

Telkom

Telkom SA SOC Limited

Group Provisional Annual Results

for the year ended 31 March 2018



Telkom SA SOC Limited

(Incorporated in the Republic of South Africa)

Registration number: 1991/005476/30

JSE share code: TKG

ISIN: ZAE000044897

JSE bond code: BITEL

("Telkom" or "the company")

Special note regarding forward-looking statements

Many of the statements included in this document, as well as verbal statements that may be made by us or by officers, directors or employees acting on our behalf, constitute or are based on forward-looking statements.

All statements, other than statements of historical facts, including, among others, statements regarding our convergence and other strategies, 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 the use of terminology such as "may", "will", "should", "expect", "envisage", "intend", "plan", "project", "estimate", "anticipate", "believe", "hope", "can", "is designed to" or similar phrases, although the absence of such words does not necessarily mean that a statement is not forward looking. These forward-looking statements involve a number of 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 annual report, which is available on Telkom's website at www.telkom.co.za/ir.

We caution you not to place undue reliance on these forward-looking statements. All written and verbal forward-looking statements attributable to us, or persons acting on our 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.

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

Telkom SA SOC Limited is listed on the JSE Limited. 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.

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Condensed consolidated
provisional annual financial statements

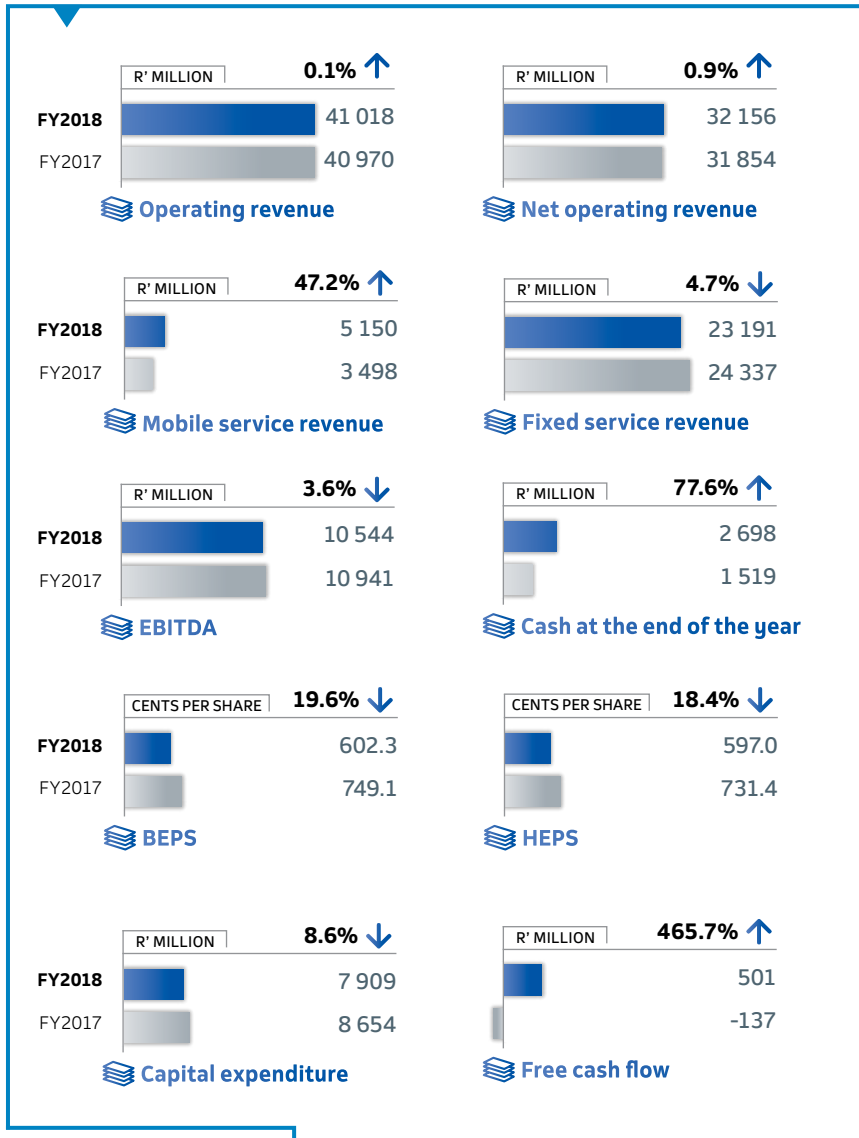
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Key indicators



● FY2018 ● FY2017

Report structure

The Telkom group consists of Openserve, Telkom Consumer, BCX and Other. "Other" includes Yellow Pages (known as Trudon), Gyro, VS Gaming and Corporate Centre.

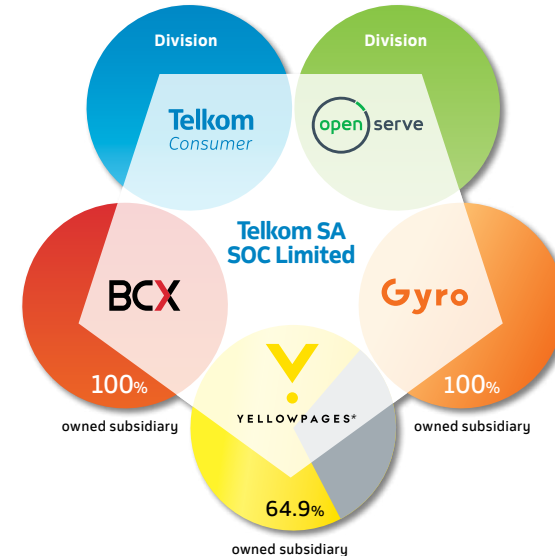
Openserve is South Africa's leading wholesale infrastructure connectivity provider with the largest open access network across South Africa.

Gyro was formed effective 1 April 2017, and is responsible for managing the masts and towers, property development and property management services on behalf of the group.

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

Yellow Pages is a local advertising and marketing company that provides services and digital solutions to local businesses. Yellow Pages' business units operate in South Africa and Namibia.

BCX is a leading technology company that provides ICT solutions and an integrated portfolio of technology solutions across South Africa.



Results from operations

The comparative information for the year ended 31 March 2017 was adjusted to exclude the impact of voluntary early retirement packages and voluntary severance packages of R66 million and the related tax impact of R13 million. The group recorded a 19.2 percent decrease in profit after tax to R3 158 million (March 2017: R3 907 million). This is mainly attributable to an increase in the taxation expense and a 3.6 percent decrease on earnings before interest, taxation, depreciation and amortisation (EBITDA) of R10 544 million, resulting in an 18.4 percent decrease in headline earnings per share (HEPS).

*known as Trudon

01

Overview of our business

Centurion, South Africa
– 28 May 2018, Telkom
SA SOC Limited (JSE: TKG)
announced group results
for the year ended
31 March 2018.



Message from group chief executive officer: Siphso Maseko

The year was characterised by a tough economic environment, political uncertainty and intense competition as well as the consequent low business and consumer confidence. We felt the impact of the weak economic environment, as the private and public sectors respectively deferred and lowered their information communications and technology (ICT) spend. This impacted Telkom's performance, particularly in BCX, which serves the business sectors.

Group revenue was flat at R41 billion, supported by a 47.2 percent increase in mobile service revenue. The growth in the mobile business was underpinned by capital investment, extension of distribution channels, increased store footprint and innovative data-led products which resonated well with customers. **Our mobile business is now a key driver of growth in the group, offsetting the decline in BCX and Openserve.** The pricing transformation journey that Openserve embarked on two years ago is starting to bear fruit with the rate of decline in their revenue slowing down. Despite the price reductions and ongoing voice revenue pressures, **Openserve's overall revenue** declined by only 2.9 percent while data traffic grew massively in the network. **The weak economy led to deferred corporate ICT spend and reduced public sector spend, which hampered BCX's performance.** Voice is impacting our businesses across the group as a traditional technology – customers are migrating from circuit voice to voice over internet protocol (VoIP). We have implemented strategies to manage the decline in voice revenue while we migrate customers to VoIP and grow our new generation revenue streams. **I am pleased that the new generation revenue streams, such as mobile and data, are now compensating for the decline in the traditional business.** Our focus going forward is to increase the contribution from the new generation revenue streams. Despite their lower margin compared to traditional revenue streams, the new generation revenue streams will ensure Telkom's long-term sustainability.

We continue to invest in our network for future growth and invested R7.9 billion in capex, which is 19.3 percent of revenue, in line with our guidance.

Mobile and fibre remain key capex focus areas, and we have strong returns – mobile service revenue grew by 47.2 percent and our active fibre to the home connectivity rate increased to 30.7 percent (FY2017: 18.0 percent) within three years of deployment, which is in line with international trends. Over the past few years, we have been focusing on modernising the core and backhaul networks and, more recently, the access network. Our investment in packet optical transport network (POTN) establishes an internet protocol (IP) enabled optical transmission capability that can scale to meet the demands of the Fourth Industrial Revolution, catering for higher speeds, increased capacity requirements, lower latency requirements and digitalisation of the network fabric. Our core and backhaul networks are largely modernised, and we are completing the upgrade of our access network with multiple technologies as customers are becoming technology agnostic. It is imperative for us to continue to modernise our network and invest in key growth areas in line with our strategy.

Our people are our number one asset and having the right talent in the right place will determine Telkom's ability to execute our strategy sustainably. We have been focusing on bringing in new talent and refreshing skills. We made a number of external appointments to the group's and BCX's executive committees. These individuals have a wealth of experience and the skills that will take Telkom forward.

Siphso Maseko
Group chief executive officer



Overview of our business

Financial capital

Salient features



Group operating revenue was flat at **R41 018 million**



Mobile service revenue up **47.2 percent** to **R5 150 million**



Group EBITDA down **3.6 percent** to **R10 544 million** with an **EBITDA margin** of **25.7 percent**



HEPS down **18.4 percent** to **597.0 cents per share**



Free cash flow up **465.7 percent** to **R501 million**



Capex down **8.6 percent** to **R7 909 million**



Annual dividend down **16.3 percent** to **355 cents per share**

Financial information summary

	31 March 2018 Rm	31 March 2017 Rm	%
Gross operating revenue	41 018	40 970	0.1
EBITDA	10 544	10 941	(3.6)
EBITDA margin (%)	25.7	26.7	(1.0)
EBIT	4 939	5 281	(6.5)
Profit after tax	3 158	3 907	(19.2)
Capital expenditure	7 909	8 654	8.6
Adjusted free cash flow	501	(137)	465.7
Net debt	6 741	5 020	(34.3)
Basic earnings per share (cents)	602.3	749.1	(19.6)
Headline earnings per share (cents)	597.0	731.4	(18.4)
EBIT margin (%)	12.0	12.9	
Effective tax rate (%)	26.4	15.2	
Capex to revenue (%)	19.3	21.1	
Net debt to EBITDA (times)	0.6	0.5	
Return on invested capital (%)	10.7	14.4	

Group revenue flat with new generation revenue streams growth offsetting the decline in traditional revenue

Group revenue was flat at R41 billion driven by a 47.2 percent increase in mobile service revenue and 1.6 percent increase in fixed data following a period of decline in fixed data in the prior year. This was offset by a decline in fixed voice revenues. Fixed voice is a traditional technology that impacts our business across the group as we see customers migrating from circuit voice to VoIP. For the first time, our new generation revenue streams such as mobile and data, are compensating for the decline in the traditional business.

Group EBITDA declined on higher labour costs

Group EBITDA decreased 3.6 percent to R10 544 million with an EBITDA margin of 25.7 percent. Operating expenses increased 2.6 percent due to a 4.0 percent increase in employee expenses driven by an average salary increase of 6 percent and market-related salary adjustments. This was partly offset by a lower headcount. Service fees and operating leases increased 6.4 percent and 6.8 percent respectively mainly due to an increase in consultancy fees, facilities management and recovering costs relating to mobile masts.

Group capital expenditure

	31 March 2018 Rm	31 March 2017 Rm	%
Fibre	2 112	2 392	(11.7)
Mobile	2 319	1 936	19.8
OSS/BSS programme	294	741	(60.3)
Network rehabilitation/sustainment	303	567	(46.6)
Service on demand	1 292	1 251	3.3
Core Network	902	962	(6.2)
Other	131	349	(62.5)
Telkom	7 353	8 198	(10.3)
BCX	503	366	37.4
Other			
VS Gaming	8	7	14.3
Yellow Pages	16	9	77.8
Gyro	29	26	11.5
Capital expenditure included in PPE	7 909	8 606	(8.1)
Capital inventory	-	48	(100.0)
Total	7 909	8 654	(8.6)

We will continue to exercise cost discipline and ensure that we keep our operating expenses growth below inflation.

Refer to pages 12 and 13 for each business unit's profit and loss. The detailed performance of each business unit is addressed in the productive capital on pages 14 to 23.

Group HEPS declined on higher effective tax

HEPS decreased 18.4 percent to 597.0 cents per share mainly due to the higher effective tax rate of 26.4 percent (FY2017: 15.2 percent) and a decline in EBITDA of 3.6 percent. Basic earnings per share (BEPS) decreased 19.6 percent to 602.3 cents per share.

Group capital investment for future growth

Capex investment was lower than prior year at R7 909 million, with capex to revenue of 19.3 percent in line with our guidance. Mobile and fibre remain key capex focus areas with strong returns – mobile service revenue grew by 47.2 percent and we achieved an active connectivity rate of 30.7 percent within three years of deployment of fibre to the home, which is in line with international trends.



Overview of our business

Financial capital *continued*

Strong balance sheet to fund future growth

Despite the increase in net debt, including financial assets and liabilities, to R6 741 million in the current financial year from R5 020 million in the prior year, we remain lowly geared with a net debt to EBITDA ratio of 0.6 times. The group cash balances improved to R2 698 million from R1 519 million in the prior year. The growth in borrowings is in line with our strategy to fund capital expenditure through long-term debt as we move to an optimal capital structure.

	31 March 2018 Rm	31 March 2017 Rm	%
Bank and cash balances	2 698	1 519	77.6
Current other financial assets	163	126	29.4
Non-current other financial assets	60	60	-
Current borrowings	(2 247)	(1 541)	(45.8)
Non-current borrowings	(7 165)	(4 744)	(51.0)
Current other financial liabilities	(250)	(440)	43.2
Net debt	(6 741)	(5 020)	34.3
Net debt to EBITDA (times)	0.6	0.5	0.1

Free cash flow recovered from a decline in the prior year

Adjusted free cash flow recovered from negative R137 million in the prior year to positive R501 million. The turnaround was due to a 14.2 percent increase in cash generated from operations, as we improved working capital management. In addition, the positive adjusted free cash flow benefited from a 8.3 percent reduction in capital spend year on year.

Adjusted free cash flow

	31 March 2018 Rm	31 March 2017 Rm	%
Cash generated from operations	10 171	8 910	14.2
Interest received	327	453	(27.8)
Finance charges paid	(731)	(469)	(55.9)
Taxation paid	(1 493)	(1 181)	(26.4)
Cash generated from operations before dividend paid	8 274	7 713	7.3
Cash paid for capital expenditure	(7 773)	(8 479)	(8.3)
Free cash flow	501	(766)	165.4
Add back: Package cost paid	-	629	(100.0)
Adjusted free cash flow	501	(137)	465.7

Updated financial guidance

	FY2018	FY2018 Actual	FY2019 – FY2021
Operating revenue	Flat	0.1%	Mid-single digit
EBITDA margin	23% – 25%	25.7%	24% – 27%
Capex to revenue	17% – 20%	19.3%	16% – 20%
Net debt to EBITDA	≤ 1	0.6	≤ 1

Note: Financial guidance excludes corporate actions.

In line with our strategy, we invest to ensure medium- to long-term returns for our shareholders. As our business is capital intensive, we have made significant investment in the past few years to capture the growth enabled by new technologies as well as to create sufficient capacity within our network for the expected surge in data demand. This investment also assisted with the migration and acceleration from traditional technologies to the new generation network.

As the business continues to stabilise, the operating environment improves and the returns on our capital investment in new generation revenue streams gain traction, we are now comfortable to provide guidance for the medium-term.

Over the next three years, we expect to grow our business where our capital investment will be between 16 to 20 percent of revenue, operating revenue will grow mid-single digit and the EBITDA margin is expected to be between 24 and 27 percent. In FY2019 an amount of R500 million has been provided in the guidance for ongoing business transformation.



Overview of our business

Financial capital *continued*

Segment performance

Inter-company revenue and transfer pricing were included to measure and assess performance and allocate resources. The comparative segment numbers have been restated to include transfer pricing.

	Openseve Rm	Consumer Rm	BCX Rm	Other Rm	Eliminations Rm	Group Rm
March 2018						
Revenue	17 570	17 157	21 167	5 569	(20 445)	41 018
Fixed	17 570	9 208	11 253	95	(13 446)	24 680
Mobile		7 949			(155)	7 794
Information technology			9 914		(2 888)	7 026
Other				5 474	(3 956)	1 518
Cost of sales	49	3 615	2 444	231	(83)	6 256
Payments to other operators	1 296	1 247	897	37	(871)	2 606
Net revenue	16 225	12 295	17 826	5 301	(19 491)	32 156
Other income	345	807	3	769	(1 317)	607
Operating expenses	10 656	13 285	14 093	4 993	(20 808)	22 219
Employee expenses	4 145	1 003	4 880	889	–	10 917
Selling, general and administrative expenses	4 415	11 483	8 340	3 508	(20 614)	7 132
Service fees	1 502	323	652	577	–	3 054
Operating leases	594	476	221	19	(194)	1 116
EBITDA	5 914	(183)	3 736	1 077	–	10 544
EBITDA margin (%)	33.7	(1.1)	17.7	19.3		25.7
Capital expenditure	4 728	2 359	504	318		7 909

	Openseve Rm	Consumer Rm	BCX Rm	Other Rm	Eliminations Rm	Group Rm
March 2017						
Revenue	18 088	16 206	22 196	5 979	(21 499)	40 970
Fixed	18 088	10 016	11 745		(14 054)	25 795
Mobile		6 190			(143)	6 047
Information technology			10 451		(2 897)	7 554
Other				5 979	(4 405)	1 574
Cost of sales	21	3 153	3 053	673	(402)	6 498
Payments to other operators	1 543	1 017	415	39	(396)	2 618
Net revenue	16 524	12 036	18 728	5 267	(20 701)	31 854
Other income	218	536	36	531	(587)	734
Operating expenses	10 679	12 978	14 700	4 578	(21 288)	21 647
Employee expenses	3 950	925	4 609	1 032	(20)	10 496
Selling, general and administrative expenses	4 779	11 352	9 519	2 720	(21 133)	7 237
Service fees	1 535	225	417	692		2 869
Operating leases	415	476	155	134	(135)	1 045
EBITDA	6 063	(406)	4 064	1 220	–	10 941
EBITDA margin (%)	33.5	(2.5)	18.3	20.4		26.7
Capital expenditure	5 185	1 999	366	1 104		8 654



Productive capital



The pricing transformation journey that Openserve embarked on two years ago is starting to bear fruit, with the rate of decline in revenue slowing down. Despite the price reductions and ongoing pressures in our voice revenue, our overall revenue declined by only 2.9 percent while data traffic grew massively in our network. This supports our strategy to commercialise our network. The fibre revenue from the entire ecosystem (fibre to the home, business, base stations, Megalines and Metro Ethernet) continues to grow. However, the change in product mix from traditional to new technologies has lower margins, thereby driving us to grow our data volumes and the number of fibre lines to compensate for this change.

Revenue declined by 2.9 percent to R17 570 million, as we are making headway with our commercialisation strategy. This commercialisation is paying dividends in the fibre ecosystem with the fibre to the home connectivity rate accelerating to 30.7 percent within three years of deployment, compared to 18.0 percent in the prior year. The fibre-based Metro Ethernet customer lines cater to the growing demand for data in the enterprise market. We now have 89 818 endpoints terminating at businesses – a 70.3 percent increase from the prior year. Fibre to the base stations increased by 14.6 percent to 6 791 base stations.

EBITDA decreased 2.4 percent to R5 914 million on lower revenue, which was offset by a slight saving in operating expenditure due to improved efficiencies from transforming our network.

As part of our multifaceted strategy of modernising, commercialising and transforming our network, we invested R4 728 million to futureproof our core, transport and access footprint.

Our investment in our last-mile access¹ enables us to provide broadband of up to 200 megabits per second (Mbps). Based on this network foundation, we increased our minimum fixed-line broadband connectivity speed to 4 and 10 Mbps where applicable. We did this as part of our continuous drive to stimulate the digital economy and enable high-speed internet access. We have deployed more than 157 400 kilometres of fibre nationally, connecting over 2.5 million premises – we are the leading provider of high-speed next-generation broadband access. The investment in next generation access enabled us to provide high-speed access across our fibre and copper networks and continues to drive diverse long-term investment in broadband connectivity. Capital investment continues to underpin the data-driven ecosystem, focusing on operational efficiencies and growth areas which include Metro Ethernet, fibre to the home and POTN. POTN establishes an IP-enabled optical transmission capability that scales to meet the demands of the fourth industrial revolution. It increases speed and capacity, lowers latency and digitalises the network fabric.

POTN works across national and regional fibre routes, enabling the deployment of fibre-based access, enterprise and backhaul technologies such as GPON for FTTH and Metro Ethernet for enterprise and mobile backhaul. Our capital investment across core and aggregation will enable us to deploy one

Tbps throughput within the next 18 to 24 months, creating a futureproof network that is ready for exponential growth in data consumption. Fibre deployment remains a key future enabler for end-user connections, as well as small cells in mobile networks.



¹ The technology that carries signals from our infrastructure over the final stretch to an endpoint.



Productive capital *continued*

Telkom Consumer

Telkom Consumer's performance was driven by the mobile business, which was underpinned by our capital investment in wireless network, extension of distribution channels, increased store footprint and innovative data-led products which resonated well with customers. Our mobile service revenue grew by approximately R1.7 billion. The fixed business turnaround is progressing well following the launch of innovative fixed-broadband products (led by the Unlimited product suite as well as customer speed upgrade migrations) and content offerings, notwithstanding the continued churn in the lower end of traditional products. The number of Consumer broadband subscribers was stabilised in the last two months as the Unlimited, uncapped products gain traction.

Telkom Consumer revenue grew 5.9 percent, driven by a 47.2 percent growth in mobile service revenue, which was offset by a 6.5 percent decline in the fixed residential business. The impressive growth in the mobile business was supported by 30.2 percent growth to 5.2 million subscribers with the blended average revenue per user (ARPU) increasing by 10.2 percent to R98. Post-paid subscribers increased by 20.5 percent, adding more than 250 000 subscribers to reach 1.5 million subscribers. 30 percent of our post-paid subscribers have adopted the FreeMe product suite as their base plan, contributing to a 5.8 percent increase in post-paid ARPU to R192. Pre-paid subscribers increased 34.6 percent to 3.7 million with the ARPU increasing by 21.4 percent to R60 benefiting from an expansion of our fixed wireless LTE smart offerings to the pre-paid segment. To achieve a quality of service network offering and to broaden our coverage domain, we rolled out 988 integrated sites in FY2018, such that we now have 3 974 sites, of which 2 333 were upgraded to LTE sites to further drive our wireless nomadic broadband product, SmartBroadband.

Mobile data was a major contributor to revenue with a 56.3 percent growth, supported by 124 percent growth in data usage. The re-farming of our 1800 MHz spectrum is paying dividends with smartphone subscribers increasing by 43.9 percent to 2.8 million. Our nomadic wireless LTE smart broadband offerings continue to do well with an increase of 194 percent in LTE subscribers to over 500 000, driven by our popular "deal of the month", improved quality and the footprint expansion of our LTE network. We are seeing significantly more fibre customers, albeit from a low base, driven by an increase in **new-to-franchise businesses** and the migration of **DSL customers to fibre**. We have also migrated a large portion of the fixed-broadband base to higher speeds of 10 Mbps – the base increased year on year by **25 percent**. Our content offering LIT video, music on mobile and LIT TV streaming device for fixed-broadband is gaining momentum. Sales for FreeMe recurring data bundles have steadily increased since the introduction of LIT services on the 2 GB and higher services. We have strengthened our position in the content space by also offering a gaming option. We seek to stimulate broadband growth through the broadband services consumers need for video and entertainment.

We drive broadband growth by offering online video games hardware, software and accessories. To expand into the gaming sphere, we have partnered with SuperSport, Logitech and Orlando Pirates. We hosted the largest e-football festival in Africa and are the first to bring Comic Con to Africa.

Telkom Consumer's EBITDA improved by 54.9 percent against a backdrop of increasing overall revenues and an expanding mobile business.

Our ongoing drive to realise operational efficiencies has begun to bear fruit. Our expenses reduced marginally by 0.2 percent year on year thanks to our focus on key metrics, build-up of distribution and network footprint and ancillary efficiency gains through driving scale. The mobile business continued on a positive trajectory with EBITDA (before transfer pricing) improving by 164 percent to approximately R1.7 billion.





Productive capital *continued*

BCX

The weak economy led to deferred corporate ICT spend and reduced public sector spend, which hampered BCX's performance. BCX was also impacted by the decline in voice revenue as enterprise customers migrated from circuit voice to VoIP as well as pricing pressure. Consequently, BCX remained commercially competitive to retain customers amid intense competition. Going forward, we expect the economy to recover but investment to lag. We have implemented strategies to manage the voice revenue decline while we migrate customers to VoIP and grow our new generation revenue streams.

Revenue declined 4.6 percent to R21 167 million mainly due to the weak economy and the decline in voice revenue.

BCX services all business sectors including key verticals, and the retail, mining, industrial and public sectors – all of which are under pressure from the stagnant economy. South Africa's improving sentiment has not yet increased spend in the ICT industry. However, the improving outlook bodes well for the future. We see enterprise customers migrate from circuit voice to VoIP and an intense competitive environment.

Our strategy is geared towards managing the decline in voice revenue, particularly from our top 100 customers, and towards selling end-to-end communications offerings while we focus on growing new generation revenue streams such as cloud computing; analytics consulting and solutions services; and cybersecurity. We appointed a chief revenue officer and chief digital officer to drive new generation revenue opportunities and build a digital consulting capability respectively.

BCX Insights is our platform to build our data science and analytical capabilities and actively engage with customers.

We have begun rationalising and optimising the data centre estate to provide leading managed services and private and hybrid cloud solutions.

Within **BCX Smart**, we have begun to consolidate our products and skill sets in Internet of Things (IoT) and go to market with a clearer, multisector value proposition.

BCX Secure is a cyber security business, that will form strategic alliances with leading global players, invest in automation and leverage artificial intelligence capabilities.

BCX's EBITDA declined by 8.1 percent with an EBITDA margin of 17.7 percent on lower revenue. BCX responded to the challenges with effective cost management resulting in 4.1 percent savings in operating expenses. This is despite an increase in employee expense as we employ new skills and talent to drive BCX's growth. Some of the cost management initiatives include centralising the shared services function with optimised procurement processes, to take full advantage of the scale of BCX's operations.

BCX's legal integration with the enterprise business was completed in the prior year, providing BCX with greater access to South African blue-chip ICT consumers in the public and private sectors. We have actively pursued cross-selling opportunities as avenues for future revenue growth. We focused on the business portfolio review of the **34 legal entities** in BCX and the reorganisation of senior management.

This included a number of key appointments in the sales and operations area to improve focus on service delivery. The business portfolio review is on track – South African subsidiaries' integration into "One-BCX" is progressing according to plan, and is driving efficiencies within BCX.





Productive capital *continued*

Gyro

Gyro was established on 1 April 2017, and it appointed a chief executive officer to commercialise the property portfolio; extract value from excess building capacity; and diversify income streams through property development, masts and towers, and property management services.

Following the acquisition of approximately 6 500 masts and towers from Telkom, Gyro focused on developing a commercialisation plan to convert the portfolio to a real estate investment portfolio. This entailed leasing outspace in the towers to generate annuity rental income. Approximately 1 300 or 20 percent of the masts and towers portfolio has multiple tenants (co-location), which represents an external revenue stream. During the year, we grew our co-location revenue from external customers by 9 percent to R539 million supported by a 9 percent growth in the number of external tenants to 2 581. The improvements were driven by proactive customer engagement, co-location process re-engineering and adhoc recovery of inactive, traditional requirement to create capacity to meet market demands.

We proactively engaged with key clients to discuss their future network requirements and market penetration plans. We established a New Build programme to increase the tower portfolio and will address new location demand. We are assessing the requirement for high-location densification to adequately service higher frequency (4G and 5G) networks. To this end, we will develop new build pipelines featuring small cell towers that will be closer to one another. It will enable us to service our clients more effectively and should enhance our competitiveness as the largest independent tower company in South Africa.

We will continue to explore and deploy the latest technology to reduce development cost and maximise our development yield while offering competitive rental levels to clients. Gyro manages Telkom's property portfolio, which consists of 1 440 properties, including exchange and switch, office, client service centre and centre for learning buildings as well as residential dwellings and land parcels. The main objective is to unlock value in the non-core properties and generate sustainable rental income, profit from development sale, and increase the net asset value of the portfolio. We focused on redevelopment concepts and commenced with town planning activities for properties in the Gyro portfolio. We will continue development planning for the properties in the Gyro portfolio and non-core properties in the group portfolio that are in prime locations and are suitable for redevelopment. We will also focus on asset management strategies for each property to ensure that operating budgets are aligned with the investment strategy to optimise operating expenditure efficiency levels. We are exploring development funding options to maximise return on investment and minimise risks. We continue exploring strategic partnership opportunities with experienced developers while executing development projects in a socially responsible and environmentally sustainable manner.





Productive capital *continued*



YELLOW PAGES *(known as Trudon)*

As the world moves towards digital media, so has Yellow Pages. We are expanding our offerings beyond traditional print to digital listings, websites, social media advertising, digital agency services and e-commerce capabilities.

As the print business is under increasing pressure, we have actively started the journey to transform into a digital-focused business. The first step was rebranding Trudon to Yellow Pages. This allowed us to leverage the brand's proud heritage and strong reputation. The modernised Yellow Pages identity, which showcases our digital capabilities and agility in innovation, was launched in March 2018. The business continues offering a comprehensive range of advertising solutions for the SME business segment. Global trends indicate that online consumer purchases will increase. Therefore, Yellow Pages has begun developing propositions that will allow SMEs a cost-effective manner to engage with their customers online.

The traditional core product, comprising the Yellow and White Pages directories, was also enhanced to provide online omni-channel capabilities such as queues, quotations and bookings. When these are combined with the benefits of Yellow Pages, hyperlocal business data improves lead generation and lead closure for SMEs.

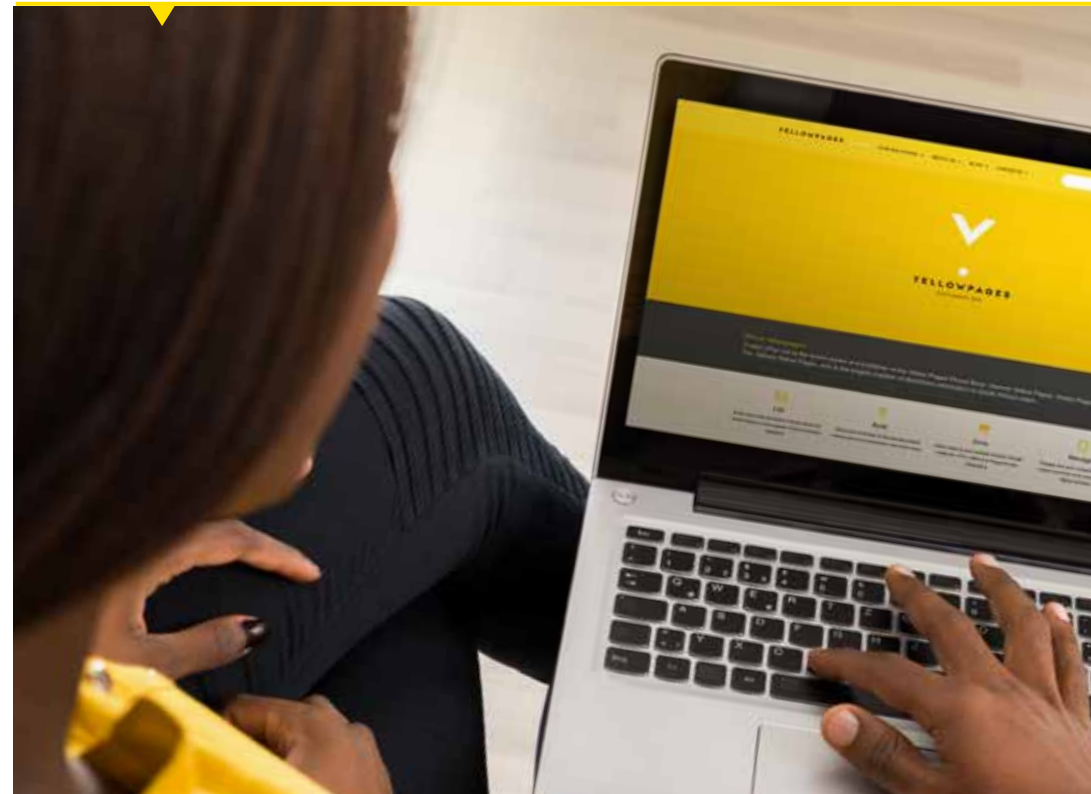
Continued focus on e-commerce marketplace platforms has led to the launch of the new Yellow Pages app, previously known as Yapp.

The app incorporates chat functionality for instant communication between customer and service provider. The app's functionality was expanded to accommodate bookings, quotations and invoicing, thereby aligning it with the Yellow Pages desktop offerings. The uptake has been positive with approximately 16 000 downloads since the launch in February 2017.

Yellow Pages continues evaluating the ability of solutions deployed in the market to scale, given the rapid rate of change in the Wi-Fi market. We discontinued the Mobile Adxchange product and focused on e-commerce market place offerings. In line with e-commerce trends, the business moved away from cost comparison towards deals. Aligned to this, the "Big Deals" platform was launched in October 2017, providing consumers with access to discounted prices on a range of products, leveraging the cost effectiveness of online channels. This platform will also provide vendors with a platform to market-distressed stock and will be a cornerstone for a loyalty programme.

Over-the-top (OTT) partnerships are key to providing our customers with best-in-class value-added services. We continue to be a premier SME Google partner, outlining our expertise in providing SMEs a variety of Google products and insights. The Insync digital presence management platform, which is powered by YEXT, has more than 5 400 active customers since the launch in

March 2017. Webcard, the affordable digital mobile website solution, which showcases our partnership with Web.com Group, has achieved over 6 300 webcards activations since the launch in August 2017. We are an exclusive partner for the Camilyo web development suite, which provides Yellow Pages the ability to rapidly deploy mobile optimised websites at scale.





Overview of our business Intellectual capital

Through its information technology (IT) infrastructure and systems, Telkom delivers its services and products. Technology is increasingly important in the group's transformation, and it is critical to business operations.

Acquiring BCX enabled us to migrate the group IT function to the business unit, consolidating the expertise and talent within one functional team. We have combined their skills to form a stronger, competent team. BCX has consolidated its seven tier 3 and tier 4 data centres and operations with the seven data centres of Telkom. This will form the largest, most resilient data centre footprint in the country. The business unit will host the operations support system and business support system (OSS/BSS).

Our IT investment will enhance customer experience, across all touch points. The next generation network (NGN) platform has been implemented for Consumer and serves the retail market segment. We continue improving response times in our stores and call centres. The NGN stack accommodates the full integration of order fulfilment, assurance and billing for fixed and mobile, and most customers have been migrated. We have considered the impact of a software-defined network and network field virtualisation on the business, which could further enhance customer experience, network performance and management.

We are evaluating back-office automation projects for each business unit to improve efficiencies, reduce cycle time and costs, and eliminate manual activities wherever possible. Process re-engineering teams are working on the most critical processes in each of the business units with a key focus on costing, timing and improvements. Simultaneously running traditional and new systems and platforms carries high costs and risk. Therefore, we have begun decommissioning traditional systems and, aligned to our IT strategy, we have a plan for each business unit. Traditional systems' retirement depends on the speed and efficacy with which state-of-the-art systems and solutions are deployed. We carefully consider our customers' perspective when setting targets to retire traditional platforms and systems as we need to minimise the impact on customer experience. Over the next three years, we will retire most of the traditional systems and deploy new systems, which will reduce complexity and increase stability.



Human capital

A skilled, motivated, culturally diverse and productive workforce is fundamental to our strategy. Our key talent imperatives include understanding our current talent and the gaps therein, and recognising necessary human capital investments.

Telkom has embedded a clear talent framework that informs talent decisions across the business. To compete in a rapidly changing sector, we offer a motivating and inclusive workplace that recognises, develops and retains talent, and promotes well-being.

We implemented a robust talent management framework two years ago. The framework enables Telkom to identify critical skills and key talent across the various business units. It reveals high-potential talent and talent risk areas across the group. This allows for proactive talent planning with proper and thoughtful investment in key and critical talent. The talent framework was rolled out to all business unit leadership teams and their direct reports. As such, we gained a clear view of 807 executive leadership in the business. In total, 275 (34 percent) female leaders formed part of the talent mapping process, of whom 98 were identified as future leaders. In total, 94 percent of all senior roles have succession plans with, at a minimum, emergency cover along with successors who range in readiness levels (from ready now to long-term successors).

Over the past few years, Telkom has invested in attracting, developing and employing young talent. We now have a steady flow of young talent entering the group through a range of programmes, including Future Minds; Explore Data Science Academy; CITi-X; BCX and National Libraries of South Africa; and WeThinkCode.

We invested R342 million on employee training and development, with each employee receiving an average of 17 hours of training. The increase in training and development spend followed BCX taking a much more strategic approach to stimulate digital skills in the economy, not only for our own growth, but also for customers and suppliers. To this extent, investments were made towards a portfolio of critical ICT skills which the industry will require over the medium to long term. In particular, the investment focused on coding and data science skills, as well as building new skill streams in the following five technologies: geomatics, artificial intelligence, operations technology, cybersecurity and fintech.

Our internship and learnership programmes develop skills in critical areas of the ICT industry and give learners valuable work experience. 703 black learners (56 percent females and 44 percent males), of whom 91 were learners with disabilities, were enrolled in various internship and learnership programmes. Our learners work closely with our employees. We provide them with a monthly stipend and valuable experiences such as professional networking opportunities and career development guidance.



Overview of our business

Social and relationship capital

Our social and relationship capital reflects our contribution to society. This is through our corporate social responsibility investments (CSI) which assists the long-term sustainability of the communities in which we operate and the relationships we have, which are central to our business.

Over the years, Telkom has invested in youth development through a myriad of programmes ranging from educational support for high school learners, bursary programmes for further education and training, learnerships, internships as well as support for young entrepreneurs. Our skills development includes the Centre of Excellence Postgraduate programme, the Internship programme and the Learnership for People with Disabilities programme.

Enterprise and supplier development (ESD) is an important part of our social commitment. Through FutureMakers, launched in May 2015, we have invested over R381 million in the programme, and support the ESD drive in the ICT sector. The programme specifically supports small black-owned enterprises with a focus on channel development, supply chain development and technology innovation.

Since the inception of FutureFund in 2015, R250 million was invested into the FutureMakers investment fund, which focuses on providing seed, early stage and commercial finance to qualifying black-owned and black women-owned enterprises. In FY2018, R44.1 million was invested towards providing non-financial support such as connectivity, office space, gap analysis services, business strategy development, mentorship, business training and auditing services.

Telkom invested into the Telkom Channel Partner programme to penetrate and diversify the market including township and peri-urban areas where it is imperative to develop black-owned channel partners. The Telkom Channel Partner programme will form a BCX Channel Partner programme and a Consumer Super-Dealer programme to establish black-owned channel partners who will sell BCX solutions and Consumer products.

As part of socio-economic development, the Telkom Foundation manages Telkom's and BCX's CSI initiatives. The foundation is committed to helping disadvantaged communities through structured programmes. It promotes and embeds a culture of giving across the group through its programmes and employee voluntarism. The Telkom and BCX foundation strategy, along with Yellow Pages' CSI policy, guides social capital investment. The strategy is aligned to technology-blended support, employee volunteering programmes and partnerships.

The Telkom Foundation invests in education to deliver sustainable change. ICT is integral to the foundation's education strategy, and it empowers teachers and improves their capabilities. The foundation works with our human resources department and other industry players to pool potential ICT learners for further development.



Natural capital

Telkom is committed to minimising its environmental impacts by proactively addressing issues.

Climate change risks are complex, as they include operational risks such as business continuity, employee health and safety, environmental aspects, regulatory aspects and community needs. To protect our business, the environment and our communities, we need to mitigate and adapt to climate change's impacts. The 9 percent decrease in scope 2 carbon emission from the prior year is primarily attributed to our implementation of 82 smart meters at our top 50 consuming sites.

Telkom's water consumption, which covers owned-buildings, decreased by 38 percent year on year mainly attributable to repaired water leaks and buildings that closed. We have measures to avoid ongoing water leaks. We will also implement water flow logging at our

top 100 water consuming sites, commencing in Cape Town. In addition, water-efficient sanitary fixtures have been installed within the buildings. Newly installed water flow restrictors saved approximately 20 percent of the normal flow rate.

The World Economic Forum has identified a global water crisis as the top risk facing humanity for the next decade. South Africa is facing an overwhelming water crisis, with the Western Cape being the worst hit and declared a disaster zone by the premier. Telkom partners with Cape Town's multidisciplinary water-saving strategy forums. Our group-wide water crisis management steering committee and multibusiness unit work streams are developing and implementing strategies to curb water consumption and ensure we are adequately prepared for any possible outcome of the water crisis. Our employees remain our priority, and all initiatives to mitigate the water scarcity are in accordance with legislation and health and safety standards.



Overview of our business Outlook

Looking forward, we will continue focusing on our sustainable growth framework. We will continue to review our business portfolio and prioritise strategic initiatives accordingly, in line with our changing operating environment. This includes reviewing our traditional network and IT systems, non-core assets and product portfolio.

Openserve will continue to review its network technology. We continue optimising our network footprint by analysing our current deployed network and upgrading or decommissioning its components, and using alternative technology where deemed optimal.

BCX's business portfolio review will improve their quality of earnings and revenue mix. BCX will continue focusing on leading application and infrastructure service capabilities and investing in future growth areas, which include driving solutions and business outcomes for our customers.

Telkom Consumer will accelerate migration from traditional products. This product rationalisation will see our suite of Unlimited, FreeMe and Smart broadband products become the bedrock of our sales and marketing advances going forward. We are redesigning our IT system to drive and enable a lean business operating model and provide an automated business process. This IT redesign is premised on a nimble architecture supporting an omni-channel service model. This will also incorporate a full digital channel element enabling e-commerce and self-service capabilities.

Gyro will focus on commercialising the property portfolio, optimise and grow the masts and towers portfolio as well as enhance building efficiencies. These will diversify income streams through property development, masts and towers, and property management services.

We intend to invest in a manner that enhances our long-term financial sustainability to continue building a platform for future growth. We allocate capital diligently, including measuring returns. It is imperative to continue

investing in key growth areas in line with our strategy to ensure that we do not compromise our medium-term prospects. **Over the next three years to FY2021, our capital investment will be 16 to 20 percent of revenue** focusing on key revenue growth areas such as mobile and fibre. The capex investment to date is already bearing fruit with the growth in our new generation revenue streams, such as mobile service revenue and fixed data revenue, offsetting the decline in traditional revenue, such as voice revenue. We expect our **operating revenue to grow mid-single digit over the next three years** as we continue to grow our mobile business, fixed data and other future revenue streams such as cloud computing, IoT, cybersecurity and big data analytics. We manage the decline in traditional revenue by proactively integrating customers from traditional to new generation revenue and partnering with over-the-top players to provide data-led solutions to our customers. It is imperative to migrate customers to new technologies to ensure the sustainability of our business. However, the migration is at lower margins. In some products and services, we need to grow volumes by 2 to 2.5 times to compensate for the variance in pricing. Despite the impact of the change in product mix, we expect our **EBITDA margin to be between 24 and 27 percent** over the next three years, as we grow new generation revenue streams and continue to be cost efficient.

We continue driving the new operating model that provides greater business unit accountability for operational delivery and value contribution for the group as a whole, while ensuring strategic control from the Corporate Centre. We are exploring the benefits of divisionalisation of our subsidiaries, such as a better commercialisation positioning of the group, to ensure better strategic alignment between the independent businesses, and to improve efficiencies across the group and preserve scale and benefits. We have started the review process with the BCX group entities. The structure and timing of the possible divisionalisation is yet to be determined.

The group will follow a measured and phased approach to the potential divisionalisation, starting in FY2019 after the implementation plans have been set out and agreed between all stakeholders.

It is envisaged that this process will have a positive impact on the operational efficiency of the group as a whole.



Dividend policy remains unchanged

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

Declaration of dividend

In line with our dividend policy, the board declared a final ordinary dividend 22 of 236.97446 cents per share. This follows an interim dividend of 118.114 cents per share declared in the interim results taking the annual dividend in respect of the financial year to 355.08846 cents per share (March 2017: 421.99127 cents per share).

The declared dividend is payable on Monday, 25 June 2018 to shareholders recorded in the register of the company at close of business on Friday, 22 June 2018. The dividend will be subject to a local dividend withholding tax rate of 20 percent which will result in a net final dividend of 189.57957 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 Limited's tax reference number is 9/414/001/710.

Salient dates with regards to ordinary final dividend 2018

Declaration date	Monday, 28 May 2018
Last date to trade cum dividend	Tuesday, 19 June 2018
Shares trade ex dividend	Wednesday, 20 June 2018
Record date	Friday, 22 June 2018
Payment date	Monday, 25 June 2018

Share certificates may not be dematerialised or re-materialised between Wednesday, 20 June 2018 and Friday, 22 June 2018, both days inclusive.

On Monday, 25 June 2018, 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.

02

Operational data



Operational data

	31 March 2018	31 March 2017	%
Subscribers			
Broadband subscribers			
Fixed broadband subscribers ¹	981 176	1 003 521	(2.2)
Mobile broadband subscribers	3 626 527	2 637 682	37.5
Fixed subscribers			
Closer subscribers	790 207	791 965	(0.2)
Internet all access subscribers ²	572 402	555 112	3.1
Fixed access lines ('000) ³	2 678	2 954	(9.3)
Revenue per fixed access line (Rand)	4 703	4 718	(0.3)
Fixed voice ARPU (Rand)	360.82	367.90	(1.9)
Managed data network sites	47 059	46 485	1.2
Mobile subscribers			
Active mobile subscribers ⁴	5 207 876	3 998 613	30.2
Pre-paid	3 729 943	2 771 804	34.6
Post-paid	1 477 933	1 226 809	20.5
ARPU (Rand)	98.19	89.14	10.2
Pre-paid	59.62	49.12	21.4
Post-paid	191.90	181.41	5.8
Pre-paid churn %	51.6	50.0	1.6
Post-paid churn %	12.0	12.0	-

	31 March 2018	31 March 2017	%
Volumes			
Fixed broadband data volumes (terabytes)	848 314	631 569	34.3
Mobile broadband data volumes (terabytes)	191 813	85 770	123.6
Total fixed-line traffic (millions of minutes)	12 028	13 579	(11.4)
Network			
Ports activated via MSAN access	1 536 133	1 329 450	15.5
Fibre to the home	356 684	219 825	62.3
Fibre to the cabinet	2 237 057	1 991 449	12.3
Mobile sites integrated	3 974	2 986	33.1
LTE sites integrated	2 333	1 677	39.1
Active fibre connectivity rate %	30.7	18.0	12.7
Group employees⁵	18 286	18 847	(3.0)
Telkom company employees	10 143	10 743	(5.6)
Consumer	1 370	1 374	(0.3)
Openserve	8 493	8 388	1.3
Corporate Centre	280	981	(71.5)
BCX group employees	7 489	7 460	0.4
Yellow Pages group employees	444	508	(12.6)
Gyro employees	210	136	54.4

¹ Includes 6 927 (March 2017: 7 963) internal lines.

² Includes Telkom Internet ADSL, ISDN and WIMAX subscribers.

³ Excludes Telkom internal lines.

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

⁵ Based on number of group permanent employees.



03

Financial performance



Financial performance information

Condensed consolidated provisional annual statement of profit and loss

	March 2018 Rm	March 2017 Rm	%
Operating revenue	41 018	40 970	0.1
Payments to other operators	2 606	2 618	0.5
Cost of sales	6 256	6 498	3.7
Net revenue	32 156	31 854	0.9
Other income	607	734	(17.3)
Operating expenses	22 219	21 647	(2.6)
Employee expenses	10 917	10 496	(4.0)
Selling, general and administrative expenses	7 132	7 237	1.5
Service fees	3 054	2 869	(6.4)
Operating leases	1 116	1 045	(6.8)
EBITDA	10 544	10 491	(3.6)
Depreciation, amortisation, impairment and write-offs	5 605	5 661	1.0
Operating profit	4 939	5 280	(6.5)
Investment income	203	219	(7.3)
Finance charges and fair value movements	851	888	4.2
Finance charges	893	618	(44.5)
Foreign exchange and fair value movement	(42)	270	115.6
Profit before taxation	4 291	4 611	(6.9)
Taxation	1 133	704	(60.9)
Profit for the year	3 158	3 907	(19.2)

Notes

Operating revenue was flat, supported by impressive growth in mobile and data revenues, offset by continued reduction in traditional fixed voice. The lack of significant growth in overall revenues reflects the competitive market and weak operating environment, deferred corporate ICT spend, reduced spend in the public sector and pricing pressures across all group businesses.

Cost of sales decreased following a change in the sales mix in our BCX segment compared to the prior year which resulted in fewer goods sold, partially offset by higher direct costs as a result of an increase in mobile subscribers connected.

Other income decreased mainly due to a R158 million decrease in the gain on sale of assets.

Operating expenses increased due to the following:

- Employee expenses increase is driven by an average salary increase of 6 percent and a market-related salary adjustment, partially offset by the group headcount decrease of 3.0 percent to 18 286 full-time employees.
- Selling, general and administrative expenses decrease is mainly due to lower cost of services sold in our BCX segment.
- Service fees increase is due to a higher facilities management expense from our BCX and Gyro segments relating to buildings and mast and towers respectively. We have also seen an increase in security and insurance expenses.
- Operating leases increased due to recovering costs relating to removal of mobile masts.

Group was negatively impacted by the 2.6 percent increase in operating expenses while revenue remained largely flat. The lower-than-inflation growth in operating expenses is attributable to our continued focus on cost-efficiency initiatives as part of our ongoing business transformation.

Depreciation, amortisation, impairments and write-offs mainly flat due to extension of useful lives and reprioritisation of capital investment.

Investment income decreased mainly due to lower cash balances throughout the year.

Fair value movements improved largely due to improved management of foreign currency denominated transactions partially offset by increased borrowing cost.

Taxation increased due to an increase in the effective tax rate of 15.2 percent in FY2017 to 26.4 percent in FY2018. The year on year increase in the tax charge is attributable to the income tax settlement entered with SARS in respect of prior periods; the reduction of prior period assessments issued by SARS; and the recognition of additional deferred tax assets in FY2017.

Operating revenue

	31 March 2018 Rm	31 March 2017 Rm	%
Fixed	24 680	25 795	(4.3)
Voice and subscriptions	12 377	13 553	(8.7)
Usage	4 586	5 425	(15.5)
Subscriptions	7 791	8 128	(4.1)
Interconnection	868	993	(12.6)
Fixed-line domestic	380	371	2.4
Fixed-line international	488	622	(21.5)
Data	9 946	9 791	1.6
Data connectivity	6 903	6 672	3.5
Internet access and related services	1 907	2 001	(4.7)
Managed data network services	1 096	1 075	2.0
Multi-media services	40	43	(7.0)
Customer premises equipment sales and rentals	1 345	1 273	5.7
Sales	252	276	(8.7)
Rentals	1 093	997	9.6
Other revenue	144	185	(22.2)
Mobile	7 794	6 047	28.9
Mobile voice and subscriptions	1 302	1 033	26.0
Mobile interconnection	166	109	52.3
Mobile data	3 683	2 356	56.3
Mobile handset and equipment sales	2 643	2 549	3.7
Information technology	7 026	7 554	(7.0)
Other	1 518	1 574	(3.6)
Yellow Pages	850	976	(12.9)
Gyro	657	598	9.9
VS Gaming	11	-	100.0
Total	41 018	40 970	0.1

Revenue variance explanations

Fixed-line voice usage and subscription revenue decreased by 8.7 percent to R12 377 million (March 2017: R13 553 million) driven by mobile substitution, a 9.3 percent decline in the number of fixed access lines and customers migrating to lower value bundled offerings.

Fixed interconnection revenue decreased 12.6 percent to R868 million (March 2017: R993 million) mainly due to decrease in minutes from other operators.

Fixed-line data revenue increased 1.6 percent to R9 946 million (March 2017: R9 791 million) impacted by an increase in our fixed-broadband revenue supported by our focus on the fibre roll-out strategy.

Fixed data connectivity services increased 3.5 percent to R6 903 million (March 2017: R6 672 million) due to a satisfying performance from our new data products including fibre to the home and Metro-Ethernet offset by an expected decline in revenue from leased lines.

Internet access and related services revenue decreased 4.7 percent to R1 907 million (March 2017: R2 001 million) due to the impact of two tariff reductions in June and August 2017.

Managed data network services revenue increased 2.0 percent to R1 096 million (March 2017: R1 075 million) mainly due to a 1.2 percent increase in the number of managed network sites to 47 059 (March 2017: 46 485).

Mobile voice and subscriptions revenue increased 26.0 percent to R1 302 million (March 2017: R1 033 million). This is attributed to a 30.2 percent increase in the number of active mobile subscribers.

Mobile data revenue increased 56.3 percent to R3 683 million (March 2017: R2 356 million) driven by our strategy to focus on data which led to an 124 percent increase in mobile data traffic volumes.

Information technology decreased 7.0 percent to R7 026 million (March 2017: R7 554 million) mainly due to the public and private sector taking a more conservative stance on spending.

Condensed consolidated statement of financial position

	March 2018 Rm	March 2017 Rm	%
Assets			
Non-current assets	36 417	34 125	6.7
Property, plant and equipment	30 377	27 918	8.8
Intangible assets	4 492	4 720	(4.8)
Other investments	100	40	150.0
Employee benefits	627	635	(1.3)
Other financial assets	60	60	-
Finance lease receivables	262	310	(15.5)
Deferred taxation	499	442	12.9
Current assets	14 127	13 912	1.5
Inventories	1 435	1 384	3.7
Income tax receivable	54	9	500.0
Current portion of finance lease receivables	112	237	(52.7)
Trade and other receivables	8 126	8 156	(0.4)
Current portion of other financial assets	163	126	29.4
Current portion of other investments	1 509	2 388	(36.8)
Cash and cash equivalents	2 728	1 612	69.2
Asset of disposal group classified as held for sale	-	12	(100.0)
Total assets	50 544	48 049	5.2
Equity and liabilities			
Equity attributable to owners of the parent	27 026	27 569	(2.0)
Share capital	5 050	5 208	(3.1)
Share-based compensation reserve	377	452	(16.6)
Non-distributable reserves	1 579	1 376	14.8
Retained earnings	20 020	20 533	(2.5)
Non-controlling interest	359	337	6.5
Total equity	27 385	27 906	(1.9)
Non-current liabilities	10 240	7 004	46.2
Interest-bearing debt	7 165	4 744	51.0
Provisions	2 432	1 592	52.8
Deferred revenue	464	529	(12.3)
Deferred taxation	179	139	28.8
Current liabilities	12 919	13 139	(1.7)
Trade and other payables	6 878	7 516	(8.5)
Shareholders for dividend	58	25	132.0
Current portion of interest-bearing debt	2 247	1 541	45.8
Current portion of provisions	1 504	1 521	(1.1)
Current portion of deferred revenue	1 589	1 570	1.2
Income tax payable	363	433	(16.2)
Current portion of other financial liabilities	250	440	(43.2)
Credit facilities utilised	30	93	(67.7)
Total liabilities	23 159	20 143	15.0
Total equity and liabilities	50 544	48 049	5.2

Notes

Property, plant and equipment (PPE) constitutes largely of fixed and mobile network equipment. The growth in PPE is driven largely by capital expenditure of R7 909 million mainly on the mobile network and fibre, partially offset by depreciation, impairments and write-offs of R4 827 million.

Intangible assets constitutes largely of software and goodwill. The reduction in intangibles is driven largely by amortisation of intangibles of R778 million. Additions to intangibles amounted to R493 million for the year, largely related to software additions.

Inventories are largely mobile handsets and information technology equipment held for sales to customers. The marginal growth in inventories is as a result of the increased demand for mobile handsets.

Trade receivables have reduced from R8 156 million to R8 126 million largely due to marginal growth in revenue, improved collections and increased debtors provisions mainly as a result of slower public sector collections.

The reduction on the **current portion of other investments** is due to the realisation of a portion of the cell captive.

Share capital has reduced due to a share buyback. Telkom bought back 15 808 461 shares to the value of R759 million.

Interest-bearing debt has increased largely due to increased borrowings to fund capital expenditure and optimise the capital structure of the group.

The growth in **provisions** is largely due to increased employee obligations as a result of a decrease in the discount rate as a result of an anticipated improved economic environment.

Trade and other payables has reduced mainly due to the prior year number including an increased capital expenditure payables growth at year end which has not repeated in the current year.

Condensed consolidated provisional statement of cash flows

	March 2018 Rm	March 2017 Rm	%
Cash flows from operating activities	6 084	5 542	9.8
Cash receipts from customers	41 049	39 961	2.7
Cash paid to suppliers and employees	(30 878)	(31 051)	0.6
Cash generated from operations	10 171	8 910	14.2
Interest received	327	453	(27.8)
Finance charges paid	(731)	(469)	(55.9)
Taxation paid	(1 493)	(1 181)	(26.4)
Cash generated from operations before dividend paid	8 274	7 713	7.3
Dividend paid	(2 190)	(2 171)	0.9
Cash flows from investing activities	(6 634)	(6 637)	0.0
Proceeds on disposal of property, plant and equipment and intangible assets	82	230	(64.3)
Additions to assets for capital expansion	(7 773)	(8 479)	8.3
Decrease in repurchase agreements	-	1 634	(100.0)
Acquisition of subsidiary, net of cash acquired	-	(22)	100.0
Other financial assets realised - BCX	31	-	100.0
Investments made by FutureMakers	(24)	-	(100.0)
Proceeds upon realisation of Cell Captive assets	1 050	-	100.0
Cash flows from financing activities	1 729	69	2 405.8
Loans raised	7 680	2 431	215.9
Loans repaid	(4 685)	(1 539)	(204.4)
Purchase of shares for the Telkom share plan and subsidiaries long-term incentive share scheme	(68)	(234)	70.9
Shares repurchased and cancelled	(759)	-	(100.0)
Finance lease repaid	(18)	(43)	58.1
Repayment of derivatives	(546)	(673)	18.9
Proceeds from derivatives	125	127	(1.6)
Net decrease in cash and cash equivalents	1 179	(1 026)	214.9
Net cash and cash equivalents at the beginning of the year	1 519	2 542	(40.3)
Effect of foreign exchange rate gains on cash and cash equivalents	-	3	(100.0)
Net cash and cash equivalents at the end of the year	2 698	1 519	77.6

Notes

Cash flows from operating activities improved mainly due to improved working capital movement as a result of better working capital management.

Increased finance charges paid is largely due to increased borrowings.

Taxation paid increased in FY2018 primarily due to the enforced partial payment of disputed tax, the utilisation of assessed tax losses in FY2017 and top-up payments made in FY2018 in respect of FY2017.

Reduction in payments relating to assets additions for capital expansion largely due to reduction in capital expenditure.

Reduction in repurchase agreements is due to a cash inflow in the prior year relating to repurchase agreements bought in FY2016, which settled in FY2017 and has not repeated in FY2018.

The proceeds from the cell captive is due to reduction in the investment in the cell captive to fund the group share buyback.

The growth in net debt raised and repaid is largely due to increased borrowings to fund capital investment.

Telkom repurchased 15 808 461 shares to the value of R759 million in the current year.

Condensed consolidated provisional annual financial statements

Board approval

The condensed consolidated provisional annual financial statements were authorised for issue by the board of directors of Telkom (board) on 25 May 2018.

Auditors' report

This summarised report is extracted from audited information, but is not itself audited. The annual financial statements were audited by Ernst and Young Inc who expressed an unmodified opinion thereon. The audited annual financial statements and the auditors' report thereon are available for inspection at the company's registered office. The directors take full responsibility for the preparation of the preliminary, provisional or abridged report and that the financial information has been correctly extracted from the underlying annual financial statements.

Preparer and supervisor of condensed consolidated provisional annual financial statements.

These prepared condensed consolidated provisional annual financial statements were supervised by the group chief financial officer, DJ Fredericks, CA(SA), Bcompt(Hons), ACMA(UK), Honours in Business Management.

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Condensed consolidated provisional annual statement of profit or loss and other comprehensive income

for the year ended 31 March 2018

	Notes	31 March 2018 Rm	31 March 2017 Rm
Operating revenue		41 018	40 970
Payments to other operators		2 606	2 618
Cost of sales		6 256	6 498
Net operating revenue		32 156	31 854
Other income		607	734
Operating expenses		22 219	21 713
Employee expenses	4	10 917	10 562
Selling, general and administrative expenses		7 132	7 237
Service fees		3 054	2 869
Operating leases		1 116	1 045
EBITDA		10 544	10 875
Depreciation of property, plant and equipment	4	4 780	4 752
Amortisation of intangible assets	4	778	766
Write-offs, impairment/(reversals) and losses of property, plant and equipment and intangible assets	4	47	143
Operating profit		4 939	5 214
Investment income and income from associates		203	219
Finance charges and fair value movements		851	888
Finance charges		893	618
Foreign exchange and fair value movements		(42)	270
Profit before taxation		4 291	4 545
Taxation	5	1 133	691
Profit for the year		3 158	3 854

	Notes	31 March 2018 Rm	31 March 2017 Rm
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
Exchange losses on translating foreign operations		(22)	(61)
Items that will not be reclassified to profit or loss			
Defined benefit plan actuarial losses*		(652)	(30)
Defined benefit plan asset ceiling limitation		-	(6)
Other comprehensive loss for the year, net of taxation		(674)	(97)
Total comprehensive income for the year		2 484	3 757
Profit attributable to:			
Owners of Telkom		3 052	3 797
Non-controlling interests		106	57
Profit for the year		3 158	3 854
Total comprehensive income attributable to:			
Owners of Telkom		2 378	3 700
Non-controlling interests		106	57
Total comprehensive income for the year		2 484	3 757
Basic earnings per share (cents)	6	602.3	738.8
Diluted earnings per share (cents)	6	589.7	724.1

* No deferred tax balance raised on the OCI movements due to the limitation of the Telkom deferred tax asset.

Condensed consolidated provisional annual statement of financial position

at 31 March 2018

	Notes	31 March 2018 Rm	31 March 2017 Rm
Assets			
Non-current assets		36 417	34 125
Property, plant and equipment	7	30 377	27 918
Intangible assets	7	4 492	4 720
Other investments	9	100	40
Employee benefits	8	627	635
Other financial assets	9	60	60
Finance lease receivables		262	310
Deferred taxation	12	499	442
Current assets		14 127	13 912
Inventories	10	1 435	1 384
Income tax receivable		54	9
Current portion of finance lease receivables		112	237
Trade and other receivables	19	8 126	8 156
Current portion of other financial assets	9	163	126
Current portion of other investments	9	1 509	2 388
Cash and cash equivalents	11	2 728	1 612
Assets of disposal groups classified as held for sale		-	12
Total assets		50 544	48 049
Equity and liabilities			
Equity attributable to owners of the parent		27 026	27 569
Share capital		5 050	5 208
Share-based compensation reserve		377	452
Non-distributable reserves		1 579	1 376
Retained earnings		20 020	20 533
Non-controlling interests		359	337
Total equity		27 385	27 906

	Notes	31 March 2018 Rm	31 March 2017 Rm
Non-current liabilities		10 240	7 004
Interest-bearing debt	15	7 165	4 744
Employee related provisions	16	2 388	1 536
Non-employee related provisions	16	44	56
Deferred revenue		464	529
Deferred taxation	12	179	139
Current liabilities		12 919	13 139
Trade and other payables	17	6 878	7 516
Shareholders for dividend*		58	25
Current portion of interest-bearing debt	15	2 247	1 541
Current portion of employee related provisions	16	1 340	1 397
Current portion of non-employee related provisions	16	164	124
Current portion of deferred revenue		1 589	1 570
Income tax payable		363	433
Current portion of other financial liabilities	9	250	440
Credit facilities utilised	11	30	93
Total liabilities		23 159	20 143
Total equity and liabilities		50 544	48 049

* Includes dividend payable to non-controlling interest of Trudon.

Condensed consolidated provisional annual statement of changes in equity

for the year ended 31 March 2018

	31 March 2018 Rm	31 March 2017 Rm
Balance at 1 April	27 906	26 365
Attributable to owners of Telkom	27 569	25 975
Non-controlling interests	337	390
Total comprehensive income for the year	2 484	3 757
Profit for the year	3 158	3 854
Other comprehensive losses	(674)	(97)
Exchange losses on translating foreign operations	(22)	(61)
Net defined benefit plan remeasurements	(652)	(36)
Dividend declared*	(2 223)	(2 202)
Disposal of non-controlling interest (refer to note 14)	(3)	(3)
Purchase of Telkom shares by subsidiaries	-	(28)
Increase in share-compensation reserve	29	201
Increase in subsidiaries share-compensation reserve	19	21
Shares repurchased and cancelled during the year	(759)	-
Increase in treasury shares	(68)	(205)
Balance at 31 March	27 385	27 906
Attributable to owners of Telkom	27 026	27 569
Non-controlling interests	359	337

* Dividend declared includes dividend to the non-controlling interests of the Trudon Group and the BCX Group.

Condensed consolidated provisional annual statement of cash flows

for the year ended 31 March 2018

	Notes	31 March 2018 Rm	31 March 2017 Rm
Cash flows from operating activities		6 084	5 542
Cash receipts from customers		41 049	39 961
Cash paid to suppliers and employees		(30 878)	(31 051)
Cash generated from operations	22	10 171	8 910
Interest received		327	453
Finance charges paid	24	(731)	(469)
Taxation paid	25	(1 493)	(1 181)
Cash generated from operations before dividend paid		8 274	7 713
Dividend paid	26	(2 190)	(2 171)
Cash flows from investing activities		(6 634)	(6 637)
Proceeds on disposal of property, plant and equipment and intangible assets		82	230
Additions to assets for capital expansion		(7 773)	(8 479)
Decrease in repurchase agreements		-	1 634
Acquisition of subsidiary, net of cash acquired		-	(22)
Other financial assets realised – BCX		31	-
Investments made by FutureMakers		(24)	-
Proceeds upon realisation of Cell Captive assets		1 050	-
Cash flows from financing activities		1 729	69
Loans raised	23	7 680	2 431
Loans repaid	23	(4 685)	(1 539)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		(68)	(234)
Shares repurchased and cancelled		(759)	-
Finance lease repaid	23	(18)	(43)
Settlement of derivative liabilities		(546)	(673)
Proceeds from derivatives		125	127
Net increase/(decrease) in cash and cash equivalents		1 179	(1 026)
Net cash and cash equivalents at the beginning of the year		1 519	2 542
Effect of foreign exchange rate gains on cash and cash equivalents		-	3
Net cash and cash equivalents at the end of the year	11	2 698	1 519

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

1. 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. The main objective of Telkom, its subsidiaries and associates (the group) is to supply telecommunication, multimedia, technology, information, mobile communication services and other related information technology services to the group 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.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

The condensed consolidated provisional annual financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and in compliance with the Listings Requirements of the JSE Limited, the South African Companies Act, 2008, as amended, 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 condensed consolidated provisional annual financial statements are disclosed in South African Rand, which is also the group's presentation currency unless stated otherwise. All financial information presented in Rand has been rounded off to the nearest million.

The condensed consolidated provisional annual financial statements are prepared on the historical cost basis, with the exception of certain financial instruments initially (and sometimes 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.

In an effort to declutter the notes based on materiality, certain comparatives in the notes have been aggregated or disaggregated in relation to the comparative period.

2.2 Significant accounting judgements, estimates and assumptions

In preparing these condensed consolidated provisional annual 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 2017, with the exception of the useful lives of assets (refer to note 4) and the vesting assumptions related to the group share scheme (refer to note 4) which were re-assessed and adjusted for prospectively.

2.3 Significant accounting policies

The condensed consolidated provisional annual financial statements have been prepared in accordance with the accounting policies adopted in the group's last annual financial statements for the year ended 31 March 2017.

The following new standards and amendments to standards have been adopted.

Standard(s), Amendment(s)	Salient feature of the changes
IAS 7 Statement of Cash Flow Disclosure Initiative	This amendment requires an entity to provide disclosures that enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The notes to the statement of cashflow have been updated to reflect the requirements of the new standard. Refer to note 23.

The following new standards and amendments to standards have been early adopted.

Standard(s), Amendment(s)	Salient feature of the changes
IFRIC 23 Uncertainty over Income Tax Treatments	<p>The Interpretation clarifies the application, recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:</p> <ul style="list-style-type: none"> (i) Whether an entity considers uncertain tax treatments separately; (ii) The assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) How an entity determines taxable profit/(taxable losses), tax bases, unused tax losses, unused tax credits and tax rates; and (iv) How an entity considers changes in facts and circumstances. <p>The adoption of the IFRIC did not have a material impact on the group as the existing uncertain tax provisioning policy of the group was already aligned to the IFRIC.</p>

Effective date 1 January 2019

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

2. Basis of preparation and accounting policies (continued)

2.4 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.

2.4.1 IFRS 9 Financial Instruments

IFRS 9 Financial Instruments (2014) is effective for periods beginning on or after 1 January 2018. The new standard includes the final classification and measurement model for financial assets and liabilities as well as the new expected credit loss (ECL) model for the impairment of financial assets that replaces the incurred loss model prescribed in IAS 39. The IAS 39 classification model for financial liabilities has been retained, however, changes in own credit risk will be presented in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 also includes new requirements for general hedge accounting.

During the 31 March 2018 financial period, the group performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being obtained by the group in the 2019 financial period once the group has adopted IFRS 9.

The expected impact of the standard is assessed in more detail below:

(a) Classification and measurement

The group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. The group does not have financial instruments which will cease to be accounted for at fair value through other comprehensive income and rather be accounted for in profit or loss.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest amounts. The group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. This classification is in line with the current initial classification under IAS 39.

The group thus does not anticipate any additional volatility related to the initial classification and measurement of its financial assets and liabilities.

2. Basis of preparation and accounting policies (continued)

2.4.1 IFRS 9 Financial Instruments (continued)

(b) Impairment

IFRS 9 requires the group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis.

The group expects to apply the simplified approach to recognise lifetime expected losses for its trade and finance lease receivables as permitted by IFRS 9. In relation to loans to related parties, management has assessed that there has been no significant increase in the credit risk of those loans from initial recognition to 31 March 2018. Accordingly, the group expects to recognise 12-month expected credit losses for the related party loans. The group will apply the 12-month expected credit losses using the general approach to the impairment of its other financial assets.

The group does not anticipate that the application of the expected loss model will have a significant impact on trade and other receivables given the current application of a provision matrix to the provision for incurred losses, as would be implemented under the simplified approach. The group has also concluded that due to the short-term nature of its trade and other receivable balances, the trade receivable balances are not significantly exposed to the impact of changes in the economic environment and thus this is not anticipated to have a significant impact on the expected loss model.

Management anticipates that the application of the expected loss model under IFRS 9 will result in earlier recognition of credit losses for finance lease receivables and will increase the loss allowance for these items. Historically, Telkom has only accounted for specific impairments against its finance lease receivable balances. At the date of preparing the financial statements, management was still in the process of quantifying the impact of this change on the opening balances of retained earnings.

(c) Hedge accounting

The group determined that all existing hedge relationships that are currently designated as effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on the group's financial statements.

(d) Other adjustments

In addition to the adjustments described above, on adoption of IFRS 9, other items of the primary financial statements, such as deferred taxes, may be impacted.

(e) Disclosures

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments, particularly in the year of the adoption of the new standard.

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

2. Basis of preparation and accounting policies (continued)

2.4.1 IFRS 9 Financial Instruments (continued)

(f) Transition

The group will apply IFRS 9 retrospectively, applying the practical expedients relating to the accounting for expected credit losses, in terms of which the opening balance of retained earnings will be adjusted in the year of initial application.

The group is still in the process of determining the day 1 adjustment that may be required to account for the expected credit loss on its financial instruments.

2.4.2 IFRS 15 Revenue from contracts with customers

1. Financial impact

The group is in the business of supplying fixed voice and data services to post-and pre-paid customers and the sale of subscription-based value-added voice services and calling plans. The group also sells fixed line customer premises equipment and services both for voice and data needs. The mobile communication services include voice and data services and handset sales. Other services include directory services and wireless data services. The equipment and services are sold both on their own in separate identified contracts with customers and together as a bundled package of goods and/or services.

Management has assessed the effects of applying the new standard on the group's financial statements and has identified the following areas that will be affected:

(a) Contracts with multiple performance obligations

Based on the results of the impact assessment, and taking into account the group's existing accounting policies on revenue recognition for contracts with multiple delivery elements (obligations), the group is not expecting a material impact in the Mobile environment. The group currently allocates the consideration to each deliverable based on the fair value of each deliverable on a selling price stand-alone basis as a percentage of the aggregated fair value of individual deliverables. Where revenue is currently allocated to a device in a contract, the device revenue under IFRS 15 will decrease as the total transaction price, including any discounts on the contract, needs to be allocated proportionately to all the performance obligations in the contract.

The group currently does not re-allocate revenue between service and device revenue (device sales, e.g. DSL routers) in the Fixed Line environment. Following the requirements to allocate revenue between all performance obligations in the contract, it is expected that some of the service revenue will be allocated to device sales, thereby a part of the revenue from the contract will be recognised upfront at contract inception. The device is in most contracts a less significant portion of the transaction price.

(b) Licence fees

In situations where the licences provide a right of access as opposed to a right of use, the group will be required to defer the revenue recognition over the contract period. The group is still in the process of quantifying the deferral value, if any, and the impact that this would have on the financial statements.

2.4.2 IFRS 15 Revenue from contracts with customers (continued)

(c) Installation fees

Installation fees are currently recognised as revenue over the customer relationship period for term contracts and on initial recognition for month-to-month contracts. In terms of IFRS 15, it has to be recognised over the contract term or immediately in the case of month-to-month contracts where the payment of the installation fee does not give the customer a material right and over the customer relationship period where a material right is provided to the customer. This will impact the timing of revenue recognition related to installation fee revenue.

(d) Significant financing component

IFRS 15 requires the assessment of whether a significant financing component is included in the contract with the customer. A portion of the total transaction price will be allocated to finance income where a significant finance component exists. This will lead to a reduction in operating revenue and EBITDA and an increase in total interest income which will be recognised over the deemed financing period. The determination of whether a significant financing component exists requires the application of significant judgements and estimates and will be determined on a contract by contract basis. The group does not currently recognise any interest income over the contract period with its customers, with the exception of finance leases (which are outside the scope of IFRS 15).

The impact cannot be reliably quantified at this stage.

2. Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under current IFRS. The presentation requirements represent a significant change from current practice and significantly increases the volume of disclosures required in the group's financial statements. Many of the disclosure requirements in IFRS 15 are new and the group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made when determining the transaction price of those contracts that include variable consideration, how the transaction price has been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling prices of each performance obligation. Also, extended disclosures are expected as a result of the significant judgement made when assessing the contracts where the group has concluded that it acts as an agent instead of a principal, there is a significant financing component, and service-type warranties are provided. In addition, as required by IFRS 15, the group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. In 2018, the group continued testing of appropriate systems, internal controls, policies and procedures necessary to collect and disclose the required information.

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

2. Basis of preparation and accounting policies (continued)

2.4.2 IFRS 15 Revenue from contracts with customers (continued)

3. Transition

The group is planning to adopt IFRS 15 retrospectively and apply the new standard to each prior reporting period presented, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. In the year of adoption, the group will record a cumulative transitional adjustment at 1 April 2017 to restate historical financial data. All customer contracts in progress but not completed or starting after this date will need to be restated.

The group intends to use the following practical expedients on transition:

- (a) completed contracts that begin and end within the same annual reporting period will not be restated;
- (b) for completed contracts that have variable consideration, the transaction price at the date the contract was completed will be used rather than estimating variable consideration amounts in the comparative reporting periods; and
- (c) for all reporting periods presented before the date of initial application, the group will not disclose the amount of the transaction price allocated to the remaining performance obligations or identify when it expects to recognise that amount as revenue.

2. Basis of preparation and accounting policies (continued)

2.4.3 IFRS 16 Leases

IFRS 16 Leases, issued by the IASB in January 2016, is effective for reporting periods beginning on or after 1 January 2019.

IFRS 16 Leases sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

In the case where the group is a lessee, the long-term operating leases will be recognised as non-current assets and financial liabilities in the consolidated statement of financial position. In the statement of comprehensive income, the lease expense profile will be front-loaded for individual leases and presented as depreciation and interest rather than as an operating expense (with the exception of variable rentals which will be expensed as incurred). This will result in many of the group's key performance indicators being affected, EBITDA being a case in point. The statement of cash flows will be affected too, with payments needing to be split between repayments of principal and interest.

The group is assessing the effects of IFRS 16 and cannot provide an estimate of the effects of the new lease standard until a detailed review has been performed.

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

3. 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 the strategic decisions, allocate resources, and assess performance of each reportable segment.

The CODM reviews the performance of the operating segments on a net operating revenue and EBITDA basis. For this purpose, the reportable segments have been determined as Openserve, Consumer, BCX and "Other".

During the prior period, the reportable segments were determined as Fixed Stream, Mobile Stream, BCX and "Other" for EBITDA. In the current period, the review of EBITDA has been performed at the same segmental level as net operating revenue. The comparative segment note has been restated to reflect this change.

"Other" includes Swiftnet, Trudon, Gyro Group and other business units.

In the current period, the CODM has also included intercompany revenue and transfer pricing (previously excluded from the performance measures assessed by the CODM) in the measure of performance used to assess performance and allocate resources. The comparative segment note has been restated to include transfer pricing.

March 2018	Openserve Rm	Consumer Rm	BCX Rm	Other Rm	Consolidated Rm
Operating revenue from external customers*	4 341	16 785	18 279	1 613	41 018
Voice	–	7 180	6 499	–	13 679
Interconnection	868	166	–	–	1 034
Data	3 396	6 575	3 563	95	13 629
Customer premises equipment	–	2 848	1 140	–	3 988
Sundry revenue	77	16	51	1 518	1 662
Information technology	–	–	7 026	–	7 026
Payment to other operators	(1 186)	(1 247)	(135)	(38)	(2 606)
Cost of sales	(49)	(3 615)	(2 368)	(224)	(6 256)
Segment net external operating revenue	3 106	11 923	15 776	1 351	32 156
Intersegmental operating revenue	13 229	372	2 888	3 956	20 445
EBITDA for reportable segments including intersegmental transactions	5 914	(183)	3 736	1 077	10 544
Reconciliation of operating profit to profit before tax					
EBITDA for reportable segments					10 544
Depreciation, amortisation, impairment/(reversals), write-offs and losses					(5 605)
Operating profit					4 939
Investment income					203
Finance charges and fair value movement					(851)
Profit before taxation					4 291
Other segment information					
Capital expenditure of property, plant and equipment and intangible assets	4 728	2 359	504	318	7 909

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

3. Segment information (continued)

	Openserve Rm	Consumer Rm	BCX** Rm	Other Rm	Consolidated Rm
March 2017					
Operating revenue from external customers	4 662	15 435	19 299	1 574	40 970
Voice	–	7 429	7 157	–	14 586
Interconnection	993	109	–	–	1 102
Data	3 543	5 113	3 491	–	12 147
Customer premises equipment	–	2 764	1 058	–	3 822
Sundry revenue	126	20	39	1 574	1 759
Information technology	–	–	7 554	–	7 554
Payment to other operators	(1 490)	(995)	(108)	(25)	(2 618)
Cost of sales	(21)	(3 153)	(2 651)	(673)	(6 498)
Segment net external operating revenue	3 151	11 287	16 540	876	31 854
Intersegmental and transfer pricing operating revenue	13 426	771	2 897	4 405	21 499
EBITDA for reportable segments including intersegmental transactions	6 063	(406)	4 064	1 154	10 875
Reconciliation of operating profit to profit before tax					
EBITDA for reportable segments					10 875
Depreciation, amortisation, impairment/(reversals), write-offs and losses					(5 661)
Operating profit					5 214
Investment income					219
Finance charges and fair value movement					(888)
Profit before taxation					4 545
Other segment information					
Capital expenditure of property, plant and equipment and intangible assets	5 185	1 999	366	1 104	8 654

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 associated 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 related 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 balances 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.

**Includes Enterprise results as if the transaction was effective on 1 April 2016.

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

	2018 Rm	2017 Rm
4. Operating expenses		
Employee expenses	10 917	10 562
Included in the employee expenses is a share scheme expense of R48 million (2017: R222 million). The group re-assessed the estimated amount of shares to vest to employees based on the current performance against vesting targets. The re-assessment decreased the share scheme expense in the current year by R127 million. The change in estimate will reduce the future share scheme expense by R24 million.		
Depreciation, amortisation, impairment, write-offs/(reversals) and losses	5 605	5 661
Depreciation of property, plant and equipment	4 780	4 752
Amortisation of intangible assets	778	766
Write-offs, impairments/(reversals) and losses of property, plant and equipment and intangible assets	47	143
During the year, the group re-assessed the useful lives on certain technologies. The re-assessment takes into account the group's current capex strategy and changes in the technological environment. The re-assessment of useful lives had the effect of decreasing the depreciation and amortisation expense for the year ended 31 March 2018 by R280 million (2017: R325 million increase). Depreciation and amortisation for the remaining useful lives of the group's assets will be decreased by this amount.		
5. Taxation	1 133	691
Normal company taxation	1 157	713
Deferred taxation	(56)	(50)
Withholding tax	-	4
Common control transaction	32	24

	2018 Rm	2017 Rm
6. Earnings per share		
Total operations		
Basic earnings per share (cents)*	602.3	738.8
Diluted earnings per share (cents)*	589.7	724.1
Headline earnings per share (cents)*	597.0	721.1
Diluted headline earnings per share (cents)*	584.5	706.7
Reconciliation of weighted average number of ordinary shares:	Number of shares	Number of shares
Weighted ordinary shares in issue	522 421 876	526 948 700
Weighted average number of treasury shares	(15 728 674)	(12 994 315)
Weighted average number of shares outstanding	506 693 202	513 954 385
Reconciliation of diluted weighted average number of ordinary shares:		
Weighted average number of shares outstanding	506 693 202	513 954 385
Expected future vesting of shares	10 840 186	10 416 531
Diluted weighted average number of shares outstanding	517 533 388	524 370 916
<i>* 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 4/2018 issued in this regard.</i>		
Total operations		
Reconciliation between earnings and headline earnings:		
Profit for the year	3 158	3 854
Non-controlling interests	(106)	(57)
Profit attributable to owners of Telkom	3 052	3 797
Profit on disposal of property, plant and equipment and intangible assets	(59)	(217)
Write-offs, impairment/(reversals) and losses of property, plant and equipment and intangible assets	47	143
Taxation effects**	(15)	(17)
Headline earnings	3 025	3 706
Dividend per share (cents)		

The calculation of dividend per share is based on total dividends of R2 148 million with R1 532 million declared on 5 June 2017 and R616 million declared on 10 November 2017 (31 March 2017: R2 114 million). 526 948 700 number of ordinary shares were outstanding on the date of the dividend declarations (31 March 2017: 526 948 700). Included in the dividend declared balance is R6.1 million (31 March 2017: R18.8 million) relating to dividends declared to subsidiaries.

** The taxation impact consists of a R2 million decrease (31 March 2017: R6 million) in tax expense related to profits on disposal of property, plant and equipment and a R17 million increase (31 March 2017: R23 million) in the tax expense related to write-offs of property, plant and equipment and intangible assets.

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

	2018 Rm	2017 Rm
7. Capital additions and disposals		
Property, plant and equipment		
Additions	7 416	7 539
Disposals	(19)	(23)
	7 397	7 516
Intangible assets		
Additions	493	1 069
Disposals	(4)	(27)
	489	1 042

Finance charges of R135 million (31 March 2017: R130 million) were capitalised to property, plant and equipment and intangible assets in the current financial year.

	2018 Rm	2017 Rm
8. Employee benefits		
Telkom Pension Fund asset	22	23
Post-retirement medical aid recognition of net plan asset	605	612

The balances recognised for the employee benefit assets have been calculated taking into account the actuarially determined asset ceiling in terms of IAS 19.

	2018 Rm	2017 Rm
9. Other financial assets, liabilities and investments		
Non-current other investments:	100	40
FutureMakers	50	11
Equity investment in Number portability company	6	5
BCX group interest in associates and joint ventures	44	24
Current other investments:		
Investment in Cell Captive	1 509	2 388
Non-current other financial assets consist of:	60	60
– Asset finance receivables	29	25
– NGA loans	31	27
– APPZONE loans	–	8
Current portion of other financial assets:		
– Derivative instruments	163	126
Forward exchange contracts	14	54
Firm commitments	149	24
– Asset finance receivables	–	48
Current other financial liabilities:		
– Derivative instruments	(250)	(440)
Forward exchange contracts	(222)	(189)
Firm commitments	(5)	(229)
Interest rate swaps	(23)	(22)

Derivatives not designated as hedging instruments

The group uses forward exchange contracts and interest rate swaps to economically hedge its foreign exchange and interest rate exposures.

Derivative instruments are measured at fair value through profit or loss.

Fair value hedge

The foreign exchange forward contracts, designated as fair value hedges, are being used to hedge the exposure to changes attributable to movement 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 R319 million (31 March 2017: R88 million) has been recognised in finance charges and fair value movements and offset with a similar gain on the hedged items (property, plant and equipment and inventory). The ineffective portion recognised in the current financial year was immaterial.

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

	2018 Rm	2017 Rm
10. Inventories	1 435	1 384
Gross inventories	1 643	1 564
Write-down of inventories to net realisable value	(208)	(180)

	2018 Rm	2017 Rm
11. Net cash and cash equivalents	2 728	1 612
Cash disclosed as current assets		
Cash and bank balances	1 669	953
Short-term deposits	1 059	659
Credit facilities utilised	(30)	(93)
Net cash and cash equivalents	2 698	1 519

	2018 Rm	2017 Rm
12. Deferred taxation	320	303
Deferred taxation balance is made up as follows:		
Deferred taxation assets	499	442
Deferred taxation liabilities	(179)	(139)

The group did not recognise deferred tax of R331 million (31 March 2017: R400 million) in respect of temporary differences and tax losses amounting to R1 160 million (31 March 2017: R1.4 billion) that can be carried forward against future taxable income. These differences originate in Telkom company.

13. Financial risk management

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.

The condensed consolidated provisional annual financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the group's annual financial statements as at 31 March 2018. The group uses derivatives as hedging instruments.

13.1 Liquidity risk

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

Liquidity risk is managed by the group's Treasury department in accordance with policies and guidelines formulated by the group's Executive Committee. In terms of its borrowing requirements, the group ensures that sufficient facilities exist to meet its immediate obligations.

Compared to the 2017 financial year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

13.2 Fair value of financial instruments

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

Type of financial instrument – group	Fair value at 31 March 2018 Rm	Valuation technique	Significant inputs
Derivative assets	163		Yield curves Market interest rates
Derivative liabilities	(250)	Discounted cash flows	Market foreign exchange rates
Investment in Cell Captive assets	1 509	Quoted market prices adjusted for counterparty credit risk	Market prices
Investment in FutureMakers	50	Discounted cash flows	Cash flow forecasts and market-related discount rates
Interest-bearing debt	(9 694)	Discounted cash flows and quoted bond prices	Market interest rate Market foreign exchange rate

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

13. Financial risk management (continued)

13.2 Fair value of financial instruments (continued)

The estimated net fair values as at the reporting date have been determined using available market information and appropriate valuation methodologies as outlined below. This value is not necessarily indicative of the amounts that the group could realise in the normal course of business. 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 discounted at market interest rates. As a result, they differ from their carrying values.

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

13.3 Fair value hierarchy

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

The different levels have been defined as follows:

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

	Hierarchy levels	2018 Rm	2017 Rm
Assets measured at fair value			
Investment in Cell Captive Preference Shares	Level 2	1 509	2 388
Investment made by FutureMakers	Level 3	50	11
Forward exchange contracts	Level 2	14	54
Firm commitments	Level 2	149	24
Liabilities measured at fair value			
Interest rate swaps	Level 2	(23)	(22)
Firm commitments	Level 2	(5)	(229)
Forward exchange contracts	Level 2	(222)	(189)
Liabilities measured at amortised cost			
Interest-bearing debt consisting of:			
Listed debt	Level 2	(9 694)	(6 578)

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

14. Acquisition and disposal of subsidiaries

14.1 Common control transactions

March 2018

Mast and Towers business

On 16 March 2017, the Telkom board approved the disposal of Telkom's Mast and Towers (M&T) business to Swiftnet, a wholly owned subsidiary of Telkom group.

This is part of Telkom's strategic imperative to maximise value from its M&T portfolio. The mast and towers are currently used to provide telecommunication services to Telkom customers. They are also leased to third parties.

The effective date of the sale was 1 April 2017, and was structured in the form of assets for preference shares. At 31 March 2017, Telkom company recognised the M&T portfolio as held for sale in its statement of financial position.

On 31 March 2017, the fair value of the M&T assets exceeded their carrying value. For group purposes, the M&T assets were transferred to Swiftnet at their carrying amount as the transaction constituted a business combination under common control.

As part of the sale, a deferred tax liability was recognised in Swiftnet which was previously part of the net deferred tax asset in Telkom SA SOC Ltd. The deferred tax balances were transferred as a transaction was concluded as a sale of a going concern for tax purposes.

The above transaction affects Telkom company only and not the Telkom group.

Gyro Solutions

On 16 March 2017, the Telkom board approved the disposal of Telkom's corporate real estate services (CRES) business to a newly formed entity, Gyro Solutions, a wholly owned subsidiary of Telkom group.

This is part of Telkom's strategic imperative to maximise value from its property management portfolio.

The effective date of the sale was 1 April 2017 and was structured in the form of assets for preference shares. The CRES assets and liabilities were classified as held for sale at 31 March 2017.

For group purposes, the CRES assets and liabilities were transferred at their carrying amount as the transaction constituted a business combination under common control. The above transaction affects Telkom company only and not the Telkom group.

March 2017

Enterprise business

On 1 November 2016, Enterprise, previously a division of Telkom group, was sold to BCX to realise synergies. The integration will enable the Telkom group to offer Enterprise solutions beyond connectivity and to strengthen Telkom's leadership in the Enterprise market. The transaction was financed through redeemable preference shares from BCX to Telkom and accounted for as a common control transaction.

BCX recognised the acquired Enterprise assets at their carrying amount on the date of sale and the difference between the proceeds and the carrying amount of the Enterprise business was recognised as common control equity reserves. In Telkom company, the difference between the carrying amount of the Enterprise business and proceeds was recognised in profit or loss.

14.2 Subsidiaries disposed of in the year

14.2.1 Accsys Proprietary Limited

On 1 December 2017, Business Connexion Proprietary Limited (BCX) entered into a Sale of Shares Agreement (SSA) to sell 100% of the issued shares of Accsys Proprietary Limited to Transaction Capital Risk Services Proprietary Limited for a total consideration of R44 million. The total purchase price was paid in cash.

The net cash flows attributable to the operating, investing and financing activities of discontinued operations:

Net assets disposed	9
Consideration	44
Profit on disposal	35

14.2.2 BCX Kenya Limited

Business Connexion International Group Holdings Proprietary Limited entered into a sale of shares agreement with the minority shareholder (Africa Khusini Technology Holdings Kenya Limited) to dispose of its entire shareholding (being 70%) of the issued share capital in BCX Kenya Limited for a total cash consideration of \$1. The effective date of the transaction was 1 December 2017.

The net cash flows attributable to the operating, investing and financing activities of discontinued operations:

Net assets disposed	11
Non-controlling interest	(3)
Loss on disposal	(8)

14.2.3 Netcampus Proprietary Limited

Business Connexion Proprietary Limited entered into a sale of shares agreement with Tebogo Makgatho Holdings Proprietary Limited to dispose of its entire shareholding. The effective date of the transaction was 1 September 2017.

The net cash flows attributable to the operating, investing and financing activities of discontinued operations:

Net assets disposed	2
Consideration	2
Profit on disposal	-

Rm

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

	Rm
14. Acquisition and disposal of subsidiaries	
<i>(continued)</i>	
14.2 Subsidiaries disposed of in the year (continued)	
March 2017	
14.2.4 Nanoteq Proprietary Limited	
The group concluded a transaction to sell its Nanoteq business shareholding, effective 30 September 2016, for a total consideration of R57 million.	
The net cash flows attributable to the operating, investing and financing activities of discontinued operations:	
Net assets disposed	1
Non-controlling interest	(1)
Consideration	57
Profit on disposal	57
14.3 Subsidiaries classified as held for sale in the year	
As disclosed in note 27, BCX has initiated a review of its investment portfolio. At 31 March 2018, management identified the following as subsidiaries held for sale:	
- Smart Office Connexion Group	
- All international African subsidiaries	
Management has concluded that these investments are not material to the financial statements as a whole and has thus not disclosed these separately on the statement of financial position and statement of profit or loss and other comprehensive income.	
The summarised financial information of the assets held for sale is as follows:	
Smart Office Connexion Group	
Revenue	938
Expenses	(872)
Net finance costs and fair value movements	8
Profit before tax	74
Taxation	(21)
Profit for the year	53
Total non-current assets	66
Total current assets	433
Total non-current liabilities	9
Total current liabilities	108

	Rm
14. Acquisition and disposal of subsidiaries	
<i>(continued)</i>	
14.3 Subsidiaries classified as held for sale in the year	
<i>(continued)</i>	
All international African subsidiaries	
Revenue	657
Expenses	(645)
Net finance costs and fair value movements	2
Profit before tax	14
Taxation	(11)
Profit for the year	3
Total non-current assets	58
Total current assets	334
Total non-current liabilities	9
Total current liabilities	176
The assets above have been revalued to the lower of the carrying value at the date of classification as held for sale and the fair value less costs to sell.	
Impairment loss recognised in the current financial year:	40

	2018 Rm	2017 Rm
15. Interest-bearing debt		
Non-current interest-bearing debt	7 165	4 744
Local debt	7 005	4 550
Foreign debt	111	123
Finance leases	49	71
Current portion of interest-bearing debt	2 247	1 541
Local debt	2 200	1 500
Foreign debt	4	2
Finance leases	43	39

The current portion of interest-bearing debt of R2 247 million (2017: R1 541 million) for group as at 31 March 2018 is expected to be repaid from operational cash flow and other borrowings.

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

	2018 Rm	2017 Rm
16. Provisions		
Non-current employee-related provisions	2 388	1 536
Post-retirement medical aid and Telkom pension fund	21	20
Telephone rebates	402	365
Telkom Retirement Fund	1 965	1 151
Current portion of employee-related provisions	1 340	1 397
Annual leave	577	514
Post-retirement medical aid	6	7
Telephone rebates	39	39
Bonus and other benefits	718	837
Non-current non-employee-related provisions		
Other	44	56
Current portion of non-employee-related provisions		
Other	164	124
	2018 Rm	2017 Rm
17. Trade and other payables	6 878	7 516
Trade and other payables	3 273	3 870
Finance cost accrued	74	60
Accruals	3 531	3 586

Accruals and other payables mainly represent licence fees and amounts payable for goods received, net of Value Added Tax obligations.

Telkom's standard payment terms of trade payables is at the end of the following month following the date of the receipt of the invoice.

Included in the current and prior year balance is the refund from SARS of R854 million including interest. Refer to note 20.

	2018 Rm	2017 Rm
18. Commitments		
Capital commitments authorised	9 270	8 158
Commitments against authorised capital expenditure	4 350	6 594
Authorised capital expenditure not yet contracted	4 920	1 564
	2018 Rm	2017 Rm
19. Trade and other receivables	8 126	8 156
Trade receivables	6 567	6 375
Gross trade receivables	7 500	6 971
Impairment of receivables	(933)	(596)
Prepayments and other receivables	1 559	1 781
Allowance account for credit losses	933	596
Opening balance	596	664
Charged to selling, general and administrative expenses	644	551
Receivables written-off	(307)	(619)

The repayment terms of trade receivables vary between 21 days and 45 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.

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

20. Contingencies

CONTINGENT LIABILITIES

MATTERS BEFORE ICASA

End-User and Service Charter Regulations

Based on ICASA's Complaints and Compliance Committee (CCC) ruling in the prior period, Telkom had initiated administrative review proceedings seeking to set-aside the applicability of the Regulations at issue. The review application is in process and no hearing date has been allocated as yet. In the interim, however, ICASA promulgated the Amended End-User and Subscriber Charter Regulations on 1 April 2016, in terms of which the fault clearance measurement for fixed services was amended to 90% fault clearance within five days, instead of three days. Telkom is assessing the impact of the amended Regulations on Telkom going forward.

HIGH COURT

Radio Surveillance Security Services Proprietary Limited (RSSS)

In December 2011, RSSS served a summons on Telkom for the sum of R216 million. Telkom defended the matter. The trial was finalised in March 2018. Judgement was granted in April 2018. The claim of RSSS was dismissed with costs. An application for leave to appeal the judgement has been granted to the appellant.

Phutuma Networks Proprietary Limited (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.

CONTINGENT ASSETS

TAX MATTERS

As noted in the 2017 consolidated annual financial statements, the tax treatment of the loss that arose in prior years on the sale of foreign subsidiaries is based on a specific set of circumstances and a complex legislative environment. On 4 August 2016, SARS issued a tax assessment relating to the 2012 period. After consultation with external specialist tax and legal advisors, the group disagreed with SARS' audit findings, however, the tax refund received, relating to the 2012 sale, remains contingent and will only be recognised once the matter has been resolved with SARS. The matter is continually being assessed to ensure that developments are appropriately reflected in the financial statements. Refer to note 17. A court date has been set for August 2018 for the matter to be heard.

21. Related parties

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

With shareholders:

Government of South Africa*

Related-party balances

	2018 Rm	2017 Rm
Finance lease receivable	56	180
Trade receivables	798	692
Provision for doubtful debt	(180)	(147)

Related-party transactions

Revenue	(4 871)	(4 893)
Individually significant revenue**	(1 443)	(1 402)
Department of Correctional Services	(96)	(93)
Department of Justice	(85)	(107)
South African National Defence Force	(66)	(70)
South African Police Services	(523)	(586)
S.I.T.A. Proprietary Limited	(209)	(214)
Ekurhuleni Metropolitan Council	(226)	(77)
City of Tshwane Metropolitan Municipality	(67)	(70)
Eastern Cape Department of Health***	(53)	(52)
KZN: Ethekwini Municipality	(40)	(54)
Province of KZN Health Service***	(78)	(79)
Collectively significant revenue**	(3 427)	(3 491)

* Comparatives are restated due to the change in the top ten entities.

** The nature of the individually and collectively significant revenue consists mostly of data revenue.

*** Individually significant from the current year.

At 31 March 2018, the Government of South Africa held 40.5% (31 March 2017: 39.3%) of Telkom's shares, and had the ability to exercise significant influence, and the Public Investment Corporation held 12.9% (31 March 2017: 11.9%) of Telkom's shares.

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for the year ended 31 March 2018

	2018 Rm	2017 Rm
21. Related parties (continued)		
Related parties (continued)		
With entities under common control:		
Major public entities		
<i>Related-party balances*</i>		
Trade receivables	204	57
Trade payables	(16)	(21)
<i>Related-party transactions</i>		
Revenue	(670)	(1 295)
Expenses	229	236
Individually significant expenses	229	236
South African Post Office	55	63
Eskom	174	173
Rent received	(27)	(35)
Individually significant rent received: South African Post Office	(26)	(26)
Collectively significant rent received	(1)	(9)
Rent paid	23	25
Individually significant rent paid: South African Post Office	21	20
Collectively significant rent paid	2	5
Key management personnel compensation: (Including directors and prescribed officers' emoluments)		
Related-party transactions		
Short-term employee benefits	247	262
Post-employment benefits	15	13
Termination benefits	25	19
Equity compensation benefits	(3)	17

Terms and conditions of transactions with related parties

Except as indicated above, outstanding balances at the year end are unsecured, include interest and settlement occurs in cash. There have been no guarantees provided or received for related-party receivables or payables.

* Comparative balances have been restated to include the related-party balances, revenue and expenses of the group subsidiaries.

	2018 Rm	2017 Rm
22. Reconciliation of profit for the year to cash generated from operations		
Cash generated from operations	10 171	8 910
Profit for the year	3 158	3 854
Finance charges and fair value movements	851	888
Taxation	1 133	691
Investment income and income from associates	(203)	(219)
Interest received from trade receivables and subsidiaries	(130)	(236)
Non-cash items	5 753	4 431
Depreciation, amortisation, impairment/(reversals) and write-offs	5 605	5 661
Increase/(decrease) in provisions	181	(991)
Sale of property, plant and equipment	(59)	(217)
Foreign exchange movements	25	21
Share-based payment expenses	48	222
Deferred revenue	(47)	(265)
Decrease in working capital	(391)	(499)
Inventories	(33)	(363)
Accounts receivable	207	(556)
Accounts payable	(565)	420

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

	2018 Rm	2017 Rm
23. Net debt reconciliation		
Total interest-bearing debt at reporting date	9 412	6 285
Total interest-bearing debt at the beginning of the financial year:	6 285	5 269
Loans raised	7 680	2 431
Loans repaid	(4 685)	(1 539)
Finance leases repaid	(18)	(43)
Other interest accruals	–	37
Finance charges capitalised to interest-bearing debt	150	130

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 flow from operating activities.

	2018 Rm	2017 Rm
24. Finance charges paid	(731)	(469)
Finance charges and fair value movements per statement of profit or loss and other comprehensive income	(851)	(889)
Non-cash items	120	420
Movements in interest accruals and interest on uncertain tax provisions	147	134
Net discount amortised	150	130
Borrowing costs capitalised (refer to note 7)	(135)	(130)
Hedging costs	169	518
Fair value adjustment*	(186)	(216)
Unrealised foreign exchange loss	(25)	(16)

* The fair value adjustment includes a gain of R15 million (31 March 2017: Rnil) related to assets designated as at fair value through profit or loss.

	2018 Rm	2017 Rm
25. Taxation paid	(1 493)	(1 181)
Net tax payable at the beginning of the year	(424)	(640)
Current taxation	(1 157)	(713)
Additional payment to SARS	(200)	(250)
Interest accrued	(21)	(2)
Net tax payable at the end of the year	309	424

	2018 Rm	2017 Rm
26. Dividend paid	(2 190)	(2 171)
Dividend payable at the beginning of the year	(25)	(22)
Declared during the year – dividend on ordinary shares	(2 142)	(2 095)
Dividends declared to non-controlling interests	(81)	(79)
Dividend payable at the end of the year	58	25

Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2018

27. Significant events and transactions

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

On 24 August 2017, all board members were re-elected as per the Annual General Meeting ordinary resolutions.

Dividends

The Telkom board declared an ordinary dividend of 290.75253 cents per share on 1 June 2017 which was paid on 3 July 2017 to shareholders registered on 30 June 2017.

The Telkom board declared an ordinary dividend of 118.114 cents per share on 10 November 2017 which was paid on 4 December 2017 to shareholders registered on 1 December 2017.

Employee Share Plan

During March 2018, Telkom purchased 1 300 561 shares from the market through Rossal, a wholly owned subsidiary for the purposes of the employee share plan.

Repurchase and cancellation of Telkom shares

During the current financial year, Telkom repurchased 15 808 461 shares from the market for a total consideration of R760 million. The shares have been cancelled and delisted from the JSE.

The average price for the repurchase was R47.50 per share.

Allocation of shares in terms of the Telkom Employee Share Plan

On 1 June 2017 and 25 May 2018 respectively, the board approved the fifth and sixth allocations 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 146 668 and 49 366 shares vested to Mr Siphon Maseko and Mr Deon Fredericks respectively in June 2017.

Establishment of Gyro group

Telkom SA SOC Ltd (Telkom) and Gyro group, entered into a sale of business for shares transaction in terms of which Telkom sold its Mast and Towers (M&T) business to its existing subsidiary, Swiftnet, and a portfolio of properties to a newly established wholly owned subsidiary, Gyro.

The M&T business was sold as a going concern. Included in the M&T business are contracts, licences, M&T fixed assets and free right of use on Intellectual Property all of which are currently used by the M&T business. The properties consist of technical, commercial and industrial properties owned by Telkom.

The sale is part of Telkom's endeavour to unlock value in its property and M&T portfolios and the sale was effective from 1 April 2017.

BCX portfolio review process

During the year under review, BCX initiated a review of its portfolio, with a specific focus on non-core investments in subsidiaries, joint ventures and associates. Certain investments have been identified as held for sale as at 31 March 2018 (refer to note 14 for investment classified as held for sale).

Appointment of non-executive directors

Telkom announced on 20 March 2018 that Mr Sello Moloko and Ms Dolly Mokgatle have been appointed to the board of directors of the company as independent non-executive directors with effect from 20 March 2018.

Resignation of non-executive director

Telkom announced on 11 May 2017 that Ms Thembisa Skweyiya (Dingaana) had informed the board of her resignation as director from 10 May 2017.

28. Events after the reporting date

Dividends

The Telkom board declared an ordinary dividend of 237 cents per share on 28 May 2018 payable on 25 June 2018 to shareholders registered on 22 June 2018.

Divisionalisation of subsidiaries

The Telkom board made an in-principle decision to explore the potential benefits of divisionalisation of its subsidiaries. Key considerations which led to this decision include a better commercial positioning of the group to ensure better strategic alignment between the independent businesses, and to improve efficiencies across the group ensuring that scale benefits are not lost.

Management has started the review process with the BCX group of entities. The structure and timing of the possible divisionalisation is yet to be determined.

The group will follow a measured and phased approach to the potential divisionalisation, starting in FY2019 after the implementation plans have been set out and agreed between all stakeholders. It is envisaged that this process will have a positive impact on the operational efficiency of the group.

Nomination of new external auditors

Readers are referred to the SENS announcement dated 7 May 2018, where the group announced its intention to nominate PriceWaterhouseCoopers Inc. and SizweNtsalubaGobodo Inc. for appointment as the joint external auditors for the group for the financial year ending 31 March 2019.

Termination of appointment of Nkonki Inc. as joint external auditor

Readers are referred to the SENS announcement dated 7 May 2018 where the board notified the shareholders that it had terminated the appointment of Nkonki Inc. as a joint auditor of Telkom following that firm's filing for voluntary liquidation with the Master of the High Court. Ernst and Young Inc. is the sole signing auditor for the 31 March 2018 financial year.

Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2018 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.

Telkom