Payment date	**Monday, 13 July 2020**

Share certificates may not be dematerialised or rematerialised between Wednesday, 8 July 2020 and Friday, 10 July 2020, both days inclusive.

On Monday, 13 July 2020, dividends due to holders of certificated securities on the South African register will be transferred electronically to shareholders' bank accounts.

Dividends in respect of dematerialised shareholders will be credited to shareholders' accounts with their relevant central securities depository participant or broker.

Suspension of the dividend policy

Telkom indicated in the first half of the year that it will review the dividend policy and in considering the new dividend policy it will prioritise its capital investment programme, maintain a healthy balance sheet and consider cash position within its capital allocation framework.

The imminent spectrum auction will require a substantial amount of capital and it is of strategic importance for Telkom to participate to ensure the sustainability of the mobile business. Preserving cash and maintaining a flexible balance sheet has become of critical importance and urgent during COVID-19 pandemic as the economy is under strain.

Given all these factors that are expected to impact Telkom, the board found it prudent to suspend the dividend policy for the next three years from FY2021. Over the next three years, the capital will be redirected to the acquisition of spectrum and to complete key capex programme to ensure the sustainability of our business.

Withdrawal of the market guidance

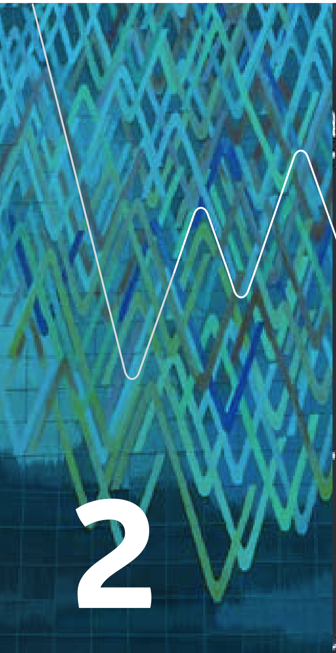
Telkom issued a medium-term guidance commencing in FY2019 with FY2018 being a base year of the medium-term guidance. FY2020 was Telkom's second year of guidance where it experienced a challenge in meeting the EBITDA target and revised the net debt to EBITDA.

Telkom has performed in line with its medium-term guidance except for the EBITDA guidance where it experienced challenges due to the deterioration in its fixed voice business in line with the technological shift from legacy to next generation in line with global trends.

The lockdown response to the COVID-19 pandemic is expected to impact the South African economy significantly but quantifying the likely magnitude of this unprecedented crises is challenging. Against the backdrop of both exceptional economic weakness and heightened uncertainty, it will be difficult to maintain the medium-term targets. The board found it prudent to withdraw the medium-term targets FY2021 to allow sufficient time to fully understand and quantify the impact of COVID-19 on the Telkom group.

Outlook

During this time of uncertainty, management will relentlessly focus on cost savings through its sustainable cost management programme which includes the restructuring programme and other cost levers to protect the profitability of the business. The full benefits of the two-phase restructuring programme are expected to flow in over the next 12 to 24 months. Management will continue to exercise discipline in allocation capex making sure that we invest in projects that give us reasonable returns. We are cognisant that COVID-19 may have a negative impact on our business. Therefore, we will continuously assess the capex spend in line with revenue forecasts. Management will continue to focus on cash release initiatives through optimisation of working capital to ensure that we generate positive FCF.



2

Operational data

Operational data

	March 2020	March 2019	Variance %
Broadband subscribers			
Fixed broadband subscribers[1]	**686 525**	847 650	(19.0)
Mobile broadband subscribers	**8 162 977**	6 377 056	28.0
Fixed subscribers			
Closer subscribers	**408 751**	718 968	(43.1)
Internet all access subscribers[2]	**393 135**	507 172	(22.5)
Fixed access lines ('000)[3]	**1 602**	2 267	(29.3)
Revenue per fixed access line (Rand)	**4 518**	4 545	(0.6)
Fixed voice ARPU	**352.2**	351.8	0.1
Fixed broadband ARPU	**203.7**	204.6	(0.4)
Managed data network sites	**39 090**	43 996	(11.2)
Mobile subscribers			
Active mobile subscribers[4]	**11 995 281**	9 680 725	23.9
Pre-paid	**9 432 449**	7 807 255	20.8
Post-paid	**2 562 832**	1 873 470	36.8
ARPU (Rand)	**90.76**	99.90	(9.1)
Pre-paid	**65.60**	71.44	(8.2)
Post-paid	**188.19**	186.08	1.1

[1] *Includes x digital subscriber line (xDSL) and FTTH lines of which 5 175 (FY2019: 6 134) are internal lines.*
[2] *Includes Telkom Internet asymmetrical digital subscriber line (ADSL), Integrated Services Digital Network (ISDN) and WiMAX subscribers.*
[3] *Includes copper voice and broadband, ISDN and fixed-line look alike (FLLA). Excludes Telkom internal lines.*
[4] *Based on a subscribers who participated in a revenue-generating activity within the last 90 days.*

	March 2020	March 2019	Variance %
Volumes			
Fixed broadband data volumes (Petabytes)	**1 113**	999	11.4
Mobile broadband data volumes (Petabytes)	**615**	362	69.9
Total fixed-line traffic (millions of minutes)	**8 832**	10 707	(17.5)
Network			
Ports activated via MSAN access	**1 476 947**	1 467 984	0.6
FTTH	**455 553**	430 659	5.8
Fibre to the cabinet	**2 419 483**	2 390 235	1.2
Mobile sites integrated	**5 862**	5 116	14.6
Active fibre connectivity rate %	**48.2**	38.4	9.8
Group employees	**15 099**	15 635	(3.4)
Telkom company employees	**9 508**	9 541	(0.3)
Consumer	**1 299**	1 105	17.6
Openserve	**7 870**	8 097	(2.8)
Corporate Centre	**339**	339	–
BCX group employees	**5 315**	5 782	(8.1)
Yellow Pages employees	**176**	216	(18.5)
Gyro employees	**100**	96	4.2

3

Financial performance

Financial performance

Operating revenue

	March 2020 Rm	Restated* March 2019 Rm	Variance %
Fixed	**19 907**	**23 010**	**(13.5)**
Voice and subscriptions	8 206	10 452	(21.5)
Usage	3 039	3 898	(22.0)
Subscriptions	5 167	6 554	(21.2)
Interconnection	537	792	(32.2)
Fixed-line domestic	292	347	(15.9)
Fixed-line international	245	445	(44.9)
Data	9 381	10 167	(7.7)
Data connectivity	6 347	6 970	(8.9)
Internet access and related services	2 002	2 046	(2.2)
Managed data network services	1 004	1 111	(9.6)
Multimedia services	28	40	(30.0)
Customer premises equipment sales and rentals	1 485	1 556	(4.6)
Sales	479	482	(0.7)
Rentals	1 006	1 074	(6.2)
Other revenue	298	43	593.0
Mobile	**15 150**	**10 754**	**40.9**
Mobile voice and subscriptions	3 515	1 968	78.6
Mobile interconnection	419	270	55.2
Mobile data	8 659	5 917	46.3
Mobile handset and equipment sales	2 279	2 407	(5.3)
Significant financing component revenue	278	192	44.8
Information technology	**6 855**	**6 735**	**1.8**
Information technology service solutions	4 044	4 149	(2.5)
Application solutions	1 645	1 595	3.1
IT hardware and software	1 032	846	22.0
Industrial technologies	134	145	(7.6)
Other	**1 130**	**1 275**	**(11.4)**
Trudon	479	651	(26.4)
Gyro	651	609	6.9
VS Gaming	–	15	(100.0)
Total	**43 043**	**41 774**	**3.0**

** Group has aligned its revenue streams in the BCX segment. This has resulted in the reallocation of certain revenue streams. The comparitive numbers have been restated.*

Mobile statement of profit and loss

	Reported March 2020 Rm	Reported March 2019 Rm	Reported March 2018 Rm
Revenue from contracts with customers	15 355	10 960	7 307
Payments to other operators	2 577	1 801	1 068
Cost of handsets, equipment and directories	3 061	2 825	2 002
Sales commission, incentive and logistical costs	1 666	1 094	675
Other income	155	95	54
Operating expenses	5 343	4 066	3 517
Employee expenses	234	189	165
Selling, general and administrative	4 416	3 134	2 709
Service fees	390	229	156
Lease expenses	303	514	487
EBITDA	**2 863**	**1 269**	**99**

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

Excluding the impact of IFRS 16 and the additional impairment of trade receivables and contract assets as a result of COVID-19, the mobile business EBITDA is R2 293 million resulting in a an EBITDA margin for the financial year ended 31 March 2020 of 14.9%.

Financial performance information update

Pro forma summary audited consolidated statement of profit and loss

	Reported IFRS 16 March 2020 Rm	Pro forma* IAS 17 March 2020 Rm	Pro forma* March 2019 Rm	Variance** %
Revenue from contracts with customers	43 043	43 043	41 774	3.0
Payments to other operators	3 683	3 683	2 940	(25.3)
Cost of handsets, equipment and directories	5 625	5 625	5 220	(7.8)
Sales commission, incentive and logistical costs	2 006	2 006	1 457	(37.7)
Other income	676	676	719	(6.0)
Insurance service result	41	41	–	100.0
Operating expenses	22 844	22 116	21 567	(2.5)
Employee expenses	10 713	9 527	10 049	5.2
Other operating expenses	2 688	2 688	2003	(34.2)
Maintenance	3 880	3 880	4 209	7.8
Marketing	671	671	806	16.7
Impairment of receivables and contract assets	1 140	514	384	(33.9)
Service fees	3 274	3 274	2 934	(11.6)
Lease expenses	478^	1 562^^	1 182^^	(32.1)
EBITDA	9 602	10 330	11 309	(8.7)
Depreciation, amortisation, impairment and write-offs	6 915	5 961	5 814	(2.5)
Operating profit	2 687	4 369	5 495	(20.5)
Investment income	79	79	185	(57.3)
Income from associates	11	11	2	450.0
Finance charges and fair value movements	1 803	1 435	947	(51.5)
Net finance charges on lease liabilities	368	–	–	(100.0)
Net finance charges	1 202	1 202	885	(35.8)
Cost of hedging	205	205	88	(133.0)
Foreign exchange and fair value movements	28	28	(26)	(207.7)
Profit before taxation	974	3 024	4 735	(36.1)
Taxation	366	940	1 391	32.4
Profit for the period	**608**	**2 084**	**3 344**	**(37.7)**

^ Represents low value and short-term leases as defined by IFRS 16.
^^ Represents leases expenses as defined by IAS 17.
** Refer to pages 5-7 for the reconciliation of the reported figures to the adjusted figure.*
*** Pro forma IAS 17 March 2020 vs pro forma March 2019.*

Notes

Payments to other operators increased 25.3%, mainly due to higher mobile roaming cost in line with increased traffic indicative of growth in mobile.

Sales commission, incentive and logistical costs increased 37.7%, mainly due to the increase in mobile acquisition costs, driven by the 20.8% increase in mobile pre-paid subscribers.

Employee expenses benefited from our employee optimisation programme. The 5.2% reduction was driven by the 3.4% decrease in full-time employees to 15 099, largely as a result of the BCX staff optimisation that was implemented in FY2019.

Marketing expenses decreased 16.7% as a result of controlled marketing spend.

Impairment of receivables and contract assets increased by 33.9% to R514 million (FY2019: R384 million), mainly due to the 40.9% growth in mobile revenue.

Service fees increased 11.6%, attributable to higher property management costs due to the increase in mobile sites rolled out, as well as higher electricity and maintenance costs. Debt collecting costs in mobile have also increased due to the growth in mobile revenues.

Lease expenses pre-IFRS 16 increased 32.3% as a result of the 14.6% increase in mobile sites.

Investment income decreased 57.3% due to the lower cash balances in the first half of the year.

Finance charges and fair value movements increased 51.5%. The increase in finance charges pre-IFRS 16 is attributable to the R1.7 billion increase in interest-bearing debt from March 2020. Foreign exchange and fair value movement increased, largely driven by losses due to the volatility of foreign exchange and the impact of the lower interest rate environment on the valuation of interest rate swaps. The group pays the fixed interest leg of the swap and receives the floating interest leg. The current fixed rates are higher than the floating rate. The debt is predominately floating rate debt.

Taxation decreased 32.4% due to the lower profit before tax, partially offset by an increase in non-deductible permanent differences resulting in an increase in the effective tax rate to 31.1% (FY2019: 29.4%)

Summary audited consolidated statement of financial position

	Reported IFRS 16 March 2020 Rm	Restated March 2019 Rm	Variance %
Assets			
Non-current assets	45 071	37 961	18.7
Property, plant and equipment	**33 608**	32 035	4.9
Right-of-use assets	**4 502**	–	100.0
Intangible assets	**4 739**	4 521	4.8
Other investments	**62**	78	(20.5)
Employee benefits	**992**	729	36.1
Other financial assets	**192**	133	44.4
Finance lease receivables	**148**	210	(29.5)
Deferred taxation	**828**	255	224.7
Current assets	16 315	14 783	10.4
Inventories	**972**	1 267	(23.3)
Income tax receivable	**9**	76	(88.2)
Finance lease receivables	**106**	108	(1.9)
Trade and other receivables	**7 019**	7 425	(5.5)
Contract asset	**1 979**	2 161	(8.4)
Other current assets	**536**	357	50.1
Other financial assets	**759**	388	95.6
Sinking fund investment	**161**	1 573	(89.8)
Investment in insurance cell captive	**46**	–	100.0
Cash and cash equivalents	**4 728**	1 428	231.1
Assets classified as held for sale	–	200	(100.0)
Total assets	**61 386**	**52 944**	**15.9**
Equity and liabilities			
Equity attributable to owners of the parent	29 504	29 573	(0.2)
Share capital	**5 050**	5 050	–
Share-based compensation reserve	**835**	512	63.1
Non-distributable reserves	**1 642**	1 621	1.3
Retained earnings	**21 977**	22 390	(1.8)
Non-controlling interests	(29)	195	(114.9)
Total equity	**29 475**	**29 768**	**(1.0)**
Non-current liabilites	14 767	6 740	119.1
Interest-bearing debt	**10 105**	4 840	108.8
Lease liability	**3 708**	–	100.0
Provisions	**343**	1 193	(71.2)
Other financial liabilities	**62**	79	(21.5)
Deferred revenue	**396**	466	(15.0)
Deferred taxation	**153**	162	(5.6)
Current liabilities	17 144	16 436	4.3
Trade and other payables	**8 339**	6 536	27.6
Shareholders for dividend	**31**	29	6.9
Interest-bearing debt	**1 900**	5 401	(64.8)
Lease liabilities	**1 067**	–	100.0
Provisions	**1 892**	1 316	43.8
Deferred revenue	**1 754**	1 396	25.6
Income tax payable	**1 240**	1 335	(7.1)
Other financial liabilities	**919**	423	117.3
Credit facilities utilised	**2**	–	100.0
Total liabilities	**31 911**	**23 176**	**37.7**
Total equity and liabilities	**61 386**	**52 944**	**15.9**

Notes

The increase in the **deferred tax** asset is mainly attributable to the once-off costs that will give rise to future tax deductions, prior year overprovisions, current year tax losses and the adoption of IFRS 16 Leases which did not impact deferred tax in prior years due to the prospective application of the standard. The deferred tax balance in the current year is reduced by an additional liability of R297 million (31 March 2019: R67 million) relating to the movement in other comprehensive income including actuarial gains recognised on the post-employment benefit plans, accounted for in other comprehensive income.

Sinking fund investment decreased 89.8 percent to R161 million. The decrease is attributable to the withdrawal of funds to be utilised for the staff optimisation programme.

Net cash and cash equivalents increased 231.0% to R4 726 million mainly due to working capital optimisation in the current year and liquidating the sinking fund investment.

Non-current interest-bearing debt increased 108.8% largely due to increased borrowings to fund capex and optimise the group's capital structure. The current portion of interest-bearing debt of R1 900 million (FY2019: R5 401 million) decreased 64.8% as a result of repayments funded by operational cash flow and refinancing borrowings. Total interest-bearing debt increased by 17.2%.

The increase in current **provisions** is largely due to the provision recognised for the VSP and VERP costs, partially offset by a decrease in the bonus provision.

Summary audited consolidated statement of cash flows

	Reported IFRS 16 March 2020 Rm	Restated March 2019 Rm	Variance %
Cash flows from operating activities	8 563	5 706	50.1
Cash receipts from customers	43 239	40 341	7.2
Cash paid to suppliers and employees	(30 483)	(31 438)	(3.0)
Cash generated from operations	12 756	8 903	43.3
Interest received	212	441	(51.9)
Finance charges paid	(1 374)	(847)	(62.2)
Taxation paid	(1 320)	(945)	(39.7)
Cash generated from operations before dividend paid	10 274	7 552	36.0
Dividend paid	(1 711)	(1 846)	(7.3)
Cash flows from investing activities	(5 961)	(7 522)	20.8
Proceeds on disposal of property, plant and equipment and intangible assets	28	35	(20.0)
Additions to assets for capital expansion	(7 712)	(7 584)	(1.7)
Proceeds on disposal of SOX, BCX Nigeria and BCX Tanzania	244	–	100.0
Proceeds upon realisation of cell captive assets	1 500	–	100.0
Realisation of investment in other financial assets	–	45	(100.0)
Investments made by FutureMakers	(21)	(18)	(16.7)
Cash flows from financing activites	696	717	(2.9)
Loans raised	8 660	3 246	166.8
Loans repaid	(6 950)	(2 544)	(173.2)
Purchase of shares for the Telkom share plan and subsidiaries' long-term incentive share scheme	(172)	(47)	(266.0)
Other financing activities	(104)	–	(100.0)
Acquisition of the non-controlling interest in Yellow Pages	(160)	–	(100.0)
Repayment of lease liability	(780)	(42)	(1 757.1)
Repayment of derivatives	(176)	(222)	20.7
Proceeds from settlements of derivatives	378	326	16.0
Net increase/(decrease) in cash and cash equivalents	3 298	(1 099)	400.1
Net cash and cash equivalents at the beginning of the year	1 428	2 527	(43.5)
Net cash and cash equivalents at the end of the year	**4 726**	**1 428**	**231.0**

Notes

Cash flow from operating activities increased, mainly due to working capital optimisation.

The increase in **finance charges paid** is largely due to increased borrowings.

Taxation paid increased primarily due to partial tax payment relating to the FY2012 Multi-Links matter and the increase in the subsidiaries' taxable income.

The reduction in cash flows from investing activities is largely due to the liquidation of the sinking fund. The proceeds will be utilised to fund phase one of the VSP and VERP programme.

The increase in **loans raised** is largely due to additional loans raised to the value of R8 660 million (FY2019: R3 246 million), in the form of term loans, commercial paper, bonds and an Export Credit Agency loan. No material transaction fees were raised upon the issue of these debt instruments. The instruments have an average interest rate of 9.6% and are repayable over an average term of four years.

4

Telkom audited consolidated abridged financial statements for the year ended 31 March 2020

Board approval

These consolidated abridged financial statements were authorised for issue on 19 June 2020 by the Telkom SA SOC Limited board of directors and published on 22 June 2020.

Directors' responsibility and audit report

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

Preparer and supervisor of the consolidated abridged financial statements

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

Independent auditors' report on the summary consolidated financial statements

To the Shareholders of Telkom SA SOC Limited

Opinion

The summary consolidated financial statements of Telkom SA SOC Limited, contained in the accompanying abridged report, which comprise the summary consolidated statement of financial position as at 31 March 2020, the summary consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Telkom SA SOC Limited for the year ended 31 March 2020.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the requirements of the JSE

Limited Listings Requirements for abridged reports, as set out in note 3.1 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

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

Chief Executive Officer: L S Machaba

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

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

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

Victor Sekese [Chief Executive]

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

Summary Consolidated Financial Statements

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

The Audited Consolidated Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 20 June 2020. That report also includes communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

Director's Responsibility for the Summary Consolidated Financial Statements

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

Auditor's Responsibility

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: KJ Dikana
Registered Auditor
Johannesburg

20 June 2020

SizweNtsalubaGobodo Grant Thornton Inc.

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

20 June 2020

Consolidated summary statement of profit or loss and other comprehensive income

for the year ended 31 March 2020

	Notes	31 March 2020 Rm	Restated 31 March[1] 2019 Rm
Revenue	4	43 043	41 774
Operating revenue		42 764	41 583
Interest revenue[2]		279	191
Other income		676	719
Insurance service result		41	–
Payments to other operators		(3 683)	(2 940)
Cost of handsets, equipment, software and directories		(5 625)	(5 220)
Sales commission, incentives and logistical costs		(2 006)	(1 457)
Employee expenses	5	(10 713)	(10 777)
Other expenses	5	(2 688)	(2 003)
Maintenance	5	(3 880)	(4 209)
Marketing		(671)	(806)
Impairment of receivables and contract assets	18	(1 140)	(384)
Service fees	5	(3 274)	(2 934)
Lease expenses[3]	3.3.1	(478)	(1 182)
EBITDA		9 602	10 581
Depreciation of property, plant and equipment		(4 868)	(4 842)
Depreciation of right-of-use assets		(954)	–
Amortisation of intangible assets		(679)	(702)
Write-offs, impairments and losses of property, plant and equipment and intangible assets		(414)	(270)
Operating profit		2 687	4 767
Investment income		79	185
Income from associates		11	2
Net finance charges, hedging costs and fair value movements		(1 803)	(947)
Net finance changes on lease liabilities		(368)	–
Net finance charges - other		(1 202)	(885)
Cost of hedging		(205)	(88)
Foreign exchange and fair value movements		(28)	26
Profit before taxation		974	4 007
Taxation		(366)	(1 176)
Profit for the year		**608**	**2 831**

	Notes	31 March 2020 Rm	Restated 31 March[1] 2019 Rm
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange gains on translating foreign operations[4]		65	23
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial gains		1 080	1 352
Income tax relating to other comprehensive income[5]		(302)	(67)
Other comprehensive income for the year, net of taxation		843	1 308
Total comprehensive income for the year		**1 451**	**4 139**
Profit attributable to:			
Owners of Telkom		603	2 795
Non-controlling interests		5	36
Profit for the year		**608**	**2 831**
Total comprehensive income attributable to:			
Owners of Telkom		1 446	4 101
Non-controlling interests		5	38
Total comprehensive income for the year		**1 451**	**4 139**
Basic earnings per share (cents)	6	121.1	561.9
Diluted earnings per share (cents)	6	119.5	551.8

1 *Restated. Refer to note 3.4 and 3.6.*
2 *Restated. Refer to note 3.4.1.3.*
3 *For the year ended 31 March 2020, this amount represents low-value and short-term leases as defined by IFRS 16. The comparative amount represents operating leases as defined by IAS 17.*
4 *This component of OCI does not attract any tax.*
5 *Income tax relating to other comprehensive income is not in line with the decrease in the defined benefit gains due to the fact that in FY2019 the tax movement was impacted by the unrecognised deferred tax asset relating to other comprehensive income in FY2018.*

Consolidated summary statement of financial position

at 31 March 2020

	Notes	31 March 2020 Rm	Restated 31 March[1] 2019 Rm	Restated 1 April[1] 2018 Rm
Assets				
Non-current assets		45 071	37 961	36 359
Property, plant and equipment		33 608	32 035	30 324
Right-of-use assets	8	4 502	–	–
Intangible assets		4 739	4 521	4 492
Other investments		62	78	100
Employee benefits[2]		992	729	627
Other financial assets	9	192	133	60
Finance lease receivables		148	210	262
Deferred taxation	12	828	255	494
Current assets		16 315	14 783	13 778
Inventories	10	972	1 267	1 341
Income tax receivable		9	76	54
Finance lease receivables		106	108	112
Trade and other receivables	18	7 019	7 425	6 370
Contract assets	18	1 979	2 161	1 425
Other current assets	19	536	357	247
Other financial assets	9	759	388	163
Absa sinking fund investment	13	161	1 573	1 509
Investment in insurance cell captive		46	–	–
Cash and cash equivalents	11	4 728	1 428	2 557
Assets classified as held for sale	14	–	200	204
Total assets		**61 386**	**52 944**	**50 341**

	Notes	31 March 2020 Rm	Restated 31 March[1] 2019 Rm	Restated 1 April[1] 2018 Rm
Equity and liabilities				
Equity attributable to owners of the parent		29 504	29 573	26 957
Share capital		5 050	5 050	5 050
Share-based compensation reserve[3]		835	512	377
Non-distributable reserves		1 642	1 621	1 579
Retained earnings		21 977	22 390	19 951
Non-controlling interests		(29)	195	194
Total equity		29 475	29 768	27 151
Non-current liabilities		14 767	6 740	10 268
Interest-bearing debt	15	10 105	4 840	7 158
Lease liabilities	8	3 708	–	–
Provisions	16	343	1 193	2 427
Other financial liabilities	9	62	79	–
Deferred revenue		396	466	502
Deferred taxation	12	153	162	181
Current liabilities		17 144	16 436	12 922
Trade and other payables		8 339	6 536	5 771
Shareholders for dividend		31	29	58
Interest-bearing debt	15	1 900	5 401	2 239
Lease liabilities	8	1 067	–	–
Provisions	16	1 892	1 316	1 489
Deferred revenue		1 754	1 396	1 597
Income tax payable		1 240	1 335	1 382
Other financial liabilities	9	919	423	356
Credit facilities utilised	11	2	–	30
Total liabilities		**31 911**	**23 176**	**23 190**
Total equity and liabilities		**61 386**	**52 944**	**50 341**

1 *Restated. Refer to note 3.7.*
2 *The increase in employee benefits, specifically the plan assets, is largely due to the actuarial gain. The actuarial gain is due to the change in financial assumptions (an increase in the discount rate and inflation).*
3 *The increase in the share-based compensation reserve relates to the accelerated vesting of shares due to the voluntary severance, retirement and retrenchment packages in the current year.*

Consolidated summary statement of changes in equity

for the year ended 31 March 2020

	31 March 2020 Rm	31 March 2019 Rm
Balance at 1 April (as previously reported)	29 768	27 358
Attributable to owners of Telkom	29 573	27 164
Non-controlling interests	195	194
Total comprehensive income for the year	1 451	4 139
Profit for the year	608	2 831
Other comprehensive income	843	1 308
Exchange gains on translating foreign operations	65	23
Net defined benefit plan remeasurements	778	1 285
Dividend declared	(1 713)	(1 817)
Disposal of subsidiary (refer to note 14)	(9)	–
Acquisition of non-controlling interest (refer to note 14)	(160)	–
Increase in share-based compensation reserve	323	135
Escrow shares realised for settlement to employees	(14)	–
Increase in treasury shares	(159)	(47)
Increase in treasury shares from Yellow Pages	(12)	–
Balance at the end of the year	29 475	29 768
Attributable to owners of Telkom	29 504	29 573
Non-controlling interests	(29)	195

Consolidated summary statement of cash flows

for the year ended 31 March 2020

	Notes	31 March 2020 Rm	31 March 2019 Rm
Cash flows from operating activities		8 563	5 706
Cash receipts from customers		43 239	40 341
Cash paid to suppliers and employees		(30 483)	(31 438)
Cash generated from operations	23	12 756	8 903
Interest received		212	441
Finance charges paid		(1 374)	(847)
Taxation paid		(1 320)	(945)
Cash generated from operations before dividend paid		10 274	7 552
Dividend paid		(1 711)	(1 846)
Cash flows utilised for investing activities		(5 961)	(7 522)
Proceeds on disposal of property, plant and equipment and intangible assets		28	35
Additions to assets for capital expansion		(7 712)	(7 584)
Proceeds on disposal of SOX, BCX Nigeria and BCX Tanzania	14	244	–
Realisation of investment in other financial assets		–	45
Investments made by FutureMakers		(21)	(18)
Withdrawal from the Absa sinking fund investment		1 500	–
Cash flows from financing activities		696	717
Loans raised	24	8 660	3 246
Loans repaid	24	(6 950)	(2 544)
Other financing activities		(104)	–
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		(172)	(47)
Acquisition of non-controlling interest in Yellow Pages		(160)	–
Repayment of lease liability		(780)	(42)
Repayment of derivatives		(176)	(222)
Proceeds from derivatives		378	326
Net decrease in cash and cash equivalents		3 298	(1 099)
Net cash and cash equivalents at 1 April		1 428	2 527
Net cash and cash equivalents at the end of the year	11	4 726	1 428

Notes to the consolidated summary financial statements

for the year ended 31 March 2020

1. Independent audit

The consolidated summary financial statements have been derived from the audited Group financial statements. The directors of the Company take full responsibility for the preparation of the consolidated summary financial statements and that the financial information has been correctly derived and are consistent in all material respects with the underlying audited Group financial statements. The consolidated summary financial statements for the year ended 31 March 2020 have been audited by our joint independent auditors PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc., who have expressed an unmodified opinion thereon. The auditors also expressed an unmodified opinion on the Group financial statements from which the consolidated summary financial statements were derived. A copy of the auditors' report on the Group financial statements is available for inspection at the Company's registered office, together with the financial statements identified in the auditors' report.

2. Corporate information

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

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

3.1 Basis of preparation

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

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

3.2 Significant accounting judgements, estimates and assumptions

In preparing these consolidated summary financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the consolidated annual financial statements for the year ended 31 March 2019, with the exception of the judgements and estimates related to the adoption of IFRS 16 *Leases* (refer to note 3.3.1), useful lives of property, plant and equipment (refer to note 5), the assessment of COVID-19 as a post balance sheet event (refer to note 3.2.1) and the CGU and goodwill impairment assessment (refer to note 3.2.2).

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

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

As the Group is in the Information Communication Technology ("ICT") sector in South Africa and since the declaration of the national state of disaster in South Africa, in response to the COVID-19 pandemic, and the subsequent announcement of the national lock down, all telecommunication services have been recognised as an essential service which has allowed our businesses to continue operating during the lockdown. Management has considered the potential impact on the Group by taking a variety of risk elements into account which included considering macro-economic factors, contractual obligations and supply chain impacts. In addition, management performed a scenario analysis on the business prospects going forward and stress tested forecasts considering its "business unusual" impacts.

Management has considered all the possible financial effects the virus could have on the measurement, presentation and disclosure in the annual financial statements. Key areas are considered in the table below:

Notes to the consolidated summary financial statements

for the year ended 31 March 2020

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

3.2 Significant accounting judgements, estimates and assumptions continued

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

COVID-19 Consideration	Assessment	Potential impact	Note reference
SUBSEQUENT EVENTS	COVID-19 was assessed as being a condition that existed in the Group's markets as at 31 March 2020. Recognised assets and liabilities at reporting date are therefore presented, measured and disclosed after taking into account the effect or impact of material adjusting subsequent events as these provide further information about the COVID-19 condition which existed at 31 March 2020.	High	Note 26
FINANCIAL ASSET IMPAIRMENT (EXPECTED CREDIT LOSSES) CONTRACT ASSETS AND TRADE RECEIVABLES	The Group has based the measurement of expected credit losses ("ECL") on an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes and reflecting time value of money. IFRS 9 requires ECL provisions to be measured in a way that incorporates information available at the reporting date about past events, current conditions and forecasts of future economic conditions. All of these were used in calculating the ECL on financial assets. The total ECL provision increased by R626 million as a result of incorporating the impacts of COVID-19 into the model.	High	Note 18
IFRS 16 - LEASES IN WHICH THE GROUP IS THE LESSEE	The incremental borrowing rate applied to calculate the present value of the lease liability decreased for leases with lease periods between 1 and 5 years due to the increase in the South African risk-free rate. This is applicable to leases entered into from 1 March 2020 onwards as well as on the leases that were remeasured in March 2020 due to the change in the lease term from 3 to 5 years.	Medium	Note 8
NON-FINANCIAL ASSET IMPAIRMENT	Goodwill is tested for impairment annually and whenever there are indicators of impairment. In determining the recoverable amount of the Telkom cash generating unit ("CGU") and investment in BCX, the Group considered several sources of estimation uncertainty and made certain assumptions or judgements about the future. Management also considered various scenario analysis with respect to the impact of COVID-19 on the cash flow projections, given the evidence available at the time of finalising the annual financial statements.	Low	Note 20
INVENTORIES	There was a low impact of COVID-19 on inventories due to limited disruptions in operations as Telkom was an essential service. There was no indication of losses suffered due to damage, contamination or write-offs due to slow moving inventory.	Low	N/A
REVENUE	There was no significant impact of COVID-19 on mobile revenue, as the telecommunications industry was declared as an essential service in South Africa. The Group's fixed and IT services revenue has however been impacted by COVID-19 post the reporting date.	Medium	N/A
ONEROUS CONTRACTS	The Group does not engage in services that may lead to material onerous contracts.	Low	N/A

Notes to the consolidated summary financial statements

for the year ended 31 March 2020

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

3.2 Significant accounting judgements, estimates and assumptions continued

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

COVID-19 Consideration	Assessment	Potential impact	Note reference
CREDIT RISK	The Group's maximum exposure to credit risk is represented by the carrying amount of the Group's financial assets. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There was a material change in the Group's exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the 2020 financial year due to the impact of COVID-19. To support the credit transmission mechanism of the South African economy, given the impact of COVID-19, the South African Reserve Bank (SARB) announced reductions in the Repo (Repurchase) rate. In addition, facilitated by the SARB, the government has also implemented a bond purchase programme to provide liquidity to banks and enable a well-functioning credit transmission mechanism. The fiscal profile of South Africa has resulted in sovereign credit rating downgrades.	Medium	N/A
LIQUIDITY RISK	There was a change in the Group's objectives, policies and processes for managing and measuring liquidity risk during the 2020 financial year due to the impact of the COVID-19 pandemic. The Group has maintained elevated levels of liquidity in response to the potential impact of the pandemic. This will also mitigate the risk of the Group's credit rating downgrade.	Low	N/A
GOING CONCERN	The Group continues to operate as a going concern, with a strong balance sheet and solid cash flow position. There has also been a limited disruption on operations.	Low	Note 25

3.2.2 Significant judgements and estimates - CGU and goodwill impairment assessment

IAS 36 *Impairment of Assets*, requires assets to be assessed for impairment when impairment indicators are evident. This standard also requires goodwill to be assessed for impairment on an annual basis.

Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit, or group of units, to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense. Impairment losses relating to goodwill are not subsequently reversed.

Goodwill of the Telkom Group is allocated as follows:

Entity/CGU	Amount (Rm)	Assessment method
Telkom	63	IAS 36 - Discounted cash flow ("DCF")
BCX	1 196	IAS 36 - Discounted cash flow ("DCF")

The goodwill in the Telkom CGU arose from the acquisition of Yellow Pages. The goodwill for the BCX CGU arose on acquisition of BCX in August 2015 and subsequent acquisitions made by the BCX Group.

In determining the recoverable amount of the Telkom Group CGUs, the Group considered several sources of estimation uncertainty and made certain assumptions or judgements about the future.

Management used cash flow projections per board-approved business plans. These cash flow projections changed from a 3-year outlook to a 5-year outlook for the year end. Management applied the following key assumptions in the DCF valuation model:

- Revenue growth;
- EBITDA margins;
- Fair value charge contributory asset income or charge*;
- Discount rates; and
- Terminal growth rates.

* *BCX uses Telkom's network assets for its Enterprise business. An assumption was made that a fair value contributory asset income or charge could be derived for use of the network asset between Telkom Company and BCX, which informed the identification of BCX as a separate CGU.*

** *Refer to note 20 for details of the impairment testing.*

Notes to the consolidated summary financial statements

for the year ended 31 March 2020

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

3.3 Significant accounting policies

The consolidated summary financial statements have been prepared in accordance with the accounting policies adopted in the previous financial year, except for the adoption of the new and amended standards. Disclosure has only been provided for new standards and interpretations which became effective for the current year where the adoption had a material impact on the Group.

3.3.1 Adoption of IFRS 16 *Leases*

The Group adopted IFRS 16 *Leases* with effect from 1 April 2019. IFRS 16 replaces IAS 17 *Leases*, along with the following three Interpretations: IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC 15 *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The Group has adopted the new standard retrospectively, but has not restated comparatives, as permitted under the specific transitional provisions in the standard. Therefore, prior periods are still reported under IAS 17 along with the three Interpretations. The reclassifications and adjustments arising from the adoption of IFRS 16 are recognised in the opening statement of financial position as at 1 April 2019.

3.3.1.1 Transition

3.3.1.1.1 The Group as a lessee

On the adoption date, for leases classified as operating leases in terms of IAS 17, the Group measured the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate, for the remaining lease terms, as at 1 April 2019.

Right-of-use assets were measured at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments that existed immediately before the date of adoption.

The following practical expedients were applied on adoption of IFRS 16:

Short-term leases	The Group elected to apply the practical expedient to account for leases with a remaining lease term of less than 12 months as at 1 April 2019 in lease expenses. The exemption is applied per class of underlying asset.
Initial direct costs	The Group elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence on adoption of the standard.
Lease term	Telkom benefited from the use of hindsight for determining the lease term when considering options to extend or terminate leases.
Impairment review on right-of-use assets	Instead of performing an impairment review on the right-of-use assets on the adoption date, Telkom has relied on its historical assessment as to whether leases were onerous immediately before the adoption of IFRS 16. There were no onerous provisions as at 1 April 2019.
Discount rate	The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying assets in a similar economic environment and same entity within the Group).

The Group has elected not to reassess whether a contract is, or contains a lease, on adoption of the standard. Instead, for contracts entered into before the adoption date, the Group relied on its assessment made, applying IAS 17 along with the three Interpretations. The Group also elected to apply the recognition exemption relating to low value assets.

For finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 April 2019 was determined as the carrying amount of the lease asset and lease liability under IAS 17, immediately before that date.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

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

3.3 Significant accounting policies continued

3.3.1 Adoption of IFRS 16 *Leases* continued

3.3.1.1 Transition continued

3.3.1.1.1 The Group as a lessee continued

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 8.805%.

3.3.1.2.1 The Group as a lessor

The Group's accounting policy under IFRS 16 has not changed from the comparative period. As a lessor, the Group classifies its leases as either operating or finance leases.

The Group has also elected not to reassess whether a contract is, or contains a lease, on adoption of the standard. Instead, for contracts entered into before the adoption date, the Group relied on its assessment made, applying IAS 17 along with three interpretations.

3.3.1.2 Impact on the financial statements

The adoption of IFRS 16 *Leases* on 1 April 2019 affected the following line items on the statement of profit or loss and other comprehensive income, the statement of financial position and the statement of cash flows:

Consolidated summary statement of profit or loss and other comprehensive income (extract)	31 March 2020 Rm	IFRS 16 Rm	31 March 2020 - as presented Rm
Lease expenses	(1 562)	1 084	(478)
EBITDA	8 518	1 084	9 602
Depreciation of right-of-use assets	–	(954)	(954)
Operating profit	2 557	130	2 687
Net finance charges, hedging costs and fair value movements	(1 435)	(368)	(1 803)
Net finance charges on lease liabilities	–	(368)	(368)
Profit before taxation	1 212	(238)	974
Taxation	(433)	67	(366)
Profit for the year	779	(171)	608

Earnings per share decreased by 34.42 cents per share for the year ended 31 March 2020 as a result of the adoption of IFRS 16.

Consolidated summary statement of financial position (extract)	31 March 2020 Rm	IFRS 16 Rm	31 March 2020 - as presented Rm
Assets			
Non-current assets			
Property, plant and equipment	33 613	(5)	33 608
Right-of-use assets	–	4 502	4 502
Deferred taxation	755	73	828
Total assets	56 816	4 570	61 386
Equity and liabilities			
Non-current liabilities			
Lease liabilities	3	3 705	3 708
Current liabilities			
Lease liabilities	14	1 053	1 067
Total equity and liabilities	56 628	4 758	61 386

Cash from operating activities includes interest paid on lease liabilities of R368 million and cash used in financing activities includes R780 million for the capital portion of lease liability repayments. Refer to the statement of cash flows. The cash flows relating to operating leases under IAS 17 were previously recognised as net cash generated from operations.

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities. The recognised right-of-use assets relate to the following categories of assets:	1 April 2019 Rm
Vehicles	521
Property	1 098
Network equipment	2 550
	4 169

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

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

3.3 Significant accounting policies continued

3.3.1 Adoption of IFRS 16 *Leases* continued

3.3.1.2 Impact on the financial statements continued

The following is a reconciliation of the total operating lease commitments as at 31 March 2019 to the lease liabilities recognised at 1 April 2019:	Reconciled opening balance Rm
Operating lease commitments disclosed as at 31 March 2019	4 119
Adjustment to lease commitments as disclosed as at 31 March 2019*	757
Adjusted opening balance	**4 876**
Recognition exemptions:	
(Less): short-term leases recognised on a straight-line basis as an expense (leases ending within 12 months of 1 April 2019)	(140)
(Less): leases of low-value assets (recognised on a straight-line basis as an expense)	–
Add: adjustments relating to changes in the index or rate affecting variable payments (undiscounted)	(263)
Add: adjustments as a result of a different treatment of extension and termination options (undiscounted)	1 197
(Less): non-lease components (contracts reassessed as service agreements) (undiscounted)	(143)
Operating lease liabilities before discounting	**5 527**
Discounted using the incremental borrowing rate at the date of initial application (effect of discounting)	(1 317)
IFRS 16 operating lease liability as at 1 April 2019	**4 210**
Add: finance lease liabilities recognised as at 31 March 2019	43
Total lease liabilities recognised under IFRS 16 at 1 April 2019**	**4 253**

* *On the adoption of IFRS 16, management undertook an extensive data clean-up process which sought to validate and align IAS 17 data to the requirements of IFRS 16, and it was discovered that in the prior period, operating lease commitments amounting to R748 million were erroneously not disclosed in the notes to the financial statements as per requirement of IAS 17. The error had no impact on the statement of profit or loss and other comprehensive income or the statement of financial position.*

** *The lease liability recognised on 1 April 2019, as previously disclosed in the 2019 interim results, increased as a result of leases, that were previously classified as low value, being capitalised under IFRS 16 principles. The latter was as a result of an assessment being performed to confirm the value of underlying assets for low value leases.*

The Group's leases include network equipment (which includes masts and towers and data equipment), property and vehicles.

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

3.3.1.3 The Group's leasing activities and significant accounting policies

3.3.1.3.1 The Group as a lessee

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

For any new contracts entered into on or after 1 April 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Group assesses whether the contract meets three key evaluations, which are whether:

- the contract contains an asset, which is either explicitly or implicitly identified in the contract
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct how and for what purpose the asset is used throughout the period of use

Recognition of leases

At the commencement date of a lease, the Group shall recognise a right-of-use asset and lease liability for contracts that are, or contains, a lease, except in the case where recognition exemptions are elected.

The Group has elected to apply the following recognition exemptions:

Short-term leases	Leases that, at the commencement date, have a lease term of 12 months or less (after considering lease extension options and management's intention with the use of the leased asset) are expensed on a straight-line basis over the lease term. This is accounted for in the lease expenses line item on the statement of profit or loss and other comprehensive income.
Low-value assets	All leases, where the underlying asset being used is of low value, are assessed on a lease-by-lease basis and expensed on a straight-line basis over the lease term. This is accounted for in the lease expenses line item on the statement of profit or loss and other comprehensive income. Leased assets are classified as low value if the value of the asset is R73 200, when purchased new, regardless of the age of the asset. The low value criteria is applied to the underlying asset that can benefit the entity on their own or together with an asset that is readily available in the market and the underlying asset is not highly dependent on, nor highly interrelated with other assets. As required by IFRS 16, assets leased as part of the head lease, are not accounted for as low value leases, even when they meet the low value criteria. Although this exemption has been elected, it is not applicable in the current financial year.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

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

3.3 Significant accounting policies continued

3.3.1 Adoption of IFRS 16 *Leases* continued

3.3.1.3 The Group's leasing activities and significant accounting policies continued

3.3.1.3.1 The Group as a lessee continued

Lease and non-lease components:

A number of lease contracts include both lease and non-lease components. The Group allocates the consideration in the contract to each lease and non-lease component based on the amount as stipulated in the lease agreement as the rental for the asset is separate from the operational costs in the majority of the agreements. In lease agreements, where the gross rental amount includes operational costs, an estimate will be made to determine which portion of the gross rental relates to operational costs, which will inform the separation of the operational costs on these contracts. The Group has not elected the practical expedient to account for non-lease components as part of its lease liabilities and right-of-use assets. Therefore, non-lease components are accounted for as operating expenses and are recognised in profit or loss as they are incurred.

Right-of-use assets - initial and subsequent measurement

After the adoption date, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). The right-of-use assets are measured at cost, which is made up of the initial measurement of the lease liabilities, any initial direct costs incurred by the Group, any lease payments made in advance of the lease commencement date, less any lease incentives received. Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of any lease liabilities. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment in accordance with the principles of *IAS 36 Impairment of Assets.*

Lease liabilities – initial and subsequent measurement

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that are based on an index or rate (measured using the index or rate at commencement date) and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the Group is reasonably certain to exercise the option to terminate. The variable lease payments, that do not depend on an index or a rate, are recognised as an expense in the period in which the event or condition, that triggers those payments, occurs.

Subsequent to initial measurement, the lease liability will be reduced for payments made and increased by the interest cost. Interest costs are included in finance charges in the statement of profit or loss and other comprehensive income over the lease period. It is remeasured when there is a change in future lease payments arising from a change in index or rate, a change in the estimate of the amount payable under a residual value guarantee or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. Furthermore, a revision to Telkom's rolling budget/forecast is considered a significant event which would trigger a reassessment of the lease term. Any change to the lease term would result in a remeasurement of the associated lease liability.

Significant judgements

Key judgements and practical expedients have been reassessed since the disclosures in the 31 March 2019 financial statements.

Lease term

Renewal and termination options

In determining the lease term, all facts and circumstances are considered that create an economic incentive to exercise a renewal option, or not exercise a termination option. Renewal options and periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated. The Group applies judgement in assessing whether it is reasonably certain that options will be exercised. Factors considered include the past history of renewing leases, the length of the non-cancellable period of the lease, the Group's rolling budgeting forecast period of 5 years and the importance of the underlying asset to the Group's operations. The Group applied the rolling budget forecast period on all its month-to-month leases or leases with indefinite lease periods or strategic asset leases.

The lease term will be reassessed at the occurrence of a significant event, which is either a change in the budgeting forecast cycle or other major events not within the Group's control.

In March 2020, the Group changed its rolling budgeting forecast from 3 years to 5 years. The change was accounted for by remeasuring the lease liability with a corresponding adjustment to the right-of-use asset.

Month-to-month leases

The Group has leases that continue contractually on a month-to-month basis for an indefinite period or continue automatically on a month-to-month basis after expiry. In these agreements, the Group can terminate the agreement and neither party would incur a contractual penalty payment on termination. However, in determining the lease term, the Group considered the broader economics of the contract including factors such as the strategic importance of the asset, whether alternative suitable locations are available, the budgeting forecast cycle, and that management is not reasonably certain of business decisions that it will take beyond this period. Based on the above, the lease term of all month-to-month leases are aligned to the budgeting forecast cycle.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

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

3.3 Significant accounting policies continued

3.3.1 Adoption of IFRS 16 *Leases* continued

3.3.1.3 The Group's leasing activities and significant accounting policies continued

3.3.1.3.1 The Group as a lessee continued

Lease discount rate	Except where a discount rate implicit in the lease has been stipulated in the lease agreement, the lease payments are discounted using the incremental borrowing rate. The calculation of an incremental borrowing rate requires significant judgement. The incremental borrowing rate is calculated as a function of base rate, plus credit spread, plus other adjustments. Other adjustments takes into account the lease period, currency of the lease payments, lease duration, lease-specific adjustments such as asset class and country risk premium. Base rate is a risk-free rate based on the interest rate swap curve of the country, of the lease payments currency and the base is matched to the lease period. The credit spread for Telkom Company is based on Telkom's bond yield spread over the equivalent risk-free rate. The credit spread for other Telkom Group entities (BCX, Gyro and Yellow Pages) is based on their credit risk relative to Telkom Group.
Lease and non-lease compo-nents	In lease agreements, where the gross rental amount includes operational cost, the Group applies judgement in allocating the consideration in the contract to each lease and non-lease component based on their relative stand-alone selling prices. The stand-alone selling prices of each component are based on available market prices.

3.3.1.3.2 The Group as a lessor

Where the Group is a lessor, it determines at inception whether the lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not. The land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification unless it is impracticable to do so.

3.3.2 IFRIC 23 and the related agenda decision

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 *Income Taxes* are applied when there is uncertainty over income tax treatment. The Interpretation is effective for annual periods beginning on or after 1 January 2019. The IFRIC agenda decision issued in September 2019 clarifies the presentation requirements in IAS 1 *Presentation of Financial Statements* where there is uncertainty over income tax treatment.

The Telkom Group previously presented uncertain income tax liabilities as part of provisions based on amounts expected to be paid to the tax authorities. Following the IFRIC agenda decision, the Group has adopted the treatment as set out in the IFRIC agenda and has reclassified uncertain income tax related liabilities from provisions to current tax liabilities in the Group's statement of financial position.

This change in accounting policy has been accounted for retrospectively and comparative information has been restated. Refer to note 3.7. No additional current or deferred tax liabilities were recognised as a result of IFRIC 23.

No significant judgements and estimates were applied in determining the uncertain tax positions. The Group's estimates and judgements for uncertain tax positions are based on historical experience and expectation of future events. These will be reviewed periodically based on any changes to the circumstances and legal precedent. A reassessment in future may be triggered due to a change in circumstances, such as if the settlement agreement on bad debt is not reached, or new information that has become available.

3.4 Restatements due to prior period errors and reclassifications

3.4.1 Prior period errors

3.4.1.1 Prior period error - expenses classification

In the current financial year, it was identified that certain BCX expenses were incorrectly classified on the statement of profit or loss and other comprehensive income for the year ended 31 March 2019. This was identified through focused accounting records clean-up.

There was no impact on the net operating revenue, EBITDA, profit before tax or basic earnings per share and headline earnings per share. The previous accounting treatment had no impact on the statement of financial position as it only resulted in an overstatement of the other expenses line item and an understatement of the maintenance and cost of handsets, equipment, software and directories line items.

The Group has restated the 31 March 2019 statement of profit or loss and other comprehensive income. Refer to note 3.6 for each materially affected line item as part of the correction of the error.

3.4.1.2 Prior period error - vendor financing

During the current financial year, as part of the process of renegotiating certain vendor payment terms and contractual agreements, existing vendor arrangements in BCX were reassessed in terms of IFRS 9. This is an accounting area which requires management judgement in assessing the terms and conditions of the arrangement and determining the appropriate accounting treatment. The assessment concluded that certain long-standing vendor arrangements met the IFRS 9 requirements to be classified as vendor financing which should be disclosed as other financial liabilities. In the prior financial year, the obligation related to this supplier financing agreement was incorrectly included in the trade and other payables balance at a Group level.

As a result, a reclassification in the current year from trade and other payables to other financial liabilities has been made. The Group has also restated the 31 March 2019 statement of financial position. Refer to note 3.7 for each materially affected line item as part of the correction of the error.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

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

3.4 Restatements due to prior period errors and reclassifications continued

3.4.1 Prior period errors continued

3.4.1.3 Disaggregation of interest revenue

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

3.4.2 Reclassification

3.4.2.1 Reclassification between contract assets and other current assets

In the prior financial year, contract cost assets (which relate to incremental costs to acquire and costs to fulfil contracts with customers) were included in the contract assets line item on the statement of financial position.

This aggregation has been reassessed in the current financial year as the contract cost assets and contract assets are not of the same nature and the subsequent measurement differs. Contract assets represent assets for accrued revenue in respect of goods or services delivered to customers for which a trade receivable does not yet exist and is subject to impairment in terms of IFRS 9. Contract cost assets relate to assets that are raised for the impact of capitalising commission and incentive costs paid to dealers and sales staff as well as ongoing commission. To improve the disclosure of contract assets and contract cost assets, an additional line item has been included in the statement of financial position called "other current assets". Following the above reassessment, the contract cost assets previously included in the contract assets line item has been reclassified to other current assets. There has been no restatement to the amounts disclosed for contract assets and contract cost assets and there has been no change in the accounting policy.

The Group has re-presented the comparative statements of financial position. Refer to note 3.7 for each materially affected line item as part of the reclassification.

3.5 Standards and interpretations in issue not yet adopted and not yet effective

Information on standards issued by the International Accounting Standards Board (IASB), but not effective for the current financial year, has been provided below where it is expected that the new standards will have a material impact on the Group.

Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments neither adopted nor listed below are not expected to have a material impact on the Group's financial statements.

The following new standards, amendments to standards and interpretations in issue have not yet been adopted and are not yet effective. All standards are effective for annual periods beginning on or after the effective date.

3.5.1 IFRS 17 *Insurance Contracts*

The IASB issued IFRS 17 *Insurance Contracts* which will replace IFRS 4 *Insurance Contracts*. IFRS 17 *Insurance Contracts* establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. The standard is effective for financial periods beginning on or after 1 January 2022. The Group anticipates that it will adopt the standard effective 1 April 2022.

The Group has not yet performed an impact assessment.

3.6 Restatements to the consolidated abridged statement of profit or loss and other comprehensive income

	For the year ended 31 March 2019		
Extract from the consolidated summary statement of profit or loss and other comprehensive income	As previously reported Rm	Restatement* Rm	Restated Rm
Revenue	41 774	–	41 774
Other income	719	–	719
Payments to other operators	(2 940)	–	(2 940)
Cost of handsets, equipment, software and directories	(5 205)	(15)	(5 220)
Sales commission, incentives and logistical costs	(1 457)	–	(1 457)
Employee expenses	(10 777)	–	(10 777)
Other expenses	(3 153)	1 150	(2 003)
Maintenance	(3 074)	(1 135)	(4 209)
Marketing	(806)	–	(806)
Impairment of receivables and contract assets	(384)	–	(384)
Service fees	(2 934)	–	(2 934)
Lease expenses	(1 182)	–	(1 182)
EBITDA	10 581	–	10 581

* Refer to note 3.4.1.1.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

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

3.7 Restatements to the consolidated summary statement of financial position

	As at 31 March 2019					As at 1 April 2018				
	As previously reported Rm	Reclassifi-cation* Rm	Vendor finan-cing** Rm	Adoption of IFRIC 23*** Rm	Restated Rm	As previously reported Rm	Reclassifi-cation* Rm	Vendor finan-cing** Rm	Adoption of IFRIC 23*** Rm	Restated Rm
Assets										
Non-current assets	37 961	–	–		37 961	36 359	–	–	–	36 359
Property, plant and equipment	32 035	–	–	–	32 035	30 324	–	–	–	30 324
Intangible assets	4 521	–	–	–	4 521	4 492	–	–	–	4 492
Other investments	78	–	–	–	78	100	–	–	–	100
Employee benefits	729	–	–	–	729	627	–	–	–	627
Other financial assets	133	–	–	–	133	60	–	–	–	60
Finance lease receivables	210	–	–	–	210	262	–	–	–	262
Deferred taxation	255	–	–	–	255	494	–	–	–	494
Current assets	14 783	–	–	–	14 783	13 778	–	–	–	13 778
Inventories	1 267	–	–	–	1 267	1 341	–	–	–	1 341
Income tax receivable	76	–	–	–	76	54	–	–	–	54
Finance lease receivables	108	–	–	–	108	112	–	–	–	112
Trade and other receivables	7 425	–	–	–	7 425	6 370	–	–	–	6 370
Contract assets	2 518	(357)	–	–	2 161	1 672	(247)	–	–	1 425
Other current assets	–	357	–	–	357	–	247	–	–	247
Other financial assets	388	–	–	–	388	163	–	–	–	163
Other investments	1 573	–	–	–	1 573	1 509	–	–	–	1 509
Cash and cash equivalents	1 428	–	–	–	1 428	2 557	–	–	–	2 557
Assets classified as held for sale	200	–	–	–	200	204	–	–	–	204
Total assets	**52 944**	**–**	**–**	**–**	**52 944**	**50 341**	**–**	**–**	**–**	**50 341**

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

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

3.7 Restatements to the consolidated summary statement of financial position continued

	As at 31 March 2019					As at 1 April 2018				
	As previously reported Rm	Reclassification* Rm	Vendor financing** Rm	Adoption of IFRIC 23*** Rm	Restated Rm	As previously reported Rm	Reclassification* Rm	Vendor financing** Rm	Adoption of IFRIC 23*** Rm	Restated Rm
Equity and liabilities										
Equity attributable to owners of the parent	29 573	–	–	–	29 573	26 957	–	–	–	26 957
Share capital	5 050	–	–	–	5 050	5 050	–	–	–	5 050
Share-based compensation reserve	512	–	–	–	512	377	–	–	–	377
Non-distributable reserves	1 621	–	–	–	1 621	1 579	–	–	–	1 579
Retained earnings	22 390	–	–	–	22 390	19 951	–	–	–	19 951
Non-controlling interests	195	–	–	–	195	194	–	–	–	194
Total equity	29 768	–	–	–	29 768	27 151	–	–	–	27 151
Non-current liabilities	6 740	–	–	–	6 740	10 268	–	–	–	10 268
Interest-bearing debt	4 840	–	–	–	4 840	7 158	–	–	–	7 158
Provisions****	–	1 193	–	–	1 193	–	2 427	–	–	2 427
Employee related provisions	1 186	(1 186)	–	–	–	2 388	(2 388)	–	–	–
Non-employee related provisions	7	(7)	–	–	–	39	(39)	–	–	–
Other financial liabilities	79	–	–	–	79	–	–	–	–	–
Deferred revenue	466	–	–	–	466	502	–	–	–	502
Deferred taxation	162	–	–	–	162	181	–	–	–	181
Current liabilities	16 436	–	–	–	16 436	12 922	–	–	–	12 922
Trade and other payables	7 406	–	(107)	(763)	6 536	6 898	–	(106)	(1 021)	5 771
Shareholders for dividend	29	–	–	–	29	58	–	–	–	58
Interest-bearing debt	5 401	–	–	–	5 401	2 239	–	–	–	2 239
Provisions****	–	1 316	–	–	1 316	–	1 489	–	–	1 489
Employee related provisions	1 175	(1 175)	–	–	–	1 325	(1 325)	–	–	–
Non-employee related provisions	141	(141)	–	–	–	164	(164)	–	–	–
Deferred revenue	1 396	–	–	–	1 396	1 597	–	–	–	1 597
Income tax payable	572	–	–	763	1 335	361	–	–	1 021	1 382
Other financial liabilities	316	–	107	–	423	250	–	106	–	356
Credit facilities utilised	–	–	–	–	–	30	–	–	–	30
Total liabilities	23 176	–	–	–	23 176	23 190	–	–	–	23 190
Total equity and liabilities	52 944	–	–	–	52 944	50 341	–	–	–	50 341

* *Refer to note 3.4.2.*
** *Restated. Refer to note 3.4.1.2.*
*** *Refer to note 3.3.2.*
**** *In the current financial year, employee related provisions and non-employee related provisions have been aggregated into one line to improve disclosure as the non-employee related provisions are not material.*

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

4. Segment information

The executive committee (Exco) is the Group's chief operating decision maker (CODM). Management has determined the operating segments based on the reports reviewed by Exco that are used to make strategic decisions, allocate resources and assess performance of each reportable segment.

The reportable segments have been determined as Openserve, Consumer, BCX, Gyro and "Other". "Other" includes Yellow Pages and other business units.

The CODM reviews the performance of the operating segments on an EBITDA basis.

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

- Interest revenue; and
- Interest on overdue accounts

In the current year, for comparability purposes, the CODM also reviewed EBITDA excluding the IFRS 16 impact on IAS 17 operating leases that are capitalised under IFRS 16. The current year EBITDA has been normalised for voluntary severance, retirement and retrenchment package expenses of R1 186 million and expected credit losses of R626 million arising from the expected impact of COVID-19. The comparative year has been normalised for voluntary severance and retirement expenses of R728 million.

The CODM views this as a normalised EBITDA measure. Adjustments are made for significant non-recurring items such as restructurings, adoption of new accounting standards and, for the current year, the expected impact of COVID-19.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

4. Segment information continued

	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	Consolidated Rm
March 2020							
Revenue from external customers*	3 990	21 460	16 462	651	480	–	43 043
Revenue from contracts with customers recognised over time	3 990	19 015	14 111	–	1	–	37 117
Voice	–	6 970	4 749	–	–	–	11 719
Interconnection	537	420	–	–	–	–	957
Data	3 216	11 333	3 490	–	1	–	18 040
Information technology services	–	–	5 823	–	–	–	5 823
Interest revenue	–	279	–	–	–	–	279
Sundry revenue	237	13	49	–	–	–	299
Revenue from contracts with customers recognised at a point in time	–	2 445	2 351	–	479	–	5 275
Customer premises equipment	–	2 445	1 319	–	–	–	3 764
Information technology hardware	–	–	1 032	–	–	–	1 032
Sundry revenue	–	–	–	–	479	–	479
Operating lease revenue	–	–	–	651	–	–	651
Intersegmental operating revenue	11 145	259	2280	863	1 403	(15 950)	–
Other income	274	550	88	10	772	(1 018)	676
Insurance service result	–	–	–	–	41	–	41
Total expenses	(11 596)	(20 687)	(15 814)	(327)	(1 976)	16 968	(33 432)
Cost of handsets, equipment, software and directories	–	(3 189)	(2 258)	–	(178)	–	(5 625)
Sales commission, incentives and logistical costs	–	(1 778)	(228)	–	–	–	(2 006)
Payments to other operators	(915)	(2 689)	(619)	–	–	540	(3 683)
Employee expenses	(3 858)	(859)	(4 203)	(113)	(499)	5	(9 527)
Selling, general and administrative expenses	(3 929)	(10 493)	(7 802)	(115)	(931)	15 517	(7 753)
Service fees	(1 866)	(583)	(510)	(97)	(314)	96	(3 274)
Lease expenses	(1 028)	(1 096)	(194)	(2)	(52)	810	(1 562)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions**	3 813	1 582	3 016	1 197	720	–	10 330
IFRS 16 impact on lease expenses	731	832	134	–	80	(693)	1 084
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions							11 414
Reconciliation of operating profit to profit before tax							
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments							11 414
Normalisations							
Voluntary severance, retirement and retrenchment package expenses							(1 186)
Expected credit losses							(626)
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments							9 602
Depreciation, amortisation, impairments and write-offs							(6 915)
Operating profit							2 687
Investment income							79
Income from associates							11
Net finance charges, hedging costs and fair value movements							(1 083)
Profit before taxation							974
Other segment information							
Capital expenditure of property, plant and equipment and intangible assets	2 992	3 742	552	203	266	–	7 755

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

4. Segment information continued

	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Elimina-tions Rm	Consoli-dated Rm
Restated March 2019* **							
Revenue from external customers*	4 207	18 866	17 426	609	666	–	41 774
Revenue from contracts with customers recognised over time	4 207	16 219	15 251	–	–	–	35 677
Voice	–	6 845	5 637	–	–	–	12 482
Interconnection	792	270	–	–	–	–	1 062
Data	3 415	8 913	3 685	–	–	–	16 013
Information technology services	–	–	5 889	–	–	–	5 889
Interest revenue	–	191	–	–	–	–	191
Sundry revenue	–	–	40	–	–	–	40
Revenue from contracts with customers recognised at a point in time	–	2 647	2 175	–	666	–	5 488
Customer premises equipment	–	2 635	1 329	–	–	–	3 964
Information technology hardware	–	–	846	–	–	–	846
Sundry revenue	–	12	–	–	666	–	678
Operating lease revenue	–	–	–	609	–	–	609
Intersegmental operating revenue	12 733	348	2 154	560	1 349	(17 144)	–
Other income	378	615	117	–	809	(1 200)	719
Total expenses	(11 026)	(18 799)	(16 457)	(484)	(2 762)	18 344	(31 184)
Cost of handsets, equipment, software and directories	–	(2 959)	(2 136)	–	(244)	119	(5 220)
Sales commission, incentives and logistical costs	(6)	(1 250)	(213)	–	–	12	(1 457)
Payments to other operators	(954)	(1 958)	(729)	–	–	701	(2 940)
Employee expenses	(3 628)	(735)	(4 538)	(104)	(1 032)	(12)	(10 049)
Selling, general and administrative expenses	(4 009)	(10 951)	(8 110)	(88)	(1 083)	16 839	(7 402)
Service fees	(1 721)	(416)	(490)	(185)	(335)	213	(2 934)
Lease expenses	(708)	(530)	(241)	(107)	(68)	472	(1 182)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	6 292	1 030	3 240	685	62	–	11 309
Reconciliation of operating profit to profit before tax							
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions							11 309
Normalisations							
Voluntary severance, retirement and retrenchment package expenses							(728)
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments							10 581
Depreciation, amortisation, impairments/(reversals) and write-offs							(5 814)
Operating profit							4 767
Investment income							185
Income from associates							2
Net finance charges, hedging costs and fair value movements							(947)
Profit before taxation							4 007
Other segment information							
Capital expenditure of property, plant and equipment and intangible assets	4 034	3 070	304	60	206	–	7 674

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

4. Segment information continued

Entity wide disclosures

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

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

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

* *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.*

** *EBITDA before IFRS 16 has been included for comparability purposes.*

*** *Subsequent to the publication of the March 2019 annual financial statements, the Group has aligned its revenue streams in the BCX segment. This has resulted in the reallocation of revenue streams and certain expenses. All revenue line items, as well as cost of handsets, equipment, software and directories and selling, general and administrative expenses were impacted. The comparative numbers have been restated.*

5. Expenses

	31 March 2020 Rm	Restated 31 March 2019 Rm
Employee expenses	(10 713)	(10 777)
The decrease in employee expenses is due to the lower headcount as a result of the voluntary employee severance and voluntary early retirement packages paid to employees in the 31 March 2020 financial year.		
This decrease was offset by the provision for voluntary severance, retirement and retrenchment packages offered in the current financial year of R1 186 million (31 March 2019: R728 million).		
Maintenance	(3 880)	(4 209)
Maintenance cost has decreased due to the cost-saving initiatives that have been implemented in the current financial year.		
Service fees	(3 274)	(2 934)
Service fees increased due to the increase in facility management fees in the current financial year.		
Other expenses	(2 688)	(2 003)
Other expenses include license fees paid to regulators, donations, market research and losses as a result of theft of copper and fibre lines. Other expenses increased due to the growth in the mobile business as well as an increase in losses resulting from theft. There was also an increase in license fees in the current financial year.		

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

6. Earnings and dividend per share	31 March 2020	31 March 2019
Total operations		
Basic earnings per share (cents)	121.1	561.9
Diluted earnings per share (cents)	119.5	551.8
Headline earnings per share (cents)*	208.1	619.2
Diluted headline earnings per share (cents)*	205.3	608.1

Reconciliation of weighted average number of ordinary shares:	Number of shares	Number of shares
Weighted ordinary shares in issue	511 140 239	511 140 239
Weighted average number of treasury shares	(13 288 103)	(13 759 299)
Weighted average number of shares outstanding	**497 852 136**	**497 380 940**

Reconciliation of diluted weighted average number of ordinary shares:	Number of shares	Number of shares
Weighted average number of shares outstanding	497 852 136	497 380 940
Expected future vesting of shares related to Group share scheme incentive plans	6 781 658	9 146 285
Diluted weighted average number of shares outstanding	**504 633 794**	**506 527 225**

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

Treasury shares

Treasury shares of 12 414 814 (31 March 2019: 13 084 228) are held by the Group.

	31 March 2020 Rm		31 March 2019 Rm	
	Gross	Net**	Gross	Net**
Total operations				
Reconciliation between earnings and headline earnings:				
Profit for the year	–	608	–	2 831
Non-controlling interests	–	(5)	–	(36)
Profit attributable to owners of Telkom	–	603	–	2 795
Profit on disposal of property, plant and equipment and intangible assets	(18)	(18)	(2)	(2)
Profit on disposal of subsidiaries and associates	(9)	(9)	–	–
Write-offs, impairments and losses of property, plant and equipment and intangible assets	414	392	270	257
Gain on remeasurement of non-current assets held for sale	(23)	(23)	–	–
Translation of net investment in a foreign operation	91	91	–	–
Remeasurement of associates	–	–	30	30
Headline earnings	–	1 036	–	3 080
Dividend per share (cents)		**320.93**		**349.11**

The dividend per share is based on a dividend of 249.40 cents per share declared on 27 May 2019 and 71.53 cents per share declared on 8 November 2019 (31 March 2019: 236.97 cents per share declared on 28 May 2018 and 112.14 cents per share declared on 13 November 2018). 511 140 239 number of ordinary shares were outstanding on the dates of the dividend declaration (31 March 2019: 511 140 239).

** *The taxation impact consists of a R22 million increase (31 March 2019: R13 million) in tax expense related to recoupment of tax on write-offs of property, plant and equipment and intangible assets.*

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

7. Capital additions and disposals	31 March 2020 Rm	31 March 2019 Rm
Property, plant and equipment		
Additions	6 766	7 034
Disposals	(25)	(40)
	6 741	**6 994**
Intangible assets		
Additions	989	640
Disposals	(11)	(30)
	978	**610**

Finance charges of R51 million (31 March 2019: R59 million) were capitalised to property, plant and equipment and intangible assets in the current financial year.

8. Right-of-use assets and lease liabilities

8.1 Right-of-use assets

The associated right-of-use assets for vehicles, properties and network equipment leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The carrying amounts for the right-of-use assets as at 31 March 2020 are as follows:	Closing balance Rm
Vehicles	358
Property	917
Network equipment	3 227
	4 502

8.2 Lease liabilities

The closing balances for non-current lease liabilities as at 31 March 2020 are as follows:	Closing balance Rm
Vehicles	(193)
Property	(854)
Network equipment	(2 661)
	(3 708)

The closing balances for current lease liabilities as at 31 March 2020 are as follows:	Closing balance Rm
Vehicles	(176)
Property	(223)
Network equipment	(668)
	(1 067)

Impact of COVID-19 on lease liabilities

The incremental borrowing rate applied to calculate the present value of the lease liability decreased for leases with lease periods between 1 and 5 years due to the increase in the South African risk-free rate. This is applicable to leases entered into from 1 March 2020 onwards, as well as leases that were remeasured in March 2020 due to the change in the lease term from 3 to 5 years.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

9. Other financial assets and liabilities

9.1 Other financial assets

	31 March 2020 Rm	Restated 31 March 2019 Rm
Non-current other financial assets	192	133
Other financial assets at amortised cost		
Asset finance receivables	192	133
Current other financial assets	759	388
Other financial assets at amortised cost		
Asset finance receivables	226	157
Other financial assets at fair value through profit or loss		
Derivative instruments used for hedging	533	231
Forward exchange contracts	533	161
Firm commitments	–	70

9.2 Other financial liabilities

	31 March 2020 Rm	Restated 31 March 2019 Rm
Non-current other financial liabilities	(62)	(79)
Other financial liabilities at amortised cost		
Asset finance payables	(62)	(79)
Current other financial liabilities	(919)	(423)
Other financial liabilities at amortised cost	(246)	(143)
Asset finance payables	(57)	(36)
Financial guarantees	(13)	–
Vendor financing	(176)	(107)
Other financial liabilities at fair value through profit or loss		
Derivative instruments used for hedging	(673)	(280)
Forward exchange contracts	–	(13)
Firm commitments	(530)	(237)
Interest rate swaps	(143)	(30)

The South African Rand depreciated sharply in March 2020 against the USD. This resulted in significant gains in the fair value of FEC's and corresponding losses in the firm commitments.

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

Financial guarantees

The sale of Business Connexion ICT Services ("BCX Nigeria"), previously a wholly owned subsidiary of Business Connexion International Group Holdings, was concluded on 31 January 2020. BCX has, in the prior years, provided Stanbic Bank with a financial guarantee in respect of BCX Nigeria's banking facility with Stanbic Bank to the value of USD 3 million. As part of the disposal agreement, BCX Nigeria needs to contractually reduce BCX's guaranteed exposure by an average amount of USD 375 000 per quarter, starting on 31 March 2020, and then quarterly thereafter. The guarantee period ends 31 December 2022.

The financial guarantee has been valued and a liability amounting to R13 million has been recorded. The maximum exposure as at 31 March 2020 is R46 million. A contingent liability has been disclosed in relation to the balance of the financial guarantee obligation not provided for. Refer to note 21.

10. Inventories

	31 March 2020 Rm	31 March 2019 Rm
Inventories	972	1 267
Gross inventories	1 130	1 497
Write-down of inventories to net realisable value	(158)	(230)

The Group's inventory decreased in the current financial year largely due to working capital optimisation and merchandise sold to new customers.

11. Net cash and cash equivalents

	31 March 2020 Rm	31 March 2019 Rm
Cash disclosed as current assets	4 728	1 428
Cash and bank balances	2 208	1 308
Short-term deposits	2 520	120
Credit facilities utilised	(2)	–
Net cash and cash equivalents	4 726	1 428
Undrawn borrowing facilities	6 634	6 402

The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 31 March 2020, R5.5 billion (31 March 2019: R5.3 billion) of these undrawn facilities were committed.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

12. Deferred taxation

	31 March 2020 Rm	31 March 2019 Rm
Deferred taxation balance is made up as follows:	675	93
Deferred taxation assets	828	255
Deferred taxation liabilities	(153)	(162)

The increase in the deferred tax asset is mainly attributable to the following:

- The once-off costs that will give rise to future tax deductions;
- The prior year overprovision of tax;
- Current year tax losses and the adoption of IFRS 16 Leases which did not impact deferred tax in prior years due to the prospective application of the standard.

The deferred tax balance in the current year is reduced by an additional liability of R297 million (31 March 2019: R67 million) relating to the movement in other comprehensive income including actuarial gains recognised on the post-employment benefit plans, accounted for in other comprehensive income.

13. Fair value measurement

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

13.1 Fair value of financial instruments

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

Type of financial instrument	Fair value at 31 March 2020 Rm	Valuation technique	Significant inputs
Derivative assets	533	Discounted cash flows	Yield curves
Derivative liabilities	(673)		Market interest rates
Investment in Absa sinking fund	161	Quoted market prices adjusted for counterparty credit risk	Market prices
Investment in FutureMakers entities	51	Discounted cash flows	Cash flow forecasts and market related discount rates
Interest-bearing debt	(12 097)	Discounted cash flows and quoted bond prices	Market interest rates

Derivatives

Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. Derivates are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

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 hedge

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

A decrease in fair value of the forward exchange contracts, designated as fair value hedges, of R619 million (31 March 2019: R509 million) has been recognised in finance charges and fair value movements and offset with a similar gain on the hedged items (property, plant and equipment and inventory).

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

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

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

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

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

13. Fair value measurement continued

13.1 Fair value of financial instruments continued

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

13.2 Fair value hierarchy

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

The different levels have been defined as follows:

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

	Hierarchy levels*	31 March 2020 Rm	31 March 2019 Rm
Assets measured at fair value			
Investment in Absa sinking fund**	Level 2	161	1 573
Investment made by FutureMakers	Level 3	51	69
Forward exchange contracts	Level 2	533	161
Firm commitments	Level 2	–	70
Liabilities measured at fair value			
Forward exchange contracts	Level 2	–	(13)
Interest rate swaps	Level 2	(143)	(30)
Firm commitments	Level 2	(530)	(237)
Liabilities measured at amortised cost			
Interest-bearing debt consisting of:			
Listed debt	Level 2	(12 097)	(10 327)

* *There have been no transfers between the fair value levels in the year under review.*
** *The significant decrease in the investment in Absa sinking fund is due to a withdrawal of R1.5 billion in the current financial year.*

14. Business combinations and disposals

14.1 Subsidiaries disposed of in the current year

14.1.1 BCX ICT Services Limited ('Nigeria')

BCX ICT Services Limited ('Nigeria'), a 100% subsidiary of Business Connexion International Group Holding Proprietary Limited, was sold for a purchase consideration of USD 640 599.70 (approximately R10 million). The effective date of sale is 31 January 2020.

The net cash flows attributable to the operating, investing and financing activities of discontinued operations:	Rm
Net assets disposed of	26
Remeasurement	(16)
Net asset value	**10**
Consideration	10
Profit on disposal	–
FCTR - Investment in foreign operation	(91)
FCTR - Reclassified from equity to profit or loss	41
Net loss on sale	**(50)**

14.1.2 BCX Tanzania Limited ('Tanzania')

Business Connexion Tanzania Limited ('Tanzania') is a subsidiary of BCX (Pty) Ltd. The subsidiary was sold for a purchase consideration of USD 1 000 000 (approximately R15 million). The effective date of the sale is 1 September 2019.

The net cash flows attributable to the operating, investing and financing activities of discontinued operations:	Rm
Net assets disposed of	39
Remeasurement	(15)
Non-controlling interest	(9)
Net asset value	**15**
Consideration	15
Profit on disposal	–
FCTR - Investment in foreign operation	(9)
FCTR - Reclassified from equity to profit or loss	14
Net gain on sale	**5**

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

14. Business combinations and disposals continued

14.2 Associates disposed of in the current year

Smart Office Connexion Group Holdings (Pty) Ltd ('SOX')

In May 2019, an agreement was entered into to dispose of BCX's interest in SOX. The effective date of the disposal was 13 September 2019, being the date that all conditions precedent were met. The proceeds on disposal were received on 18 September 2019. The consolidated profit on disposal was calculated as follows:

	Rm
Carrying amount of the investment	200
BCX equity accounted earnings for the period ended 30 September 2019	10
Proceeds on sale	(219)
Profit on disposal	**9**

14.3 Acquisition of non-controlling interest in the current year

Yellow Pages (Pty) Ltd minority interest buy-out

On 20 March 2019, the Telkom Board approved the acquisition of the minority shareholding and certain intangible assets in Yellow Pages (Pty) Ltd. In May 2019, the parties to the transaction, Telkom SA SOC Limited, Trumancon Holdings (Pty) Ltd and Lourie Trade and Invest (Pty) Ltd, Applemint Properties 117 (RF) (Pty) Ltd and Yellow Pages, signed the sale of shares agreement.

During August 2019, the transaction was concluded. Telkom acquired the remaining 35.1% of Yellow Pages resulting in Telkom holding 100% in Yellow Pages. The total consideration of R210.6 million was attributed as follows:

- R159.4 million to the acquisition of the 35.1% non-controlling interest
- R51.2 million to the acquisition of an intangible asset

The share and intangible asset purchase transaction was accounted for as a step acquisition in line with the requirements of IFRS 10 *Consolidated Financial Statements* and IAS 38 *Intangible Assets*, respectively.

The step acquisition resulted in the Group increasing its share in the subsidiary from 64.9% to 100%.

15. Interest-bearing debt

	31 March 2020 Rm	31 March 2019 Rm
Non-current interest-bearing debt	10 105	4 840
Local debt	9 184	4 700
Foreign debt*	921	123
Finance leases**	–	17
Current portion of interest-bearing debt	1 900	5 401
Local debt	1 900	5 370
Foreign debt	–	5
Finance leases**	–	26

* *Foreign debt increased mainly due to the rand denominated Export Credit Agency (ECA) covered loan raised in the current financial year.*

** *Finance lease liabilities were included in interest-bearing debt until 31 March 2019, but were reclassified to lease liabilities on 1 April 2019 on adoption of IFRS 16.*

The current portion of interest-bearing debt of R1 900 million (31 March 2019: R5 401 million) at 31 March 2020 is expected to be repaid from operational cash flow and other borrowings.

During the period under review, R6 950 million debt was repaid with R8 660 million (31 March 2019: R3 246 million) debt that was raised in the form of commercial paper, bonds and term loans which include the ECA loan. No material transaction fees were raised upon the issue of these debt instruments. The instruments have an average interest rate of 8.4% and are repayable over an average term of 6 years.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

16. Provisions

	31 March 2020 Rm	31 March 2019 Rm
Non-current provisions	343	1 193
Non-current employee related provisions	338	1 186
Subsidiary defined benefit plans	22	22
Telephone rebates	316	412
Telkom Retirement Fund	–	752
Non-current non-employee related provisions		
Other	5	7
Current provisions	1 892	1 316
Current portion of employee related provisions	1 752	1 175
Annual leave	479	466
Telephone rebates	39	39
Bonus, termination packages and other benefits	1 234	670
Current portion of non-employee related provisions		
Other	140	141

Annual leave

In terms of the Group's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 15-30 days (31 March 2019: 15-30 days), which must be taken within a 12-18 month (31 March 2019: 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 for a certain Group of employees.

Voluntary early retirement packages (VERP)/ Voluntary severance packages (VSP) and retrenchment provision

During the year under review, the Group initiated a voluntary severance and retrenchment process. An expense relating to the process of R1 186 million was recognised in the year ending 31 March 2020.

Non-employee related provisions

Other provisions relate to the ICASA licence fee provision, restoration provisions and provisions for legal matters.

Telkom Retirement Fund

The decrease in the Telkom Retirement Fund obligation is primarily driven by the increase in the discount rate from 9.7% to 12.1% as well as a net actuarial gain on the asset.

17. Commitments

	31 March 2020 Rm	31 March 2019 Rm
Capital commitments authorised	9 292	9 744
Commitments against authorised capital expenditure	2 648	5 671
Authorised capital expenditure not yet contracted	6 644	4 073

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

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

18. Trade and other receivables and contract assets

18.1 Trade and other receivables

	31 March 2020 Rm	31 March 2019 Rm
Trade and other receivables	7 019	7 425
Trade receivables	4 867	5 884
Gross trade receivables	6 744	7 091
Impairment of receivables	(1 877)	(1 207)
Prepayments and other receivables	2 152	1 541
Allowance account for credit losses – trade receivables	1 877	1 207
Opening balance as previously reported	1 207	827
Adoption of IFRS 9 *Financial Instruments* – Adjustment to allowance account measurement	–	(61)
Adoption of IFRS 9 *Financial Instruments* – Change to write-off criteria	–	559
Charged to statement of profit or loss and other comprehensive income	795	184
Receivables written off	(125)	(302)

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

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

COVID-19 was assessed as a condition which existed as at 31 March 2020. As such, events after 31 March 2020 were assessed to determine if they provide further information about the COVID-19 condition.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

18. Trade and other receivables and contract assets continued

18.1 Trade and other receivables continued

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

Management included an overlay to consider the expected impact of the current COVID-19 stress. The changes in percentage movements in the default rates within the credit ratings were analysed at reporting date at a customer profile level and these changes were then applied to existing ECL ratios.

Based on this, the ECL for trade receivables has increased by R419 million under the provision matrix method which is material to the Group.

	Recognised COVID-19 impact	2% Increase on COVID-19 stress	5% Increase on COVID-19 stress
Segments	R'000	R'000	R'000
Consumer	108 349	111 068	114 109
Openserve	116	121	127
Gyro	12 721	12 727	12 737
BCX	288 120	289 467	290 925
Other	9 506	10 205	10 878
	418 812	**423 589**	**428 776**

By applying the 2% and 5% increase on the COVID-19 overlay, the Telkom Group's trade receivable ECL would increase by R4.8 million and R10 million, respectively, which is not material to the Group.

18.2. Contract assets

	31 March 2020 Rm	31 March 2019 Rm
Contract assets	1 979	2 161
Gross contract assets	2 411	2 331
Impairment of contract assets	(432)	(170)
Allowance account for credit losses – contract assets	432	170
Opening balance as previously reported	170	95
Charged to statement of profit or loss and other comprehensive income	345	200
Contract assets written off	(83)	(125)

COVID-19 impact on contract assets

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

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

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

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

Management has analysed the impact of COVID-19 on contract assets, assuming a 2% and 5% increase on the COVID-19 overlay. The results of the analysis have been summarised as follows:

	Current rate incl COVID-19	2% Increase on COVID-19 stress	5% Increase on COVID-19 stress
Expected loss rate	**4.24% to 23.60%**	**4.40% to 23.76%**	**4.67% to 24%**

By applying the 2% and 5% increase on the COVID-19 overlay, the Company's and Group's existing contract asset ECL would increase by R4.6 million and R12 million respectively, which is not material to the Group.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

19. Other current assets

	31 March 2020 Rm	31 March 2019 Rm
Other current assets	536	357
Contract costs capitalised	299	226
Ongoing commission capitalised assets	237	131
Contract cost capitalised	299	226
Opening balance	226	149
Contract costs capitalised during the year	323	255
Amortisation recognised as cost of providing services during the year	(250)	(178)

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

20. Impairment of goodwill

Impairment consideration – including the impact of COVID-19

Management has performed an annual impairment assessment for all goodwill balances as at 31 March 2020 in line with the requirements of IAS 36 *Impairment of Assets*, and performed impairment assessments for assets where impairment indicators were identified. Management also tested the investment in BCX for impairment.

The following key indicators of impairment were identified:

- Market capitalisation fell below the net asset value;
- The budget was not achieved in 2020 due to a decline in fixed line revenue, additional impairment recognised for trade receivables and contract assets, as well as the significant staff retrenchment costs; and
- COVID-19 trigger for impairment of the underlying assets.

COVID-19 implications on the cash flow forecast

Management completed a scenario analysis with respect to the impact of COVID-19. Scenarios associated with the potential impact of COVID-19 on future cash flow projections have been considered given the evidence available at the time of finalising the annual financial statements.

These scenarios considered the following:

- the length of the lockdown and the potential impacts;
- macro-economic and industry factors;
- global trends;
- the impact of rating agencies downgrades on the South African market;
- Telkom credit rating downgrade;
- impact of job losses and limited resources to further squeeze low-income consumers;
- GDP;
- inflation; and
- growth rates.

Further, several macro trends emerging, that will shape the face of the telecoms industry and the evaluation of industries that are expected to experience differing demand profiles based on the lifting of COVID-19 lockdown restrictions, regardless of disease outcome, were factored into management's assessment.

IFRS 16 impact on the cash flow forecasts

As a right-of-use ("ROU") asset does not generate cash inflows largely independent from other assets, the ROU asset will be tested for impairment together with the CGU to which such an asset belongs.

From an IFRS 16 perspective, the assumptions assume the reinvestment of the ROU asset, that is cash flows to replace the ROU have been included in the model.

Due to the adoption of IFRS 16, management adjusted the value-in-use model by excluding the cash outflows in respect of the lease payments as it relates to financing and including the cash outflows to replace the ROU asset. The discount rate has been adjusted to include the lease liability and the cost of leasing.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

20. **Impairment of goodwill** continued

BCX CGU

Value in use, using the discounted cash flow method, was adopted as the valuation basis. Based on this, the income approach was used. A five-year period is used for the discounted cash flows, approved by senior management and/or the board of directors of the Group.

The valuation was performed on an Enterprise value basis.

The value in use calculation took into consideration the following key assumptions:

Fair value charge

BCX cash flows are generated using Telkom's network assets. A fair value contributory asset charge was derived for the use of the network asset between Telkom Company and BCX, which informed the identification of BCX as a separate CGU. This was based on the products Telkom Company sells to BCX. A fair value charge was derived on the margin BCX earns through the external sale of its products.

EBITDA margin

The budgeted EBITDA margin was used based on past experience and management's future expectations of business performance. The valuation was performed using cash flows which incorporated the impact of COVID-19.

Growth rates

The growth rates were consistent with publicly available information relating to long-term average growth rates for the market in which the CGU operated. The compound annual growth rate used is 4.5%.

Terminal growth rates

A terminal growth rate of 5% was applied. The growth rate considered steady state of growth rates to extrapolate revenue beyond the forecast period cash flows.

Discount rate

Discount rates used reflect both time value of money and other specific risks relating to the entity were used. The discount rate was calculated based on comparable companies in the industry.

In the valuation, a WACC range of 16.2% to 17.1% has been applied as a discount rate. A perpetuity calculation was also included after 5 years as per the terminal growth rate assumption disclosed above.

Based on the value in use calculation, the estimated value in use of BCX significantly exceeds the carrying amount of the BCX CGU. As such, there is no impairment loss to be recognised.

Sensitivity to changes in assumptions

Given the significant headroom computed, no further sensitivity analysis has been performed.

Telkom CGU

Value in use, using the discounted cash flow method, was adopted as the valuation basis. Based on this, the income approach is used as the primary valuation approach, with the market approach as a cross check. The latter involves calculating multiples of comparable listed companies and comparing the results to the implied Telkom multiple from the income approach valuation. A five-year period is used for the discounted cash flows, approved by senior management and/or the board of directors of the Group.

The Telkom CGU was then valued using a sum-of-the-parts approach. The valuation was performed on an Enterprise value basis.

The value in use calculation took into consideration the following key assumptions:

Fair value charge

BCX cash flows are generated using Telkom's network assets. A fair value income was derived for the use of the network asset between Telkom Company and BCX, which informed the identification of BCX as a separate CGU. This was based on the products Telkom Company sells to BCX. A fair value income was derived on the margin BCX earns through the external sale of its products.

EBITDA margin

The budgeted EBITDA margin is based on experience and management's future expectations of business performance. The valuation was performed using cash flows which incorporated the impact of COVID-19.

Growth rates

The growth rates were consistent with publicly available information relating to long-term average growth rates for the market in which the CGU operated. The compound annual growth rate used is 4.5%.

Terminal growth rates

A terminal growth rate of 5% was applied. The terminal value was determined at the end of year 5 of the cash flow forecasts. The growth rate considered steady state of growth rates to extrapolate revenue beyond the forecast period cash flows.

Discount rate

A WACC range of 12% to 12.4% has been applied. No specific risk premiums were applied, as potential forecast risks were modelled as scenarios. A perpetuity calculation was also included after 5 years as per the terminal rate assumption disclosed above.

Based on the value in use calculation, the estimated value in use of Telkom exceeded its carrying amount by R1 876 million. As the indicated value in use range exceeds the carrying amount of the Telkom CGU, there is no impairment loss to be recognised.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

20. Impairment of goodwill continued

Sensitivity to changes in assumptions

The recoverable amount is most sensitive to the discount rate and the long-term growth rate. The following specific change in the discount rates or long-term growth rates of the Telkom CGU would result in the recoverable amount being equal to the carrying amount of the net assets of the CGU:

31 March 2020	Absolute change in the discount rate %	Absolute change in the terminal growth rate %
Telkom cash-generating unit	0.12	0.4

21. Contingencies

Contingent liabilities

Other than the disclosures below, there have been no significant movement or new matters noted on the contingent positions as reported in the 31 March 2019 financial statements.

Financial guarantees

The total exposure on the financial guarantee relating to BCX Nigeria amounts to R46 million as at 31 March 2020. An amount of R13 million has been accounted for in other financial liabilities based on an expected credit loss valuation that was performed to quantify the potential exposure. Refer to note 9. The total exposure of the financial guarantee will be triggerred if BCX Nigeria is unable to meet its obligations in terms of the repayment agreement. To date, no default event (with regards to the repayment agreement) have taken place. No other material contingent liabilities related to financial guarantees have been identified for the year ended 31 March 2020.

High Court

Phutuma Networks (Pty) Ltd (Phutuma)

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

Tax matters

As noted in the prior year consolidated annual financial statements, Telkom had appealed against the Tax Court judgement received on the dispute between Telkom and South African Revenue Services (SARS) relating to the tax treatment of the loss that arose in the 2012 financial year on the sale of a foreign subsidiary. The appeal was heard by the Supreme Court of Appeal on 4 March 2020 and the judgement was handed down on 25 March 2020 against Telkom and, as such, a liability was recognised for the amount payable to SARS at 31 March 2020. However, Telkom has applied to the Constitutional Court for leave to appeal the judgement. An asset will only be recognised once the matter has been resolved and if it favors Telkom.

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

22. Related parties

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

	31 March 2020 Rm	Restated 31 March 2019 Rm
With shareholders:		
Government of South Africa		
Related party balances		
Finance lease receivables	157	207
Trade receivables	796	1 370
Impairment of trade receivables	(152)	(212)
Related party transactions		
Revenue	(4 568)	(4 495)

At 31 March 2020, the Government of South Africa held 40.5% (31 March 2019: 40.5%) of Telkom's shares, and had the ability to exercise significant influence, and the Public Investment Corporation held 14.9% (31 March 2019: 11.9%) of Telkom's shares.

	31 March 2020 Rm	Restated 31 March 2019 Rm
With entities under common control:		
Major public entities		
Related party balances		
Trade receivables	58	45
Impairment of trade receivables	(5)	(2)
Trade payables	(1)	(1)
Related party transactions		
Revenue (excluding lease income)	(291)	(501)
Operating expenses (excluding lease expense)	257	214
Lease income	(20)	(27)
Lease expense	36	30
Key management personnel compensation:		
(Including directors and prescribed officers' remuneration)		
Related party transactions		
Short-term employee benefits	190	272
Post-employment benefits	17	17
Termination benefits	23	13
Equity compensation benefits	62	22

Terms and conditions of transactions with related parties

Except as indicated above, outstanding balances at 31 March 2020 are unsecured, include interest and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Except as indicated above, for the year ended 31 March 2020, the Group has not impaired any of the amounts owed by the related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates.

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

	31 March 2020 Rm	Restated 31 March 2019 Rm
Cash generated from operations	12 756	8 903
Profit before tax	974	4 007
Finance charges and fair value movements	1 762	947
Investment income and income from associates	(90)	(187)
Interest received from trade receivables	(128)	(250)
Non-cash items	8 628	5 519
Depreciation, amortisation, impairment and write-offs	6 915	5 814
Increase in expected credit loss provision	932	–
Bad debts written off	208	–
Increase/(decrease) in provisions	135	(162)
Profit from disposal of property, plant and equipment	(18)	(2)
Foreign exchange movements	(132)	(29)
Share based payment expenses	317	135
Profit on sales of SOX	(9)	–
IFRS 16 initial direct cost reclassified to right-of-use assets	(8)	–
Movement in deferred revenue	288	(237)
Movement in working capital	1 610	(1 133)
Movement in inventories	–	(94)
Increase in trade receivables, contract assets, finance lease receivables and other receivables	(613)	(1 280)
Increase in trade and other payables and prepayments	2 223	241

24. Net debt reconciliation

	31 March 2020 Rm	31 March 2019 Rm
Total interest-bearing debt at reporting date	12 005	10 241
Total interest-bearing debt at the beginning of the year	10 241	9 397
Loans raised	8 660	3 246
Loans repaid	(6 950)	(2 544)
Finance leases repaid/reclassified to lease liabilities	(42)	(42)
Other financing activities	(104)	–
Foreign exchange revaluation on loans	(25)	12
Finance charges capitalised to interest-bearing debt	175	172

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

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

Notes to the consolidated summary financial statements continued

for the year ended 31 March 2020

25. Significant events and transactions

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

On 27 August 2019, the following board members were elected or re-elected as per the Annual General Meeting ordinary resolutions:

- KA Rayner
- SP Sibisi
- SL Botha
- KT Kweyama
- KW Mzondeki
- F Peterson-Cook

Dividends

The Telkom Board declared an ordinary dividend of 249.40 cents per share on 27 May 2019, paid on 18 June 2019 to shareholders registered at the close of business on 14 June 2019.

The Telkom Board also declared an ordinary dividend of 71.53 cents per share on 8 November 2019 which was paid on 2 December 2019 to shareholders registered at the close of business on 29 November 2019.

Allocation of shares in terms of the Telkom Employee Share Plan

On 24 May 2019, the board approved the seventh allocation of shares to employees in terms of its Employee Share Plan.

The number of shares to vest will depend on the extent to which the performance conditions are met at the end of the applicable vesting period.

Vesting of shares

In terms of the Telkom Share Plan, 112 368 shares vested to Mr Sipho Maseko in June 2019.

Resignation of non-executive director

Telkom announced on 26 July 2019 that Mr Graham Dempster, a non-executive director, would be resigning from the Telkom Board with effect from 30 November 2019.

Appointment of non-executive director

Telkom announced on 15 July 2019 that Mr Keith Rayner has been appointed to the board of directors of the Company as an independent non-executive director with effect from 15 July 2019.

Impact of COVID-19

On 11 March 2020, the World Health Organisation declared the novel coronavirus (COVID-19) outbreak a global pandemic, which subsequently resulted in the President of South Africa declaring a national state of disaster on 15 March 2020, with many measures implemented by the government, such as travel restrictions. On 23 March 2020, the President of South Africa announced a national 21-day lockdown starting on 26 March 2020. South Africa is still in the early stages of the pandemic and, as such, the full impact of the pandemic on the economy and Telkom's operations will only be known over time.

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

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

26. Events after the reporting date

Dividends

The Telkom Board approved an ordinary dividend of 50.08 cents per share on 19 June 2020 for declaration on 22 June 2020, payable on 13 July 2020 to shareholders registered at the close of business on 10 July 2020.

Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2020 and the date of this report, or otherwise dealt with in the financial statements, which significantly affects the financial position of the Group and the results of its operations.

Impact of the COVID-19 pandemic

It was concluded that the declaration of COVID-19 as a state of disaster on 15 March 2020, which resulted in economic consequences due to a national lockdown that was effective on 26 March 2020, is an adjusting event.

COVID-19 is an unprecedented challenge for humanity and for the global economy with its effects subject to significant levels of uncertainty. These effects are both short-term and long-term in nature. The short-term effects are due to national lockdowns implemented by local governments in order to reduce the spread of the virus which resulted in a reduction of trade activity and a disruption in supply chains due to a restriction on local and foreign travel. The long-term effects will be due to an increase in the unemployment rate.

In response to significant decreases in demand resulting from social distancing efforts, quarantines, border closures and lockdown restrictions related to the spread of COVID-19, the Group had temporarily closed all its stores nationwide, however with the easing of restrictions have subsequently reopened stores.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Group for future periods.

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