Telkom

Consolidated Annual Financial Statements

for the year ended 31 March 2018

This is an online report that is available on Telkom's investor relations website
www.telkom.co.za/ir

Telkom SA SOC Ltd
(Registration number: 1991/005476/30)
JSE share code: TKG
ISIN: ZAE000044897

Group company secretary
Ephy Motlhamme

Transfer secretaries
Computershare Investor Services (Pty) Ltd
PO Box 61051, Marshalltown, 2107

Sponsor
The Standard Bank of South Africa Ltd
Standard Bank Centre
30 Baker Street, Rosebank, 2196

Board of directors to the date of approval of the consolidated annual financial statements
JA Mabuza (chairman),
SL Botha, GW Dempster, N Kapila,
I Kgaboesele, K Kweyama, KW Mzondeki,
F Petersen-Cook, RG Tomlinson,
LL von Zeuner, Dr H Touré,
D Mokgatle, S Moloko,
SN Maseko (group chief executive officer),
DJ Fredericks (group chief financial officer)

Preparer and supervisor of consolidated annual financial statements
These prepared consolidated annual financial statements were supervised by the group chief financial officer, DJ Fredericks, CA(SA), BCompt (Hons), ACMA(UK), Honours in Business Management.

Contents

Directors' responsibility statement

for the year ended 31 March 2018

The directors are responsible for the preparation, integrity and fair presentation of the consolidated annual financial statements of the company and its subsidiaries. It is their responsibility to ensure that the financial statements fairly present the financial position of the group as at the end of the financial year, the results of the operations and the cashflow information is in conformity with International Financial Reporting Standards (IFRS) and Interpretations of IFRS standards, as issued by the International Accounting Standards Board, the SAICA financial reporting guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act of South Africa, 71 of 2008, as amended.

The annual financial statements are prepared based on appropriate accounting policies which have been consistently applied and have incorporated prudent judgements and estimates.

The external auditor has expressed an independent opinion on the consolidated annual financial statements of the group.

In order for the directors to discharge their responsibilities, management continues to develop and maintain a system of internal control aimed at reducing the risk of error or loss in a cost-effective manner. This is designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the group's policies and procedures.

The directors, primarily through the audit committee, which consists of independent non-executive directors, meet periodically with the external and internal auditors, as well as executive management to evaluate matters concerning accounting policies, internal controls, auditing and financial reporting.

The directors are of the opinion, based on information and explanations given by management and internal audit as well as discussions with the external auditor on the results of the audit, that the internal accounting controls are adequate, so that the financial records may be relied on for preparing the financial statements and maintaining accountability for assets and liabilities.

The directors are satisfied that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, Telkom SA SOC Ltd continues to adopt the going concern basis in preparing the annual financial statements.

Against this background, the directors of the group accept responsibility for the annual financial statements, which were approved by the board of directors on 25 May 2018 and are signed on its behalf by:

Jabu Mabuza
Chairman

Sipho Maseko
Group chief executive officer

Centurion
25 May 2018

Certificate from the group company secretary

for the year ended 31 March 2018

I hereby certify in accordance with section 88(2)(e) of the Companies Act of South Africa, No 71 0f 2008 as amended, the group has lodged with the Commissioner of Companies all such returns as are required of companies in terms of this Act and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

Ephy Motlhamme
Group company secretary
25 May 2018

Directors' report

for the year ended 31 March 2018

To the members of Telkom SA SOC Ltd

The directors have pleasure in submitting the annual financial statements of the group for the year ended 31 March 2018.

Nature of business

Telkom is a leading information and communications technology (ICT) services provider in South Africa, offering fixed-line, mobile, data and information technology (IT) services.

Financial results

Profit for the year ended 31 March 2018 was R3 158 million (March 2017: R3 854 million) representing basic earnings per share of 602.3 cents per share (March 2017: 738.8 cents per share) and headline earnings per share of 597.0 cents per share (March 2017: 721.1 cents per share). Full details of the financial position and results of the group are set out in the accompanying company and group annual financial statements.

Dividends

Interim dividend number 21 of 118.114 cents per share (March 2017: 131.23874 cents per share) declared payable on Monday, 4 December 2017 to shareholders recorded in the register of the group at close of business on Friday, 1 December 2017. Ordinary dividend number 22 of 236.97446 cents per share (March 2017: 290.75253 cents per share) declared payable on Monday, 25 June 2018 to shareholders recorded in the register of the group at close of business on Friday, 22 June 2018.

Subsidiaries, associates and other investments

Particulars of the material subsidiaries of the group are set out in note 40 of the accompanying group annual financial statements. The attributable interest of the group in the after-tax earnings of its subsidiaries for the year ended 31 March 2018 was:

	2018 Rm	2017 Rm
Aggregate amount of profit after taxation	**2 002**	1 199

Share capital

Details of the authorised, issued and unissued share capital of the company as at 31 March 2018 are contained in note 22 of the accompanying annual financial statements.

Share repurchase

In line with its capital allocation framework, management took the opportunity to repurchase shares in the market in the period under review. This framework seeks to guide the allocation of financial resources of the group in the most efficient manner to ultimately ensure optimal stakeholder value. The repurchase was executed at a weighted average price of R47.50 per share, funded by cash held in our cell captive and did not increase the net debt of the group. Between 15 November 2017 and 16 February 2018 Telkom purchased 15 808 461 shares, representing 3 percent of its issued share capital. The shares have been cancelled.

In addition, Telkom purchased 1 300 561 shares from the market through Rossal No 65 (Pty) Ltd for the purpose of the employee share plan.

Borrowing powers

Telkom's directors may mortgage or encumber Telkom's property or any part thereof and issue debentures, whether secured or unsecured, whether outright or as security for debt, liability or obligation of Telkom or any third party. For this purpose the borrowing powers of Telkom are unlimited, but are subject to the restrictive financial covenants as well as specific restrictive clauses in the current funding arrangements.

Capital expenditure and commitments

Details of the company and group's capital commitments on property, plant and equipment as well as intangible assets are set out in note 36 in the accompanying group annual financial statements.

Significant events and transactions

Significant events and transactions during the year under review is disclosed in note 41 in the accompanying group annual financial statements.

Events after the reporting date

Events subsequent to the reporting date are set out in note 42 of the accompanying group annual financial statements.

Directorate

The following changes occurred in the composition of the board of directors from 1 April 2017 to the date of this report:

Appointments

	Date
D Mokgatle	20 March 2018
S Moloko	20 March 2018
S Luthuli	25 May 2018

Resignations

	Date
T Skweyiya (Dingaan)	10 May 2017

The board of directors at the date of this report is as follows:

- JA Mabuza (chairman)
- SN Maseko (group chief executive officer)
- DJ Fredericks (group chief financial officer)
- SL Botha
- GW Dempster
- N Kapila
- I Kgaboesele
- KT Kweyama
- KW Mzondeki
- F Petersen-Cook
- RG Tomlinson
- LL von Zeuner
- H Touré
- D Mokgatle
- S Moloko
- S Luthuli

Details of each director may be found in our integrated report.

Directors' interest

At 31 March 2018, the following directors held a beneficial interest in the shares of Telkom SA SOC Ltd.

Executive	
SN Maseko	52 520
DJ Fredericks	49 245
Non-executive	
JA Mabuza	26 000
I Kgaboesele	12 000
KW Mzondeki	748

25 May 2018

Audit committee report

for the year ended 31 March 2018

Introduction

The audit committee presents its report for the financial year ended 31 March 2018. The report is presented in accordance with the group's memorandum of incorporation, the requirements of the Companies Act of South Africa, 71 of 2008, as amended (Companies Act), as well as the recommendations contained in the King IV Report on Corporate Governance for South Africa, 2016 (King IV). The audit committee's operations are also guided by a formal charter in line with the JSE Listings Requirements.

In supporting the board's mandate of ensuring effective governance and integrity of financial information, the role of the audit committee in discharging its responsibilities was critical in this financial year, particularly following internal control weaknesses experienced in various divisions and subsidiaries of the group in the previous year and in the wake of the recent corporate governance failures experienced by various entities in the country and globally.

More effort was placed into strengthening the group's risk and control environment by building capability in this area across the group following an in-depth risk and control maturity assessment. This was accompanied by an improvement in the group's internal audit approach that aligns to our revised risk management approach and methodology.

These efforts are ongoing through continuous improvement of our systems and processes mainly in areas that support the business to achieve their strategic objectives. For example, various projects are underway in the group's finance function to improve systems through automation as well as optimise processes.

During the year under review, Telkom embarked on the implementation of a revised first and second line defence assurance model in order to embed a risk culture within the divisions and subsidiaries and thus enable an improved control environment.

Membership and meetings

The audit committee comprised the following independent non-executive directors and convened seven times during the financial year ended 31 March 2018 to discharge both its statutory and board responsibilities:

Member	Attendance
I Kgaboesele (chairman)	7/7
KW Mzondeki	7/7
LL von Zeuner	7/7
RG Tomlinson	7/7

The individual members satisfy the requirements to serve as members of an audit committee as stipulated in section 94 of the Companies Act, and have the adequate knowledge and experience required.

The group chief executive officer, group chief financial officer, group chief risk and compliance officer, group executive: Telkom Audit Services, the group legal counsel and the external auditors attend the audit committee by invitation. The audit committee also meets separately with joint external auditors and management after every meeting.

The audit committee also convened special meetings to discuss and evaluate various critical matters including an evaluation of the possible rotation of external auditors for the financial year ending 31 March 2019 (refer to the section on external auditors below).

Effective functioning of the audit committee

The audit committee independently oversaw the effectiveness of the organisation's assurance functions and services as well as the integrity of the annual financial statements. The committee is comfortable that it has discharged its responsibilities in accordance with its mandate as stipulated in its board approved terms of reference as well as in accordance with the Companies Act. To this end, the audit committee carried out the following duties and responsibilities during the year:

Execution of its mandate

> In conjunction with the risk committee,
  - reviewed identified business risks' (including IT and information security risks') appropriateness, and their management and control
  - obtained regular updates from management regarding compliance to applicable laws, legislation and regulation
  - obtained regular updates on material open litigation, other proceedings and related reserves and their related impact
  - reviewed the adequacy and effectiveness of the IT and information security environment's control framework and governance structures

> Reviewed management's corrective actions in response to significant internal and external audit findings

> Reviewed the group's statement on internal control systems prior to board endorsement

> Satisfied itself that the internal audit coverage plans follow an approved risk-based approach for effectively addressing risk areas

> Considered the results of work performed by, and the conclusions of the internal audit function, in relation to the effectiveness of governance, risk management and control processes and compliance to applicable laws, regulation and legislation

> Assessed and evaluated the independence, effectiveness and skills of the internal audit function, in accordance with its mandate

> Reviewed and was satisfied with the performance, expertise, competence and resourcing of the group chief financial officer and the finance function

> Assumed responsibility for overseeing the work of the external auditors (who report directly to the committee)

> Considered any material problems, reservations and observations, or any potentially contentious accounting treatments or judgements, or significant unusual transactions, or going-concern issues, arising from the external audit

> Reviewed and recommended to the board the publicly disclosed interim and annual financial information, including the integrated report

Going concern and solvency review

The audit committee reviewed and assessed work conducted by management on the going concern status of the group. Based on the results and the committee's assessment that the going concern basis of accounting was appropriately applied, the committee is comfortable in recommending to the board that no material uncertainties existed to negatively impact the going concern status of the group and all its entities.

The committee also reviewed tests done to assess the solvency and liquidity position of the group as required by section 4 of the Companies Act, and based on the results, the committee is comfortable that the group meets the solvency and liquidity requirements after taking into account dividend payments.

External auditors

Telkom's joint external auditors during the year under review have been Ernst & Young (EY) and Nkonki Inc. In May 2018, Telkom terminated the appointment of Nkonki Inc as joint auditors of Telkom following that firm's filing for voluntary liquidation with the Master of the High Court.

The audit committee is satisfied that group's outgoing auditors, EY, are independent and were appointed in terms of the requirements of section 90(2) of the Companies Act, 71 of 2008.

The audit committee also considered controls relating to non-audit services, compensation as well as terms of engagement and ensured that these did not impair on the independence of the external auditors in discharging their duties.

On 18 August 2017, Telkom announced its intention to commence a procurement process for external audit services for the reporting period ending 31 March 2019 in light of the mandatory audit firm rotation rule set by IRBA, which is effective for the financial years commencing 1 April 2023. The company issued an request for proposal to select new set of external auditors for the group and followed a robust selection process in line with the company's policies and procedures, which included a thorough risk assessment of all firms. Following this process, the audit committee and the board will be recommending the appointment of PricewaterhouseCoopers and SizweNtsalubaGobodo as the new joint auditors at the annual general meeting.

Other key matters:

Yellow Pages (known as Trudon) fraud:

The Yellow Pages' internal control environment has been a focal area for the audit committee in the wake of extensive business transformation. A task team was appointed to oversee the implementation of processes and system improvements to strengthen the control environment. As part of our endeavours to strengthen the control environment, the group implemented the following:

- appointed a chief risk and compliance officer responsible for group oversight;
- strengthened the risk and control capability by appointing risk executives in each business unit and subsidiary;
- reviewed the mandate and role of internal audit as a centralised group audit function;
- continued the process of strengthening the general control and IT control environment; and
- ensured that all agreements which were entered into fraudulently were cancelled, and legal proceedings are in process to recover funds.

Conclusion

Based on the results of the formally documented review of the group's system of internal controls and risk management, including the design, implementation and effectiveness of the internal financial controls conducted by Telkom Audit Services during FY2018 and considering information and explanations given by management and discussions with the external auditors on the results of the audit, the audit committee has considered all significant control matters and associated action plans. Having regard to the aforementioned, nothing has come to the attention of the audit committee that leads it to conclude that the group's system of internal controls and risk management are not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

In terms of its mandate, the audit committee reviewed the integrated report including the consolidated annual financial statements for the year ended 31 March 2018 and recommended to the board for approval.

Itumeleng Kgaboesele
Chairman of the audit committee
25 May 2018

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Independent auditor's report

for the year ended 31 March 2018

To the board of directors and shareholders of Telkom SA SOC Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated and separate financial statements of Telkom SA SOC Ltd and its subsidiaries (the group) set out on pages 14 to 100, which comprise the consolidated and separate statement of financial position as at 31 March 2018, and the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position as at 31 March 2018, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing the audit of the group. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of the group. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the matter
Joint audit arrangement dissolved prior to imminent sign-off *(Consolidated and separate financial statements)* As disclosed in note 42 to the financial statements, the board notified shareholders on 7 May 2018 of the termination of the appointment of Nkonki Inc. as joint auditor of Telkom following the firm's filing for voluntary liquidation. As party to a joint audit arrangement, we would normally jointly issue an auditors' report on the annual financial statements, thereby sharing responsibility for the audit. In a joint audit relationship, each of the signing firms is fully responsible for the professional quality of the audit and the resultant audit opinion. In order to support the audit opinion, joint auditors normally design an audit strategy that ensures a reasonable balance of work between the joint auditors, including a cross review of the other joint auditor's working papers. The change from a joint audit arrangement to the sole sign-off of the audit opinion is a significant area of audit focus, due to the need to align our audit effort and working papers to this new circumstance. Because we are no longer able to share the completion of work with the joint auditor, we have implemented additional procedures to ensure that we have sufficient appropriate audit evidence, and that our documentation is complete, in order to support our audit opinion as sole auditor for this financial year.	Our audit response to the dissolution of the joint audit arrangement included, amongst other things, the following: > Increased oversight by the firm's Executive Committee; > Increased executive involvement by assigning additional senior audit partners to the engagement to support the lead engagement partner in this endeavour; > Obtaining, reviewing and filing all Nkonki working papers on our documentation tool; > Additional detailed reviews was performed based on the status of work performed by Nkonki up to the date of the announcement by Telkom; as well as an assessment of the adequacy and quality of the work performed to this date; > Additional audit procedures were performed to complete work initially allocated to Nkonki, as deemed necessary; > Re-performance of some test of controls and substantive testing undertaken by Nkonki, as deemed necessary; > Additional staff and manager resources were assigned to attend to the increased scope of the engagement; > Increased scope of the work performed by the Engagement Quality Reviewer in line with the requirements of ISQC1.

Key audit matter	How our audit addressed the matter
Revenue recognition – multiple revenue processes running on multiple legacy systems and manual adjustments *(Consolidated and separate financial statements)* Revenue recognition is a key area of audit focus, that we spend a significant amount of our audit efforts on every year. By its nature, revenue recognition in the industry is highly complex given the complexity of the accounting standards in dealing with multiple element arrangements, the highly automated nature of the systems supporting revenue recognition and billing, the significant volumes of transactions; as well as complexities relating to differing product and service offerings which is priced dynamically. The audit of revenue at Telkom is further complicated by the various revenue streams operating on various different legacy systems, resulting in the need for many manual journal entries to be posted in respect of deferred revenue, interface corrections, discount allocations, manual billings in the National Value Added Services environment and allocation of BCX / Enterprise revenue and interest. Furthermore, the migration of fixed line consumer customers to a new billing system which commenced in 2017 was expedited in 2018 and was substantially concluded by year-end. Revenue as well as the accounting policies relating thereto are disclosed in notes 2.2.5, 2.3.9 to 2.3.20 and note 4 respectively to the financial statements.	Our audit approach to revenue recognition is multi-faceted to respond to the different streams of revenue, processes, risks of material misstatement, legacy and new systems as well as differences in the IT systems and environments supporting these. Our audit approach included, but was not limited to, an appropriate combination of the following procedures, depending on the circumstances: > Obtained an understanding of the different processes and controls operating in the different revenue processes incl. IT general controls and application controls; > Considered whether the IT systems and environments supports the operating effectiveness of application controls or not and design our audit response accordingly; > Performed tests of controls on significant revenue processes and IT applications; > Performed substantive analytical review procedures and tests of details on revenue transactions including contract reviews on significant new contracts; > Performed risk based journal entry testing on manual journal entries posted to revenue. Tested reconciliations between usage data, billing systems and the general ledger; > Tested the allocation of revenue to separately identifiable components of multiple element arrangements; > Obtained confirmations from national and international operators in the interconnect environment; > Recalculated the deferred revenue, assessed the reasonability and completeness of estimations and assumptions used within the deferred revenue calculations and performed a comparison and sensitivity analyses with reference to global trends for Telecommunication companies; > Assessed the competence, capabilities and objectivity of management's experts.
Deferred tax assessment *(Consolidated and separate financial statements)* As disclosed in notes 2.2.6 and 17 to the financial statements, the group has significant unrecognised deferred tax assets in respect of provisions, other allowances and tax losses. The recognised deferred tax asset is determined by taking into account management's best estimate of future taxable income calculated over the period which management believes to be the most reliable estimate for purposes of IAS 12 calculations of deferred tax assets. We focused our audit attention on the matter because of the significant judgment and estimation involved in determining the period used as well as the forecasted future taxable income for the purpose of assessing the value of the deferred tax asset recognised. We focused specifically on the following areas: > Adjustments to future taxable profits based on various scenarios relating to the possible timing and extent of the "in-principle" approved divisionalisation of subsidiaries that comprise the group. > There is a higher degree of uncertainty associated to these adjustments as the commercial terms of the envisaged transactions between Telkom and the subsidiaries have not been concluded and are subject to further deliberations between stakeholders, including consideration of relevant Regulations and Legislation. > Adjustments to forecasted future taxable profits of the company relating to the reconsideration of inter-company charges between Telkom and BCX as approved by the board. There is a higher degree of uncertainty associated to these adjustments as the commercial terms between Telkom and BCX have not been concluded and are subject to further deliberations between stakeholders.	Our audit procedures involved, amongst others, the following: > We evaluated management's calculation of the deferred tax balance, the future taxable income as well as the period used in the calculation in terms of IFRS. Taking into account the group's tax position, we evaluated the timing of forecasted taxable profits per the board approved 3 year business plans using our knowledge and experience of the industry and of the application of relevant tax legislation. > We engaged with various executives responsible for the financial, tax, legal and operational considerations on which the assumptions were based in order to assess the reasonability thereof in terms of our knowledge and understanding of the business and evidence provided by management in support of the estimates. > We involved our tax specialists to assess the reasonability of the tax adjustments processed to the forecast taxable income for temporary and permanent differences incorporated into the taxable profits calculation taking into account their experience reviewing Telkom's tax computations. > We assessed the deferred tax asset recognised for impairment taking into account the future taxable profit calculation and actual utilisation of the deferred tax asset against the forecasts. > We assessed whether the evidence obtained in performing our procedures resulted in convincing evidence in support of the valuation of the deferred tax asset as required by IAS 12.

Independent auditor's report

for the year ended 31 March 2018

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report as well as the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act of South Africa. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion. We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that:

> Ernst & Young Inc. has been the appointed auditor of Telkom SA SOC Limited for 20 years, since 1998.

Ernst & Young Inc.

Ernst & Young Inc.
Director – Delanie Lamprecht
Registered Auditor
Chartered Accountant (SA)
25 May 2018

Statement of profit or loss and other comprehensive income

for the year ended 31 March 2018

	Notes	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Operating revenue	4	**41 018**	40 970	**38 336**	35 422
Payments to other operators		**2 606**	2 618	**2 554**	2 627
Cost of sales		**6 256**	6 498	**3 653**	3 669
Enterprise subcontracting costs*		**–**	–	**11 671**	5 513
Net operating revenue		**32 156**	31 854	**20 458**	23 613
Other income	5	**607**	734	**2 024**	3 017
Operating expenses		**22 219**	21 713	**16 133**	16 352
Employee expenses	6.1	**10 917**	10 562	**5 654**	6 530
Selling, general and administrative expenses	6.2	**7 132**	7 237	**7 227**	6 469
Service fees	6.3	**3 054**	2 869	**2 184**	2 492
Operating leases	6.4	**1 116**	1 045	**1 068**	861
EBITDA		**10 544**	10 875	**6 349**	10 278
Depreciation of property, plant and equipment	6.5	**4 780**	4 752	**4 419**	4 458
Amortisation of intangible assets	6.5	**778**	766	**622**	628
Write-offs, impairment/(reversals) and losses of property, plant and equipment and intangible assets	6.5	**47**	143	**24**	143
Operating profit		**4 939**	5 214	**1 284**	5 049
Investment income and income from associates	7	**203**	219	**785**	522
Finance charges and fair value movements	8	**851**	888	**785**	801
Finance charges		**893**	618	**847**	558
Foreign exchange and fair value movements		**(42)**	270	**(62)**	243
Profit before taxation		**4 291**	4 545	**1 284**	4 770
Taxation	9	**1 133**	691	**(48)**	65
Profit for the year		**3 158**	3 854	**1 332**	4 705
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Exchange losses on translating foreign operations	24	**(22)**	(61)	**–**	–
Items that will not be reclassified to profit or loss					
Defined benefit plan actuarial losses**	29	**(652)**	(30)	**(652)**	(32)
Defined benefit plan asset ceiling limitation	29	**–**	(6)	**–**	(6)
Other comprehensive loss for the year, net of taxation		**(674)**	(97)	**(652)**	(38)
Total comprehensive income for the year		**2 484**	3 757	**680**	4 667
Profit attributable to:					
Owners of Telkom		**3 052**	3 797	**1 332**	4 705
Non-controlling interests		**106**	57	**–**	–
Profit for the year		**3 158**	3 854	**1 332**	4 705
Total comprehensive income attributable to:					
Owners of Telkom		**2 378**	3 700	**680**	4 667
Non-controlling interests	25	**106**	57	**–**	–
Total comprehensive income for the year		**2 484**	3 757	**680**	4 667
Basic earnings per share (cents)	10	**602.3**	738.8		
Diluted earnings per share (cents)	10	**589.7**	724.1		

** Subcontracting costs relating to Enterprise customers which were sold to BCX on 1 November 2016 from Telkom, refer to note 4.*
*** No deferred tax balance raised on the OCI movements due to the limitation of the Telkom deferred tax asset.*

Statement of financial position

at 31 March 2018

	Notes	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Assets					
Non-current assets		**36 417**	34 125	**39 615**	35 465
Property, plant and equipment	12	**30 377**	27 918	**28 092**	24 938
Intangible assets	13	**4 492**	4 720	**2 808**	2 991
Investment in subsidiaries	15.1	**–**	–	**7 369**	6 201
Other investments	15.2	**100**	40	**140**	140
Employee benefits	29	**627**	635	**627**	635
Other financial assets	20	**60**	60	**–**	–
Finance lease receivables	16	**262**	310	**262**	310
Deferred taxation	17	**499**	442	**317**	250
Current assets		**14 127**	13 912	**13 104**	11 297
Inventories	18	**1 435**	1 384	**944**	859
Income tax receivable	34	**54**	9	**–**	–
Current portion of finance lease receivables	16	**112**	237	**112**	237
Trade and other receivables	19	**8 126**	8 156	**8 588**	6 770
Current portion of other financial assets	20	**163**	126	**163**	78
Current portion of other investments	15.2	**1 509**	2 388	**1 509**	2 388
Cash and cash equivalents	21	**2 728**	1 612	**1 788**	965
Assets of disposal groups classified as held for sale		**–**	12	**–**	1 409
Total assets		**50 544**	48 049	**52 719**	48 171
Equity and liabilities					
Equity attributable to owners of the parent		**27 026**	27 569	**25 707**	27 916
Share capital	22	**5 050**	5 208	**5 050**	5 208
Share-based compensation reserve	23	**377**	452	**362**	431
Non-distributable reserves	24	**1 579**	1 376	**1 011**	753
Retained earnings		**20 020**	20 533	**19 284**	21 524
Non-controlling interests	25	**359**	337	**–**	–
Total equity		**27 385**	27 906	**25 707**	27 916
Non-current liabilities		**10 240**	7 004	**9 948**	6 716
Interest-bearing debt	26	**7 165**	4 744	**7 109**	4 661
Employee-related provisions	27	**2 388**	1 536	**2 368**	1 516
Non-employee related provisions	27	**44**	56	**7**	10
Deferred revenue	28	**464**	529	**464**	529
Deferred taxation	17	**179**	139	**–**	–
Current liabilities		**12 919**	13 139	**17 064**	13 539
Trade and other payables	30	**6 878**	7 516	**10 396**	8 657
Shareholders for dividend*	35	**58**	25	**27**	23
Current portion of interest-bearing debt	26	**2 247**	1 541	**2 204**	1 507
Current portion of employee-related provisions	27	**1 340**	1 397	**1 069**	1 067
Current portion of non-employee-related provisions	27	**164**	124	**52**	39
Current portion of deferred revenue	28	**1 589**	1 570	**1 502**	1 498
Income tax payable	34	**363**	433	**346**	305
Current portion of other financial liabilities	20	**250**	440	**1 467**	440
Credit facilities utilised	21	**30**	93	**1**	3
Total liabilities		**23 159**	20 143	**27 012**	20 255
Total equity and liabilities		**50 544**	48 049	**52 719**	48 171

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

Statement of changes in equity

for the year ended 31 March 2018

	Attributable to equity holders of Telkom						
Group	Share capital Rm	Non-distributable reserves Rm	Share-based compensation reserve Rm	Retained earnings Rm	Total Rm	Non-controlling interest Rm	Total equity Rm
Balance at 1 April 2016	5 208	1 507	241	19 019	25 975	390	26 365
Total comprehensive income		(61)	–	3 761	3 700	57	3 757
Profit for the year				3 797	3 797	57	3 854
Other comprehensive losses		(61)	–	(36)	(97)	–	(97)
Exchange losses on translating foreign operations		(61)			(61)		(61)
Net defined benefit plan remeasurements				(36)	(36)		(36)
Transactions with owners recorded directly in equity							
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 24)		152		(152)	–		–
Increase in share-based compensation reserve (refer to note 23)			201		201		201
Increase in subsidiaries share-based compensation reserve (refer to note 23)			21		21		21
Increase in treasury shares (refer to note 24)		(205)			(205)		(205)
Vesting of Telkom share plan (refer to note 24)		11	(11)		–		–
Purchase of Telkom shares by subsidiaries (refer to note 24)		(28)			(28)		(28)
Disposal of non-controlling interest (refer to note 11)					–	(3)	(3)
Dividend declared (refer to note 10)				(2 095)	(2 095)		(2 095)
Contributions by and distributions to non-controlling interest							–
Dividends declared (refer to note 25)					–	(107)	(107)
Balance at 31 March 2017	**5 208**	**1 376**	**452**	**20 533**	**27 569**	**337**	**27 906**
Balance at 1 April 2017	**5 208**	**1 376**	**452**	**20 533**	**27 569**	**337**	**27 906**
Total comprehensive income		**(22)**	**–**	**2 400**	**2 378**	**106**	**2 484**
Profit for the year				**3 052**	**3 052**	**106**	**3 158**
Other comprehensive losses		**(22)**	**–**	**(652)**	**(674)**	**–**	**(674)**
Exchange losses on translating foreign operations		**(22)**			**(22)**	**–**	**(22)**
Net defined benefit plan remeasurements				**(652)**	**(652)**		**(652)**
Transactions with owners recorded directly in equity							
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 24)		**170**		**(170)**	**–**		**–**
Increase in share-based compensation reserve (refer to note 23)			**29**		**29**		**29**
Increase in subsidiaries share-based compensation reserve (refer to note 23)			**19**		**19**		**19**
Vesting of Telkom and BCX share plan (refer to note 24)		**123**	**(123)**		**–**		**–**
Increase in treasury shares (refer to note 24)		**(68)**			**(68)**		**(68)**
Shares repurchased and cancelled	**(158)**			**(601)**	**(759)**		**(759)**
Disposal of non-controlling interest (refer to note 11)					**–**	**(3)**	**(3)**
Dividend declared* (refer to note 10)				**(2 142)**	**(2 142)**		**(2 142)**
Contributions by and distributions to non-controlling interest							
Dividends declared (refer to note 25)*					**–**	**(81)**	**(81)**
Balance at 31 March 2018	**5 050**	**1 579**	**377**	**20 020**	**27 026**	**359**	**27 385**

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

Statement of changes in equity

for the year ended 31 March 2018

	Attributable to equity holders of Telkom				
Company	**Share capital Rm**	**Non-distributable reserves Rm**	**Share-based compensation reserve Rm**	**Retained earnings Rm**	**Total equity Rm**
Balance at 1 April 2016	5 208	795	241	19 123	25 367
Total comprehensive income				4 667	4 667
Profit for the year				4 705	4 705
Other comprehensive losses				(38)	(38)
Transactions with owners recorded directly in equity					
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 24)		152		(152)	–
Increase in share-based compensation reserve (refer to note 23)			201		201
Vesting of Telkom share plan (refer to note 24)		11	(11)		–
Increase in treasury shares (refer to note 24)		(205)			(205)
Dividend declared (refer to note 10)				(2 114)	(2 114)
Balance at 31 March 2017	**5 208**	**753**	**431**	**21 524**	**27 916**
Balance at 1 April 2017	**5 208**	**753**	**431**	**21 524**	**27 916**
Total comprehensive income				**680**	**680**
Profit for the year				**1 332**	**1 332**
Other comprehensive income				**(652)**	**(652)**
Net defined benefit plan remeasurements				**(652)**	**(652)**
Transactions with owners recorded directly in equity					
Revaluation of the Cell Captive transferred to non-distributable reserves (refer to note 24)		**170**		**(170)**	**–**
Increase in treasury shares (refer to note 24)		**(68)**			**(68)**
Sale of shares to BCX		**58**			**58**
Increase in share-based compensation reserve (refer to note 23)			**29**		**29**
Vesting of Telkom share plan (refer to note 24)		**98**	**(98)**		**–**
Shares repurchased and cancelled	**(158)**			**(602)**	**(760)**
Dividend declared (refer to note 10)				**(2 148)**	**(2 148)**
Balance at 31 March 2018	**5 050**	**1 011**	**362**	**19 284**	**25 707**

Statement of cash flows

for the year ended 31 March 2018

		Group		Company	
	Notes	2018 Rm	2017 Rm	2018 Rm	2017 Rm
Cash flows from operating activities		**6 084**	5 542	**3 729**	4 797
Cash receipts from customers		**41 049**	39 961	**37 970**	34 013
Cash paid to suppliers and employees		**(30 878)**	(31 051)	**(31 577)**	(26 651)
Cash generated from operations	31	**10 171**	8 910	**6 393**	7 362
Interest received		**327**	453	**258**	440
Dividend received		**–**	–	**91**	152
Finance charges paid	33	**(731)**	(469)	**(669)**	(380)
Taxation paid	34	**(1 493)**	(1 181)	**(200)**	(666)
Cash generated from operations before dividend paid		**8 274**	7 713	**5 873**	6 908
Dividend paid	35	**(2 190)**	(2 171)	**(2 144)**	(2 111)
Cash flows from investing activities		**(6 634)**	(6 637)	**(4 651)**	(6 588)
Proceeds on disposal of property, plant and equipment and intangible assets		**82**	230	**30**	194
Additions to assets for capital expansion		**(7 773)**	(8 479)	**(7 217)**	(8 116)
Decrease in repurchase agreements		**–**	1 634	**–**	1 634
Loans repaid by subsidiaries/(loans advanced to subsidiaries)		**–**	–	**286**	(250)
Transfer of funds from subsidiaries for sinking fund (preference share settlement reserve)		**–**	–	**1 200**	–
Other financial assets realised – BCX		**31**	–	**–**	–
Acquisition of subsidiary, net of cash acquired	11	**–**	(22)	**–**	–
Investments made by FutureMakers		**(24)**	–	**–**	–
Proceeds upon realisation of Cell Captive assets		**1 050**	–	**1 050**	–
Investment in FutureMakers		**–**	–	**–**	(50)
Cash flows from financing activities		**1 729**	69	**1 747**	528
Loans raised	32	**7 680**	2 431	**7 680**	2 431
Loans repaid	32	**(4 685)**	(1 539)	**(4 678)**	(1 202)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		**(68)**	(234)	**(68)**	(205)
Shares repurchased and cancelled		**(759)**	–	**(760)**	–
Finance lease repaid	32	**(18)**	(43)	**(6)**	–
Settlement of derivative liabilities		**(546)**	(673)	**(546)**	(625)
Proceeds from derivatives		**125**	127	**125**	129
Net increase/(decrease) in cash and cash equivalents		**1 179**	(1 026)	**825**	(1 263)
Net cash and cash equivalents at the beginning of the year		**1 519**	2 542	**962**	2 222
Effect of foreign exchange rate gains on cash and cash equivalents		**–**	3	**–**	3
Net cash and cash equivalents at the end of the year	21	**2 698**	1 519	**1 787**	962

Notes to the consolidated 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. The group's services and products include:

> fixed-line retail voice services to post-paid, pre-paid and private payphone customers using PSTN (Public Switched Telephone Network) lines, including ISDN (Integrated Services Digital Network) lines, and the sale of subscription-based value-added voice services and calling plans;
> fixed-line customer premises equipment rental, sales and services for both voice and data needs and including PABX, computers, routers, modems, telephone handsets and other ancillary equipment;
> interconnection services, including terminating and transiting traffic from South African mobile operators, as well as from international operators and transiting traffic from mobile to international destinations;
> fixed-line data services, including domestic and international data transmission services, such as point-to-point leased lines, ADSL (Asymmetrical Digital Subscriber Line) services, packet-based services, managed data networking services and internet access and related information technology services;
> W-CDMA (Wideband Code Division Multiple Access), a 3G network, including fixed-voice services, data services and nomadic voice services;
> mobile communication services, including voice services, data services and handset sales through its mobile brand called Telkom Mobile;
> Business Connexion (BCX) provides business solutions based on information and communication technology and manages ICT systems and products, services and solutions throughout Africa;
> other services including directory services, through Trudon (Pty) Ltd, wireless data services, through Swiftnet (Pty) Ltd; and
> turnkey property and tower management solutions are also provided through the Gyro Group, which is a wholly owned subsidiary of the group.

Convergence is one of our key strategic initiatives in building a sustainable future for Telkom. We will lead the provision of converged services in South Africa in support of our mission statement: *Seamlessly connecting people to a better life*. The strategy is to transform Telkom into an integrated fixed, mobile, IT and content provider, leveraging our unique strengths in the fixed, mobile and IT markets in order to drive sustainable revenue growth, defend our core business and create efficiencies over the longer term.

2. Significant accounting policies

2.1 Basis of preparation

The consolidated annual financial statements of the group have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listing Requirements and the requirements of the Companies Act of South Africa, 71 of 2008, as amended.

The consolidated annual financial statements are presented in South African Rand, which is the group's presentation currency, unless stated otherwise. All financial information presented in Rand has been rounded off to the nearest million.

The financial statements are prepared on a historical cost basis, with the exception of certain financial instruments initially (and sometimes subsequently) measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships. Details of the group's significant accounting policies are set out below and are consistent with those applied in the previous financial year except for the adopted standards as listed below:

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

2. Significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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 cash flows have been updated to reflect the requirements of the new standard. Refer to note 32.

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

Standard(s), Amendment(s)	Salient feature of the changes	Effective date
IFRIC 23 Uncertainty over Income Tax Treatments	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: (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. 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.	1 January 2019

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

Information on standards issued by the 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.

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.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

2. Significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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.

(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.

IFRS 15 Revenue from Contracts with Customers

Background

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations. The standard will be effective for the year ending 31 March 2019.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require the entities in the Telkom group to apportion revenue earned from contracts to the identified performance obligations in the contracts on a relative stand-alone selling price basis, based on a five-step model.

Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

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.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

2. Significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

IFRS 15 Revenue from contracts with customers *(continued)*

(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.

(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 increase the volume of disclosure 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.

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.

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 consolidated annual financial statements

for the year ended 31 March 2018

2. Significant accounting policies *(continued)*

2.2 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Although these estimates and assumptions are based on management's best knowledge of current events and actions that the group may undertake in the future, actual results may ultimately differ from those judgements, estimates and assumptions.

The presentation of the results of operations, financial position and cash flows in the financial statements of the group is dependent upon and sensitive to the accounting policies, assumptions and estimates that are used as a basis for the preparation of these financial statements. Management has made certain judgements in the process of applying the group's accounting policies. These, together with the key judgements, estimates and assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, are as follows:

2.2.1 Property, plant and equipment (PPE) and intangible assets (IA)

The useful lives of assets are based on management's estimation. Management considers the impact of changes in technology, customer service requirements and availability of capital funding to determine the optimum useful life expectation for each of the individual categories of property, plant and equipment and intangible assets. Due to the rapid technological advancement in the telecommunications industry, the estimation of useful lives could differ significantly on an annual basis due to unexpected changes in the roll-out strategy. The impact of the change in the expected useful life of property, plant and equipment is described more fully in note 6. The measurement of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives and the estimation of what their condition will be like at that time. Changes in the useful lives and/or residual values are accounted for as a change in accounting estimate.

For intangible assets that incorporate both a tangible and intangible portion, management uses judgement to assess which element is more significant to determine whether it should be treated as property, plant and equipment or intangible assets.

2.2.2 Asset retirement obligations

Management's judgement is exercised when determining whether an asset retirement obligation exists, and an estimation is applied in determining the expected future cash flows and the discount rate used to determine its present value when the legal or constructive obligation to dismantle or restore the site arises, as well as the estimated useful life of the related asset.

2.2.3 Impairments of property, plant and equipment and intangible assets

Management is required to make judgements concerning the cause and timing as well as the amount of impairment as indicated in notes 12 and 13. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services, market changes, legal changes, operating environments and other circumstances that could indicate that an impairment exists. The group applies the impairment assessment to its cash-generating units. This requires management to make significant judgements concerning the existence of impairment indicators, identification of cash-generating units, and estimating the remaining useful lives of assets and as well as projected cash flows to determine fair value less costs of disposal or value in use. Management's analysis of cash-generating units involves an assessment of a group of assets' abilities to independently generate cash inflows and involves analysing the extent to which different products make use of the same assets. Management's judgement is also required when assessing whether there are indicators that a previously recognised impairment loss should be reversed.

Where impairment indicators exist, the determination of the recoverable amount of a cash-generating unit requires management to make assumptions to determine the fair value less cost of disposal and value in use. Value in use is calculated using the discounted cash flow valuation method. Key assumptions on which management has based its determination of fair value less costs of disposal include the existence of binding sale agreements. The determination of value in use is based on a number of factors which include the weighted average cost of capital, projected revenues, gross margins, average revenue per customer, capital expenditure, expected customer base (subscribers) and market share. The judgements, assumptions and methodologies used can have a material impact on the recoverable amount and ultimately the amount of impairment loss recognised.

In calculating value in use, consideration is also given to the completion of a network that is still partially completed at the date of performing the impairment test. Significant judgement is applied in determining if network expansion should be treated as the completion of a partially completed asset or the enhancement of an asset (which cash flows are not allowed to be considered in calculation of value in use).

2.2.4 Impairment of receivables

An impairment loss is recognised on trade receivables that are assessed to be impaired (refer to notes 14 and 19). The impairment is based on an assessment of the extent to which customers have defaulted on payments already due and an assessment of their ability to make payments based on their credit worthiness and historical write-offs experience. Should the assumptions regarding the financial condition of the customer change, actual write-offs could differ significantly from the impairment loss recognised.

2.2.5 Customer relationship periods

The average customer relationship periods for Wholesale, Voice and Non-Voice services are utilised to amortise the deferred installation revenue and cost. Management applies judgements about the data used to determine the customer relationship period estimate. The estimate is based on the historical churn information (refer to note 4). The churn is determined by considering the service installation and disconnection dates, the weighted customer base ageing and the service connection status of the customers. Changes in average customer relationship periods are accounted for as a change in accounting estimates.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

2. Significant accounting policies *(continued)*

2.2 Significant accounting judgements, estimates and assumptions *(continued)*

2.2.6 Deferred taxation asset

Management's judgement is exercised when determining the probability of future taxable profits which will determine whether deferred taxation assets should be recognised or derecognised (refer to note 17). The realisation of deferred taxation assets will depend on whether it is possible to generate sufficient taxable income, taking into account any legal restrictions on the length and nature of the taxation asset. When deciding whether to recognise unutilised deferred taxation credits as deferred tax assets, management needs to determine the extent that the future obligations are likely to be available for set-off against the deferred taxation asset. In the event that the assessment of the future obligation and future utilisation changes, the change in the recognised deferred taxation asset is recognised in profit or loss. The carrying amount of the deferred tax asset is reviewed at each reporting date and adjusted to reflect changes in the probability that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The period of assessment of probable future taxable income for the purpose of assessing whether a deferred tax asset should be raised has been restricted to three years. The company has included the tax implications of certain transactions and events, including future changes to the organisational structure (refer to note 42) and the standardisation of the intercompany and interdivisional charges, in the three-year forecast of taxable income which required the application of significant judgement and estimates.

2.2.7 Taxation

Management determines the income tax charge in accordance with the applicable tax laws and rules which are subject to interpretation. The calculation of the group's total tax charge necessarily involves judgements, including those involving estimations, in respect of certain items whose tax treatment cannot be finalised until resolution has been reached with the tax authority or, as appropriate, through a formal legal process. The resolution of some of these items may give rise to material profits, losses and/or cash flows. Where the effect of these laws and rules is not clear, or where it is not certain that the taxation authorities will agree with the entity's tax treatment of a certain matter, the taxation liability estimates are made by management based on the approach which can be determined with the most certainty. In these cases, the taxation liability is determined based on the most likely outcome approach. Tax assets are only recognised when amounts receivable are virtually certain.

The resolution of taxation issues is not always within the control of the group and is often dependent on the efficiency of the legal processes. Some complex tax issues may take a number of years before they are resolved. Payments in respect of taxation liabilities for an accounting period result from payments on account and on the final resolution of open items. As a result, there can be substantial differences between the taxation charge in the statement of profit or loss and other comprehensive income and the current tax payments.

The calculation of the deferred tax charge as well as balances at reporting date are dependent on the applicable tax rates. The determination of this rate requires the application of management judgement based on the group's expectations at reporting date on how the deferred tax assets are expected to be recovered or the liabilities are expected to be settled.

2.2.8 Employee benefits

The group provides defined benefit plans for certain post-employment benefits. The obligation and assets related to each of the post-retirement benefits are determined through an actuarial valuation. The actuarial valuation relies heavily on assumptions as disclosed in note 29. The assumptions determined by management make use of information obtained from the group's employment agreements with staff and pensioners, market-related returns on similar investments, market-related discount rates and other available information. The assumptions concerning the interest on assets and expected change in liabilities are determined on a uniform basis, considering long-term historical returns and future estimates of returns and medical inflation expectations. In the event that further changes in assumptions are required, the future amounts of post-employment benefits may be affected materially.

The discount rate reflects the average timing of the estimated defined benefit payments. The discount rate is based on long-term South African government bonds with the longest maturity period as reported by the Bond Exchange of South Africa. The discount rate is expected to follow the trend of inflation.

The interest cost on the defined benefit obligation and the interest on assets are accounted for through the net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year.

The forfeitable share incentives are allocated to employees based on vesting conditions linked to time and performance measures. The total shareholder return is considered in estimating the fair value of the grant at grant date. The group allocates the number of shares per employee, based on a formula taking into account the annual guaranteed package, percentage of gross profit and share price at grant date. The shares to be allocated are limited to approximately 5% of issued share capital and vest between three and five years. The additional share scheme award provides for the granting of shares to eligible participating employees, equivalent in value to the increase in share price from the grant date (based on the specific grant price) to the vesting date.

2.2.9 Provisions

For other provisions, estimates are made of legal or constructive obligations resulting in the raising of provisions, and the expected date of probable outflow of economic benefits to assess whether the provision should be discounted (refer to note 27). Liabilities provided for legal matters require judgements regarding projected outcomes and ranges of losses based on historical experience and recommendations of legal counsel. Litigation is however unpredictable and actual costs incurred could differ materially from those estimated at the reporting date.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

2. Significant accounting policies *(continued)*

2.2 Significant accounting judgements, estimates and assumptions *(continued)*

2.2.10 Contingent liabilities

On an ongoing basis, the group is party to various legal disputes, the outcomes of which cannot be assessed with a high degree of certainty. A liability is recognised where, based on the group's legal views, advice and application of professional judgement, it is considered probable that an outflow of resources will be required to settle a present obligation that can be measured reliably. Disclosure of other contingent liabilities is made in note 37 unless the possibility of a loss arising is considered remote.

2.3 Summary of significant accounting policies

2.3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Telkom and entities (including special purpose entities) controlled by Telkom, its subsidiaries and associates.

Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring the accounting policies used in line with those used by the group.

2.3.2 Subsidiaries

Subsidiaries are investees controlled by the group. The group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The group consolidates the financial statements of subsidiaries from the date the control of the subsidiary commences until the date that control ceases.

2.3.3 Transactions with non-controlling interests

Non-controlling interests in subsidiaries are identified separately from the group's equity. The interests of non-controlling shareholders are initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.3.4 Joint arrangements

A joint arrangement is an arrangement where two or more parties have joint control over another entity. In a joint arrangement, parties are bound by a contractual arrangement that gives two or more of the parties joint control of the arrangement. A joint arrangement is classified and accounted for as either a joint operation or a joint venture.

In a joint operation, parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. These parties are the joint operators. The group recognises its own assets, liabilities, revenues and expenses that are incurred or earned separately to other joint operators. Otherwise the group recognises its share of assets, liabilities, revenues and expenses when these items are incurred jointly.

In a joint venture, parties that jointly control the joint arrangement have rights to the net assets of the arrangement. These parties are called joint ventures. The group accounts for the joint venture using the equity method. Under the equity accounting method, the investment in the joint venture is carried in the statement of financial position at cost plus post-acquisition changes in the group's share of the net assets of the joint venture. The share of the profit of the joint venture is included in investment income and income from associates.

2.3.5 Associates

An associate is an entity over which the group has significant influence. The group has significant influence over an associate when it has the power to participate in the financial and operating policy decisions of the investee. The group recognises its interests in associates by applying the equity method.

2.3.6 Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are carried at cost at company level and adjusted for any impairment losses.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

2. Significant accounting policies *(continued)*

2.3 Summary of significant accounting policies (continued)

2.3.7 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at acquisition date) of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree and non-controlling interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Any transaction costs that the group incurs in connection with the business combination such as legal fees, due diligence fees and other professional and consultation fees are expensed as incurred.

Business combinations in which all of the combining entities or businesses are ultimately controlled by the same party/parties both before and after the business combinations (and where control is not transitory) are referred to as common control business combinations. The carrying amounts of the acquired entity are the consolidated carrying amounts as reflected in the consolidated financial statements of the selling entity. The excess of the cost of the transaction over the acquirer's proportionate share of the net asset value acquired in common control transactions, is allocated to equity. This is in accordance with the pooling of interest method.

2.3.8 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date of acquisition.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net fair value of the acquiree's identifiable net assets.

If the group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognised immediately in profit or loss as a bargain purchase gain.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

Goodwill is tested for impairment annually or when indicators of impairment are identified.

2.3.9 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax returns and rebates and after eliminating sales within the group.

Telkom assesses whether it is acting as an agent or principal in its revenue arrangement using the specific criteria in IAS 18. According to this criteria, the principal has exposure to the significant risks and rewards associated with the sale of goods or rendering of services. Examples of principalship include assumption of inventory risk, customer credit risk, responsibility to provide products or services and having latitude in setting prices.

2.3.10 Dealer incentives

The group provides incentives to its dealers by means of trade discounts. Incentives are based on sales volume and value of transactions. Revenue is recognised gross of discounts to the extent that the discounts are not granted to the customer by the dealer. Revenue is recognised net of discounts when the discounts are granted to the customer by the dealer.

2.3.11 Retail Voice

Pre-paid
Pre-paid traffic service and payphone card revenue collected in advance is deferred and recognised based on actual usage or upon expiration of the usage period, whichever comes first. The terms and conditions of certain pre-paid products allow unused minutes to be carried over. Revenue related to the unused minutes carried over is deferred until usage or expiration.

Telkom provides incentives to its retail payphone card distributors as trade discounts. Revenue for retail payphone cards is recorded as voice revenue, net of these discounts as the cards are used.

Post-paid
Revenue related to local, long distance, network-to-network, roaming and international call connection services is recognised when the call is placed or the connection provided.

2.3.12 Interconnection

Interconnection revenue for call termination, call transit, and network usage is recognised as the traffic flow occurs.

2.3.13 Customer premises equipment

Revenue related to the sale of communication equipment, products and value-added services is recognised upon delivery and acceptance of the product or service by the customer.

2.3.14 Data

Post-paid and pre-paid service arrangements include subscription fees, typically monthly fees, which are recognised over the subscription period. Revenue related to the unused data carried over is deferred until usage or expiration.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

2. Significant accounting policies *(continued)*

2.3 Summary of significant accounting policies (continued)

2.3.15 Rendering of services

Revenue from a contract to provide a service is recognised by reference to the stage of completion of the contract. Stage of completion of the contract is determined as follows:

- Installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install to the time that has elapsed at the reporting date.
- Servicing fees included in the price of products sold are recognised by reference to the proportion of the cost to the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold.
- Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

2.3.16 Deferred revenue and expenses

Installation fee revenue is deferred and recognised systematically over the expected duration of the customer relationship because it is considered to be part of the customers' ongoing rights to telecommunication services and the operator's continuing involvement. Any excess of the costs over revenues is expensed immediately.

2.3.17 Post-paid contract and pre-paid products

Contract products are defined as arrangements with multiple deliverables. The arrangement consideration is allocated 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.

- Revenue from the handset is recognised when the handset is delivered.
- Monthly service revenue received from the customer is recognised in the period in which the service is delivered.
- Airtime revenue is recognised on the usage basis commencing on activation date. Unused airtime is deferred in full and recognised in the month of usage, on termination of the contract by the subscriber or when it expires.
- Revenue from the sale of pre-paid products is recognised when the product is delivered to the customer.
- Revenue from the sale of pre-paid airtime is deferred until such time as the customer uses the airtime, or the credit expires.
- Free minutes, data and SMSs are accounted for as a separate identifiable deliverable and revenue allocated to free minutes is deferred and recognised when the free minutes are used, or expire.

2.3.18 Customer loyalty programmes

The free minutes and data (award credits) granted to Telkom customers are accounted for as a separately identifiable component of a sales transaction in which they are granted. Award credits are determined by reference to their fair value. The fair value of award credits takes into account the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from the initial sale transaction. Revenue from award credits is deferred and recognised as revenue when the customer redeems the award credit. Revenue recognition related to customer loyalty programmes incorporates expiry of awarded credits as well as breakage.

2.3.19 Connection Incentives

Intermediaries and customers are paid cash as a connection incentive. Cash incentives paid to intermediaries are expensed in the period in which they are incurred. Cash incentives paid to customers are recognised as intangible assets and expensed over the contract period.

2.3.20 Incentives

Incentives paid to service providers and dealers for products delivered to the customer are expensed as incurred. Incentives paid to service providers and dealers for services delivered are expensed in the period that the related revenue is recognised.

2.3.21 Roaming agreements

Amounts paid to other mobile operators in terms of roaming agreements are expensed at the earlier of minutes being utilised or expiry thereof. A prepayment to this effect is recognised if it is probable that the group will obtain future economic benefits from such unused minutes.

2.3.22 Cost of sales

Cost of sales comprises the cost of goods sold including any allocation of the direct overhead expenses, net of supplier rebates and discounts including:

- Commission costs paid to external parties for the sale of goods sold
- Logistics and delivery expenses relating to the goods sold

All other costs are disclosed by nature with the following being the key categories:

- Employee expenses
- Selling, general and administrative expenses
- Service fees
- Operating leases
- Depreciation and amortisation

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

2. Significant accounting policies *(continued)*

2.3 Summary of significant accounting policies *(continued)*

2.3.23 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that the future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably.

At initial recognition, acquired property, plant and equipment is recognised at its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is charged from the date the asset is available for use on a straight-line basis over the estimated useful life and ceases at the earlier of the date that the asset is classified as held for sale and the date the asset is derecognised. Idle assets continue to attract depreciation.

Assets under construction represents freehold buildings, operating software, network and support equipment and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

The estimated useful lives applied are provided in note 6.5.

2.3.24 Intangible assets

At initial recognition, acquired intangible assets are recognised at their purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates. The recognised cost includes any directly attributable costs for preparing the asset for its intended use. Internally generated intangible assets are recognised at cost comprising all directly attributable costs necessary to create and prepare the asset to be capable of operating in the manner intended by management. These costs do not include the costs incurred in the research phase related to the intangible asset. Licences, software, trademarks, copyrights and other intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation commences when the intangible assets are available for their intended use and is recognised on a straight-line basis over the assets' expected useful lives. Amortisation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The residual value of intangible assets is the estimated amount that the group would currently obtain from the disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Due to the nature of the asset, the residual value is assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life or when there is an active market that is likely to exist at the end of the asset's useful life, which can be used to estimate the residual values. The residual values of intangible assets, the amortisation methods used and their useful lives are reviewed on an annual basis at reporting date and adjusted prospectively as required.

Assets under construction represent application and other non-integral software and includes all direct expenditure as well as related borrowing costs capitalised, but excludes the costs of abnormal amounts of waste material, labour, or other resources incurred in the production of self-constructed assets.

The expected useful lives applied are provided in note 6.5.

2.3.25 Asset retirement obligations

Asset retirement obligations related to property, plant and equipment are recognised at the present value of expected future cash flows when the obligation to dismantle or restore the site arises. The increase in the related asset's carrying value is depreciated over its estimated useful life. The unwinding of the discount is included in finance charges and fair value movements. Changes in the measurement of an existing liability that result from changes in the estimated timing or amount of the outflow of resources required to settle the liability, or a change in the discount rate are accounted for as increases or decreases to the original cost of the recognised assets. If the amount deducted exceeds the carrying amount of the asset, the excess is recognised immediately in profit or loss.

2.3.26 Impairment of property, plant and equipment and intangible assets (including goodwill)

The group regularly reviews its non-financial assets and cash-generating units for any indication of impairment. When indicators, including changes in technology, market, economic, legal and operating environments, availability of funding or discontinuance of services occur and could result in changes of the asset's or cash-generating unit's estimated recoverable amount, an impairment test is performed. Goodwill, intangible assets with indefinite useful lives and intangible assets under construction are tested for impairment annually regardless of whether an indicator of impairment has been identified.

Previously recognised impairment losses, other than goodwill, are reviewed annually for any indication that they may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. Such impairment losses are reversed in profit or loss if the recoverable amount has increased as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years.

2.3.27 Inventories

Merchandise, installation material and maintenance inventories are stated at the lower of cost, determined on a weighted average basis and estimated net realisable value. Inventory is assessed for write-down to net realisable value at each reporting date. The reversal of any write-downs is also considered where increases in the net realisable value have been identified.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

2. Significant accounting policies *(continued)*

2.3 Summary of significant accounting policies *(continued)*

2.3.28 Financial instruments

Recognition and measurement

Financial instruments are initially recognised at fair value when the group becomes a party to the contractual provisions of the instrument, and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument. At initial recognition, the group classifies financial assets as at fair value through profit or loss, held-to-maturity investments or loans and receivables.

All financial instruments are initially recognised at fair value, plus, in the case of financial assets and liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue. Financial instruments are recognised when the group becomes a party to the contractual arrangements. All regular way transactions are accounted for on settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

Financial instruments are measured at amortised cost or at fair value based on the initial classification of the financial instruments. Refer to note 14 for the categories of financial instruments.

The fair value of financial assets and liabilities that are actively traded in financial markets is determined by reference to quoted market prices at the close of business on the reporting date. The group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the event or change in circumstances that caused the transfer has occurred.

2.3.29 Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, deposits held on call and short-term deposits with an initial maturity of less than three months when entered into.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents defined above, net of credit facilities utilised.

2.3.30 Derecognition of financial instruments

A financial instrument or a portion of a financial instrument is derecognised and a gain or loss recognised when the group's contractual rights expire, financial assets are transferred or financial liabilities are extinguished. On derecognition of a financial asset or liability, the difference between the consideration and the carrying amount on the settlement date is included in finance charges and fair value movements for the year.

2.3.31 Hedge accounting

The group uses derivative financial instruments, such as forward currency contracts, cross currency swaps and options, to hedge its foreign currency risks, variability in cash flows and interest rate risks. Derivative financial instruments including forward currency contracts that are designated as hedging instruments in an effective hedge are initially recognised at fair value on the date on which a derivative contract is entered into. Telkom applies fair value hedge accounting for firm commitments and cash flow hedge accounting for its highly probable forecast transactions.

For fair value hedges, the designated hedging instruments and firm commitments are subsequently remeasured at fair value at each reporting date. The gain or loss relating to both the effective and ineffective portion of hedging instruments is recognised immediately in profit or loss on remeasurement. When a firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

2.3.32 Treasury shares

Where the group acquires, or in substance acquires, its own shares, such shares are measured at acquisition cost and disclosed as a reduction of equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the group's own equity instruments. Such shares are not remeasured for changes in fair value. Any difference between the historic par value of the shares acquired and the consideration transferred for the acquisition of the share is accounted for as an adjustment to retained earnings.

Where the group chooses or is required to buy equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement by delivery of its own shares, the transaction is accounted for as equity-settled. This applies regardless of whether the employee's rights to the equity instruments were granted by the group itself or by its shareholders or was settled by the group itself or its shareholders.

2.3.33 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification unless it is impracticable to do so.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

2. Significant accounting policies *(continued)*

2.3 Summary of significant accounting policies *(continued)*

2.3.34 Employee benefits

Post-employment benefits

The group provides defined benefit and defined contribution plans for the benefit of employees. These plans are funded by the employees and the group, taking into account recommendations of the independent actuaries. The post-retirement telephone rebate liability is unfunded.

Defined benefit plans

The group provides defined benefit plans for pension, retirement, post-retirement medical aid benefits and telephone rebates to qualifying employees. The group's net obligation in respect of defined benefits is calculated separately for each plan by estimating the amount of future benefits earned in return for services rendered.

The amount reported in the statement of financial position represents the present value of the defined benefit obligations, using the projected credit unit method, reduced by the fair value of the related plan assets. To the extent that there is uncertainty as to the entitlement to the surplus, no asset is recognised. The effects of this asset limitation and actuarial gains and losses are recognised in other comprehensive income. Interest, service cost, settlement gains or losses and curtailment gains or losses related to the defined benefit plan are recognised in the statement of profit or loss.

Telkom Retirement Fund Reserves

In terms of its rules, Telkom Retirement Fund operates a number of reserve accounts, namely member share account, risk and expense reserve account, processing error account, pension reserves account and solvency reserve account.

The risk and expense reserve account comprises the funds required to support fluctuations in the payment of the in-service death and disability benefits, and administration expenses. The processing error reserve account comprises the balance as identified at 31 March 2008 plus all investment return and appreciation earned by the fund less investment-related expenses, taxation and all amounts allocated to members, pensioners and reserve accounts. The member surplus account comprises the actuarial surplus allocated to members and pensioners. Solvency reserve is held within the pensions account to act as a buffer against worse-than-expected experience and equal to an amount set by the actuary of the fund from time to time to ensure a prudent funding level that is subject to affordability. The pensions account comprises the funds required to pay each pension that has been granted in terms of the rules. All these reserves are taken into account by the actuaries on determining the net value of the fund (fund assets less the fund obligation).

2.3.35 Share-based payments

The group has a share based payment compensation plan. The plan is an equity-settled plan, consisting of long-term incentive plan (LTIP) and the employee share ownership plan (ESOP) and additional share award (ASA).

The expense relating to the services rendered by the employees, and the corresponding increase in equity, is measured at the fair value of the equity instruments at their date of grant based on the market price at grant date. This compensation cost is recognised over the vesting period, based on the best available estimate at each reporting date of the number of equity instruments that are expected to vest.

During the vesting period, participants have all the shareholder rights, including the right to vote and share in the dividend distribution. The dividend received by employees is recognised as a reduction in equity. The amount of dividend received by employees who have left service prior to vesting conditions being met is recognised in profit or loss at the end of each reporting date.

2.3.36 Cell Captive

The Cell Captive is accounted for at fair value and all fair value movements are accounted for in the statement of profit or loss. As the fair value movements are unrealised gains/losses they are transferred from retained earnings to non-distributable reserves.

Notes to the consolidated 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
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	5 914	(183)	3 736	1 077	10 544
Reconciliation of operating profit to profit before tax					
Earnings before interest, tax, depreciation and amortisation (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 consolidated annual financial statements

for the year ended 31 March 2018

3. Segment information *(continued)*

March 2017	Openserve Rm	Consumer Rm	BCX** Rm	Other Rm	Consolidated Rm
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
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	6 063	(406)	4 064	1 154	10 875
Reconciliation of operating profit to profit before tax					
Earnings before interest, tax, depreciation and amortisation (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 with 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.*

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for the year ended 31 March 2018

4. Operating revenue

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Operating revenue	**41 018**	40 970	**38 336**	35 422
Voice	**13 679**	14 586	**16 405**	15 849
Interconnection	**1 034**	1 102	**1 028**	1 114
Data	**13 629**	12 147	**14 266**	12 933
Customer premises equipment	**3 988**	3 822	**4 577**	4 078
Sundry revenue	**1 662**	1 759	**169**	681
Information technology	**7 026**	7 554	**1 891**	767

Following the re-assessment of the customer relationship period, there has been no change accounted for in the customer relationship period (CRP) in the current financial year.

The CRP is determined as follows:
– Voice revenue: 6.5 years
– Wholesale revenue: 4 years
– Non-Voice revenue: 5.5 years

Included in Telkom company revenue from external customers is revenue to the value of R11 671 million (31 March 2017: R5 513 million), which relates to Enterprise customer contracts which was sold to BCX in the prior financial year, which has been retained in the name of Telkom SA SOC Limited.

5. Other income

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Other income	**607**	734	**2 024**	3 017
	548	517	**1 836**	1 029
Interest received from trade receivables	**130**	236	**110**	213
Sundry income	**418**	281	**1 726**	816
Profit on disposal of property, plant and equipment (PPE), and intangible assets (IA)	**59**	217	**188**	1 988

6. Operating expenses

6.1 Employee expenses

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Employee expenses	**10 917**	10 562	**5 654**	6 530
Salaries and wages	**8 705**	8 400	**4 460**	5 032
Post-retirement pension and retirement fund (refer to note 29)	**672**	572	**582**	572
Post-retirement medical aid (refer to note 29)	**(59)**	(99)	**(59)**	(101)
Post-retirement telephone rebates (refer to note 29)	**40**	40	**40**	40
Share-based compensation expense (refer to note 23)	**48**	222	**29**	201
Other benefits*	**2 059**	2 031	**1 150**	1 390
Employee expenses capitalised	**(548)**	(604)	**(548)**	(604)

** Other benefits include amongst others, skills development, annual leave, performance incentive, service bonuses, voluntary employee severance/voluntary early retirement packages costs and termination benefits.*

Included in the employee expenses is a share scheme expense of R48 million (31 March 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.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
6. Operating expenses *(continued)*				
6.2 Selling, general and administrative expenses	**7 132**	7 237	**7 227**	6 469
Selling and administrative expenses	**3 126**	2 337	**815**	922
Maintenance	**2 696**	3 620	**5 380**	4 449
Marketing	**763**	817	**614**	738
Impairment of receivables	**547**	463	**418**	360
6.3 Service fees	**3 054**	2 869	**2 184**	2 492
Facilities and property management	**1 538**	1 842	**1 305**	1 480
Consultancy, security and other services	**1 516**	1 027	**879**	1 012
6.4 Operating leases*	**1 116**	1 045	**1 068**	861
Land and buildings	**587**	550	**738**	525
Transmission and data lines	**175**	159	**–**	–
Equipment	**42**	31	**22**	31
Vehicles	**312**	305	**308**	305

** Operating lease commitments are disclosed in note 36.*

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
6.5 Depreciation, amortisation, impairment, write-offs/(reversals) and losses	**5 605**	5 661	**5 065**	5 229
Depreciation of property, plant and equipment	**4 780**	4 752	**4 419**	4 458
Amortisation of intangible assets	**778**	766	**622**	628
Write-offs, impairments/(reversals) and losses of property, plant and equipment and intangible assets	**47**	143	**24**	143

The estimated useful lives assigned to groups of property, plant and equipment are:

	Years	Years	**Years**	Years
Freehold buildings	**10 to 50**	10 to 50	**10 to 50**	10 to 50
Network equipment				
Cables	**4 to 30**	4 to 30	**4 to 30**	4 to 30
Switching equipment	**5 to 18**	5 to 18	**5 to 18**	5 to 18
Transmission equipment	**5 to 18**	5 to 18	**5 to 18**	5 to 18
Other	**2 to 15**	2 to 20	**2 to 15**	2 to 20
Support equipment	**3 to 13**	3 to 13	**5 to 13**	5 to 13
Furniture and office equipment	**1 to 15**	1 to 15	**11 to 15**	11 to 15
Data processing equipment and software	**1 to 10**	1 to 10	**5 to 10**	5 to 10
Telkom support services equipment	**1 to 20**	1 to 20	**1 to 20**	1 to 20

The expected useful lives assigned to intangible assets are:

Software and licences	**2 to 11**	2 to 11	**5 to 10**	5 to 10
Trademarks, copyrights and other	**3 to 13**	3 to 13	**4 to 13**	4 to 13

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 company depreciation and amortisation by R150 million (31 March 2017: increase of R325 million) and decreasing the depreciation and amortisation expense at a group level by R280 million (31 March 2017: R325 million increase).

Notes to the consolidated annual financial statements

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7. Investment income and income from associates

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
	203	219	**785**	522
Interest income	**198**	219	**636**	370
Dividend income from subsidiaries	**–**	–	**149**	152
Income from associates	**5**	–	**–**	–

Interest income relates to interest earned from financial assets not measured at fair value through profit or loss. Interest is recognised on a time proportionate basis taking into account the principal amount outstanding and the effective interest rate.

8. Finance charges and fair value movements

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
	851	888	**785**	801
Finance charges on interest-bearing debt*	**893**	618	**847**	558
Local debt	**1 028**	771	**982**	711
Less: Finance charges capitalised**	**(135)**	(153)	**(135)**	(153)
Foreign exchange and fair value movements	**(42)**	270	**(62)**	243
Foreign exchange gain	**(350)**	(145)	**(385)**	(169)
Fair value adjustments	**308**	415	**323**	412
Capitalisation rate for borrowing costs (%)	**10.3**	11.5	**10.3**	11.5

Finance charges relate to interest expense on financial liabilities not measured at fair value through profit or loss.

* *For interest-bearing debt movement, refer to note 26.*

** *Finance charges on qualifying assets are capitalised to property, plant and equipment and intangible assets.*

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9. Taxation

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
	1 133	691	**(48)**	65
South African normal company taxation	**1 157**	713	**19**	65
Current taxation	**1 133**	903	**–**	256
Underprovision/(overprovision) for prior year	**24**	(190)	**19**	(191)
Deferred taxation (refer to note 17)	**(56)**	(50)	**(67)**	–
Capital allowances	**615**	241	**575**	261
Provision other allowances	**(592)**	(307)	**(577)**	(261)
Tax losses	**(64)**	35	**(65)**	–
Acquisition of BCX****	**(15)**	(19)	**–**	–
Withholding tax	**–**	4	**–**	–
Common control transaction (refer to note 11)	**32**	24	**–**	–
Reconciliation of taxation rate	**%**	%	**%**	%
Effective rate	**26.4**	15.20	**(3.7)**	1.4
South African normal rate of taxation	**28.0**	28.0	**28.0**	28.0
Adjusted for:	**(1.6)**	(12.8)	**(31.7)**	(26.6)
Exempt income	**(2.2)**	(3.1)	**(21.8)**	(14.0)
Dividends received	**–**	–	**(3.3)**	(0.9)
Profit on sale of disposal	**–**	(0.8)	**–**	(10.7)
Other exempt income*	**(2.2)**	(2.3)	**(18.5)**	(2.4)
Disallowable expenditure	**5.0**	6.3	**7.9**	3.8
Capital expenditure	**1.1**	2.6	**1.4**	0.8
Other disallowed expenditure**	**3.9**	3.7	**6.5**	3.0
Foreign tax	**–**	0.1	**–**	–
Tax losses not utilised	**0.5**	–	**1.6**	–
Deferred tax asset limitation***	**(6.2)**	(14.0)	**(21.0)**	(14.0)
Recoupment	**0.3**	0.3	**–**	–
Common control transaction (refer to note 11)	**0.4**	0.1	**–**	–
Net underprovision for prior year	**0.6**	(2.5)	**1.6**	(2.4)

Other exempt income mainly consists of capital profit on sale of assets and accounting fair value reversals for taxation purposes.
*** *Other disallowable expenditure mainly includes professional fees and legal fees which are not tax deductible.*
**** *Deferred tax recognised as a result of the reassessment of the recoverable amount of the deferred tax asset, based on the forecasted future totable income.*
**** *The movement for the year related to the amortisation of intangible assets acquired as part of the BCX acquisition.*

Notes to the consolidated annual financial statements

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10. Earnings per share

	Group 2018 Rm	Group 2017 Rm
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

	Number of shares	Number of shares
Reconciliation of weighted average number of ordinary 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 related to group share scheme incentive plans (Refer to note 23)	10 840 186	10 416 531
Diluted weighted average number of shares outstanding	517 533 388	524 370 916

** 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.*

	2018 Rm	2017 Rm
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 consolidated annual financial statements

for the year ended 31 March 2018

11. Acquisition and disposal of subsidiaries

11.1 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 business to Swiftnet, a wholly owned subsidiary of Telkom group.

This is part of Telkom's strategic imperative to maximise value from its Mast and Tower 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 Mast and Tower portfolio as held for sale in its statement of financial position.

On 31 March 2017, the fair value of the Mast and Towers assets exceeded their carrying value. For group purposes, the Mast and Towers 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 Limited.

The deferred tax balances were transferred as the 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.

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11. Acquisition and disposal of subsidiaries *(continued)*

11.2 Subsidiaries disposed of in the year

11.2.1 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:

	Rm
Net assets disposed	9
Consideration	44
Profit on disposal	35

11.2.2 BCX Kenya Limited

Business Connexion International Group Holdings Proprietary Limited entered into a sale of shares agreement (SSA) 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 US$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:

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

11.2.3 Netcampus Proprietary Limited

Business Connexion Proprietary Limited entered into a sale of shares agreement (SSA) 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:

	Rm
Net assets disposed	2
Consideration	2
Profit on disposal	–

March 2017

11.2.4 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:

	Rm
Net assets disposed	1
Non-controlling interest	(1)
Consideration	57
Profit on disposal	57

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

11 Acquisition and disposal of subsidiaries *(continued)*

11.3 Subsidiaries classified as held for sale in the year

As disclosed in note 41, 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:

	Rm
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
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 re-valued 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

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

12. Property, plant and equipment

	2018 Cost Rm	2018 Accumulated depreciation and write-offs Rm	2018 Carrying value Rm	2017 Cost Rm	2017 Accumulated depreciation and write-offs Rm	2017 Carrying value Rm
Group						
Freehold land and buildings	6 867	(3 997)	2 870	6 707	(3 899)	2 808
Leasehold buildings	70	(39)	31	74	(40)	34
Network equipment	79 223	(57 097)	22 126	72 923	(54 718)	18 205
Support equipment	5 191	(4 420)	771	5 155	(4 155)	1 000
Furniture and office equipment	797	(329)	468	516	(180)	336
Data processing equipment and software	4 294	(3 111)	1 183	4 123	(2 993)	1 130
Under construction	2 754	–	2 754	4 241	–	4 241
Other	622	(448)	174	592	(428)	164
	99 818	(69 441)	30 377	94 331	(66 413)	27 918
Company						
Freehold land and buildings	4 348	(2 248)	2 100	3 408	(1 905)	1 503
Leasehold buildings	14	(13)	1	26	(24)	2
Network equipment	77 414	(55 728)	21 686	71 016	(53 353)	17 663
Support equipment	4 705	(3 799)	906	4 671	(3 659)	1 012
Furniture and office equipment	136	(32)	104	135	(107)	28
Data processing equipment and software	4 093	(3 231)	862	3 936	(3 116)	820
Under construction	2 286	–	2 286	3 807	–	3 807
Other	508	(361)	147	430	(327)	103
	93 504	(65 412)	28 092	87 429	(62 491)	24 938

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.

The capital expenditure under property, plant and equipment relates to expansions of R7 263 million for group and R6 951 million for company (31 March 2017 expansions: R2 608 million for group and R2 420 million for company). Expansion due to maintenance of R153 million for group and Rnil for company (31 March 2017 maintenance: R4 836 million for group and R4 730 million for company).

No material property, plant and equipment has been pledged as security.

There were no material property assets held for sale at the 31 March 2018 reporting date.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

The carrying amounts of property, plant and equipment can be reconciled as follows:

12. Property, plant and equipment *(continued)*

	Group							
	Carrying value at beginning of year Rm	Additions Rm	Transfers Rm	Foreign currency translation Rm	Disposals Rm	Depreciation Rm	Write-offs and impairments and impairment reversals Rm	Carrying value at end of year Rm
2018								
Freehold land and buildings	**2 808**	**181**	**81**	**–**	**(1)**	**(196)**	**(3)**	**2 870**
Leasehold buildings	**34**	**12**	**–**	**–**	**(1)**	**(14)**	**–**	**31**
Network equipment	**18 205**	**5 205**	**2 555**	**–**	**(1)**	**(3 814)**	**(24)**	**22 126**
Support equipment	**1 000**	**84**	**62**	**–**	**–**	**(373)**	**(2)**	**771**
Furniture and office equipment	**336**	**337**	**(54)**	**–**	**(8)**	**(118)**	**(25)**	**468**
Data processing equipment and software	**1 130**	**150**	**127**	**–**	**(1)**	**(225)**	**2**	**1 183**
Under construction	**4 241**	**1 417**	**(2 906)**	**–**	**(4)**	**–**	**6**	**2 754**
Other	**164**	**30**	**26**	**(2)**	**(3)**	**(40)**	**(1)**	**174**
	27 918	**7 416**	**(109)**	**(2)**	**(19)**	**(4 780)**	**(47)**	**30 377**
2017								
Freehold land and buildings	2 517	178	333	(3)	(27)	(186)	(4)	2 808
Leasehold buildings	10	30	–	(1)	(2)	(3)	–	34
Network equipment	17 530	3 297	1 244	–	–	(3 834)	(32)	18 205
Support equipment	1 065	184	85	–	(1)	(324)	(9)	1 000
Furniture and office equipment	279	270	(30)	(19)	(17)	(146)	(1)	336
Data processing equipment and software	1 048	147	175	–	(11)	(217)	(12)	1 130
Under construction	2 739	3 413	(1 835)	–	–	–	(76)	4 241
Other	162	17	38	(2)	(9)	(41)	(1)	164
	25 350	7 536	10	(25)	(67)	(4 751)	(135)	27 918

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The carrying amounts of property, plant and equipment can be reconciled as follows:

12. Property, plant and equipment *(continued)*

	Company						
	Carrying value at beginning of year Rm	Additions Rm	Transfers Rm	Disposals Rm	Depreciation Rm	Write-offs and impairments and impairment reversals Rm	Carrying value at end of year Rm
2018							
Freehold land and buildings	**1 503**	**102**	**633**	**(10)**	**(125)**	**(3)**	**2 100**
Leasehold buildings	**2**	**–**	**–**	**–**	**(1)**	**–**	**1**
Network equipment	**17 663**	**5 188**	**2 639**	**–**	**(3 780)**	**(24)**	**21 686**
Support equipment	**1 012**	**83**	**61**	**–**	**(248)**	**(2)**	**906**
Furniture and office equipment	**28**	**2**	**86**	**–**	**(10)**	**(2)**	**104**
Data processing equipment and software	**820**	**143**	**130**	**(14)**	**(220)**	**3**	**862**
Under construction	**3 807**	**1 409**	**(2 935)**	**(1)**	**–**	**6**	**2 286**
Other	**103**	**24**	**56**	**–**	**(35)**	**(1)**	**147**
	24 938	**6 951**	**670**	**(25)**	**(4 419)**	**(23)**	**28 092**
2017							
Freehold land and buildings	2 316	154	(782)	(21)	(160)	(4)	1 503
Leasehold buildings	3	1	1	–	(3)	–	2
Network equipment	17 393	3 278	1 088	(284)	(3 781)	(32)	17 663
Support equipment	1 035	156	84	–	(254)	(9)	1 012
Furniture and office equipment	93	8	(56)	(1)	(15)	(1)	28
Data processing equipment and software	770	132	174	(34)	(210)	(12)	820
Under construction	2 716	3 413	(1 896)	(350)	–	(76)	3 807
Other	133	6	–	–	(35)	(1)	103
	24 459	7 148	(1 387)	(690)	(4 458)	(135)	24 938

30% of the capital expenditure relates to the expansion of existing networks and services. Expansion of the Mobile network also contributed to a 32% growth in PPE. 30% of capital expenditure was on the Next Generation Network programme. The balance of 8% capital expenditure is mainly attributable to investment in Network Evolution initiatives, sustainment programmes, IT and OSS systems and property upgrades and growth projects. The build programme that provides capacity for growth in services and for migrations of services, with focus on Next Generation Network technologies, is expected to continue over the next few years.

The group and company has a process of determining whether an asset which incorporates both a tangible and an intangible element should be recognised as a tangible or an intangible asset, based on management's judgement, facts available and the significance of each element to the total value of the asset. Assets with a carrying value to the net amount of R50.5 million (31 March 2017: R8.3 million) for company were reclassified from property, plant and equipment to intangible assets in the current year.

Changes to the estimated useful lives of property, plant and equipment were necessary due to the group policies and procedures, resulting in a decrease in depreciation to the value of R94.5 million (31 March 2017: increase of R325 million) for company and R224.5 million (31 March 2017: increase of R325 million) for group.

Where assets have become technologically obsolete or damaged and can no longer contribute towards the group and company's revenue-generating capacity, the assets are written off or impaired. The total impairment and write-off balance is not considered significant to the financial statements as a whole in the current or prior financial year.

Transfers relate to transfers between property, plant and equipment, intangible assets and inventory at a group level and property, plant and equipment, assets held for sale and intangible assets at a company level.

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	2018 Cost Rm	2018 Accumulated amortisation and write-offs Rm	2018 Carrying value Rm	2017 Cost Rm	2017 Accumulated amortisation and write-offs Rm	2017 Carrying value Rm
13. Intangible assets						
Group						
Goodwill	1 253	–	1 253	1 253	–	1 253
Trademarks, copyrights and other	915	(673)	242	932	(625)	307
Software	11 504	(8 615)	2 889	11 125	(8 255)	2 870
Under construction	114	(6)	108	290	–	290
	13 786	(9 294)	4 492	13 600	(8 880)	4 720
Company						
Trademarks, copyrights and other	175	(175)	–	175	(175)	–
Software	11 147	(8 421)	2 726	10 567	(7 852)	2 715
Under construction	82	–	82	276	–	276
	11 404	(8 596)	2 808	11 018	(8 027)	2 991

The carrying amounts of intangible assets can be reconciled as follows:

	Group								
	Carrying value at beginning of year Rm	Additions Rm	Business combination Rm	Transfers Rm	Foreign currency translation Rm	Disposals Rm	Amortisation Rm	Write-offs and impairments Rm	Carrying value at end of year Rm
2018									
Goodwill	1 253	–	–	–	–	–	–	–	1 253
Trademarks, copyrights and other	307	3	–	(6)	–	(1)	(61)	–	242
Software	2 870	458	–	287	(9)	(1)	(716)	–	2 889
Under construction	290	32	–	(211)	–	(2)	(1)	–	108
	4 720	493	–	70	(9)	(4)	(778)	–	4 492
2017									
Goodwill	1 213	–	40	–	–	–	–	–	1 253
Trademarks, copyrights and other	434	1	–	(35)	(1)	–	(92)	–	307
Software	2 354	774	(22)	445	–	–	(674)	(7)	2 870
Under construction	404	294	–	(407)	–	–	–	(1)	290
	4 405	1 069	18	3	(1)	–	(766)	(8)	4 720

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The carrying amounts of intangible assets can be reconciled as follows:

13. Intangible assets *(continued)*

	Company						
	Carrying value at beginning of year Rm	Additions Rm	Transfers Rm	Disposals Rm	Amortisation Rm	Write-offs and impairments Rm	Carrying value at end of year Rm
2018							
Trademarks, copyrights and other	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Software	**2 715**	**372**	**261**	**–**	**(622)**	**–**	**2 726**
Under construction	**276**	**28**	**(211)**	**(11)**	**–**	**–**	**82**
	2 991	**400**	**50**	**(11)**	**(622)**	**–**	**2 808**
2017							
Trademarks, copyrights and other	36	–	(35)	–	(1)	–	–
Software	2 177	758	423	(10)	(627)	(6)	2 715
Under construction	391	293	(380)	(27)	–	(1)	276
	2 604	1 051	8	(37)	(628)	(7)	2 991

The goodwill in group relates to Trudon and goodwill that arose on acquisition of BCX in August 2015 and subsequent acquisitions made by the BCX group.

Intangible assets that are material to the group consist of software, trademarks and other whose average remaining amortisation period is 3.3 years (31 March 2017: 3.4 years).

No intangible asset apart from goodwill has been assessed as having an indefinite useful life.

Intangible assets under construction are included for testing in the goodwill impairment testing below. No impairment was identified.

Approximately R194 million (31 March 2017: R244 million) and R116 million (31 March 2017: R244 million) of additions relate to externally acquired intangible assets for group and company, respectively, while R284 million (31 March 2017: R807 million) relates to internal developments for group and company.

Changes to the estimated useful lives of intangible assets were necessary due to the group policies and procedures, resulting in a decrease in depreciation to the value of R55.5 million (31 March 2017: Rnil) for company and group.

Where assets have become technologically obsolete or can no longer contribute towards the group and company's revenue-generating capacity, the assets are written off or impaired. The total impairment and write-off balance is not considered significant to the financial statements as a whole in the current or prior financial year.

	Group	
	2018 Rm	2017 Rm
The group's goodwill balance is reconciled as follows:		
Opening balance	**1 253**	1 214
Acquisition of Anco IT Proprietary Limited*	**–**	(8)
Acquisition of RDC	**–**	24
Acquisition of Taropa	**–**	7
Acquisition of African Arete	**–**	16
Closing balance	**1 253**	1 253

Impairment testing of cash generating units (CGU):

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

The group assessed internal and external indicators of impairment of the CGU and concluded that the carrying value approximates the recoverable amount. No impairment losses or reversals were recognised in profit or loss during the year.

Impairment testing

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. In the prior financial year, a significant business unit (Enterprise) was sold to BCX resulting in related synergies for the goodwill recognised in the prior financial year, being transferred from the Telkom CGU to the BCX CGU.

** An adjustment was made to the provisional goodwill recognised as at 31 March 2016, within the measurement period.*

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13. Intangible assets *(continued)*

Description	Telkom CGU Rm	BCX CGU Rm	Total goodwill recognised Rm
Carrying amount	63	1 190	1 253

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

A three-year period is used for the discounted cash flows.

BCX CGU

The basis of the valuation that we have adopted in arriving at the valuation is the value in use, using the discounted cash flow method. Based on this, the income approach is used as the primary valuation approach, with the market approach as a cross check. The latter involves calculating multiples of comparable listed companies and comparing the results to the implied BCX multiple from the income approach valuation. A five-year period is used for the discounted cash flows.

Valuation of BCX's divisions and its subsidiaries where there are non-controlling interests has been performed.

The BCX CGU was then valued using a sum-of-the-parts approach.

The valuation was performed on an Enterprise value basis, and as such, third party interest-bearing liabilities as at the valuation date were not deducted from the Enterprise value. The intercompany is netted off according to the BCX consolidation schedule.

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

Gross margin

The budgeted gross margin is based on past experience and management's future expectations of business performance.

Terminal growth rates

A growth rate of 5.2% was applied in South African entities. A range of 2.2% to 10.3% growth rate was applied in foreign entities. The terminal value was determined at the end of the year 5 of the cash flow forecasts.

Discount rates

In the valuation, a local South African WACC range of 11.9% to 12.6% has been applied as a discount rate. No specific risk premiums applied, as potential forecast risks were modelled as scenarios. A 2.5% specific risk premium was applied to the forecasts of the less material entities where a degree of risk was identified in the projections.

Based on the value in use calculation, the estimated value in use of BCX is R27 814 million, while its carrying amount is R5 944 million. As the indicated value in use range exceeds the carrying amount of the BCX CGU, there is no impairment.

Sensitivity to changes in assumptions

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

Telkom CGU

On the Telkom CGU, an impairment indicators test has been performed in March 2018. The test considered the relationship between the CGU's market capitalisation and book value, gross operating revenue growth and EBITDA. The market capitalisation of the CGU is higher than its book value and operating revenue showed an increase and EBITDA remained flat in the last 12 months. This indicates that the Telkom CGU is not impaired.

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14. Financial instruments and risk management

14.1 Financial risk management objectives and policies

The group's principal financial liabilities, other than derivatives, comprise interest-bearing debt and trade and other payables. The main purpose of these financial liabilities is to raise finance for the group's operations.

The group has finance lease receivables, trade and other receivables, cash receivables and short-term deposits that arise directly from its operations.

The group is exposed to market risk, credit risk and liquidity risk. The group's senior management oversees the management of these risks.

Risk management

Treasury policies, risk limits and control procedures are continuously monitored by the board of directors through its audit committee and risk committee.

The group holds or issues financial instruments to finance its operations, for the investment of short-term funds and to manage currency and interest rate risks. In addition, financial instruments such as trade receivables and payables arise directly from the group's operations.

The group finances its operations primarily by a mixture of issued share capital, retained earnings, long-term and short-term loans. The group uses derivative financial instruments to manage its exposure to market risks from changes in interest and foreign exchange rates. The derivatives used for this purpose are principally interest rate swaps and forward exchange contracts and the group does not speculate in derivative instruments. The group applied fair value accounting in the current and prior financial year.

The table below sets out the group's classification of financial assets and liabilities.

	Notes	At fair value through profit or loss - held for trading Rm	Financial liabilities at amortised cost Rm	Loans and receivables Rm	Total carrying value Rm	Fair value*** Rm
2018						
Classes of financial instruments per statement of financial position						
Assets		1 751	–	10 895	12 646	12 646
Other investments*	15.2	1 559	–	–	1 559	1 559
Trade and other receivables**	19	–	–	7 762	7 762	7 762
Other financial assets	20	192	–	31	223	223
Forward exchange contracts		14	–	–	14	14
Firm commitments		149	–	–	149	149
Asset finance receivables		29	–	–	29	29
Loans		–	–	31	31	31
Finance lease receivables	16	–	–	374	374	374
Cash and cash equivalents	21	–	–	2 728	2 728	2 728
Liabilities		(250)	(16 378)	–	(16 628)	(16 910)
Interest-bearing debt	26	–	(9 412)	–	(9 412)	(9 694)
Trade and other payables	30	–	(6 878)	–	(6 878)	(6 878)
Shareholders for dividend	35	–	(58)	–	(58)	(58)
Other financial liabilities	20	(250)	–	–	(250)	(250)
Forward exchange contracts		(222)	–	–	(222)	(222)
Interest rate swaps		(23)	–	–	(23)	(23)
Firm commitments		(5)	–	–	(5)	(5)
Credit facilities utilised	21	–	(30)	–	(30)	(30)

Notes to the consolidated annual financial statements

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14. Financial instruments and risk management *(continued)*

14.1 Financial risk management objectives and policies *(continued)*

	Notes	At fair value through profit or loss - held for trading Rm	Financial liabilities at amortised cost Rm	Loans and receivables Rm	Total carrying value Rm	Fair value*** Rm
2017						
Classes of financial instruments per statement of financial position						
Assets		2 550	–	9 751	12 301	12 301
Other investments*	15.2	2 399	–	–	2 399	2 399
Trade and other receivables**	19	–	–	7 557	7 557	7 557
Other financial assets	20	151	–	35	186	186
Forward exchange contracts		54	–	–	54	54
Firm commitments		24	–	–	24	24
Asset finance receivables		73	–	–	73	73
Loans		–	–	35	35	35
Finance lease receivables	16	–	–	547	547	547
Cash and cash equivalents	21	–	–	1 612	1 612	1 612
Liabilities		(440)	(13 919)	–	(14 359)	(14 652)
Interest-bearing debt	26	–	(6 285)	–	(6 285)	(6 578)
Trade and other payables	30	–	(7 516)	–	(7 516)	(7 516)
Shareholders for dividend	35	–	(25)	–	(25)	(25)
Other financial liabilities	20	(440)	–	–	(440)	(440)
Forward exchange contracts		(189)	–	–	(189)	(189)
Interest rate swaps		(22)	–	–	(22)	(22)
Firm commitments		(229)	–	–	(229)	(229)
Credit facilities utilised	21	–	(93)	–	(93)	(93)

Notes to the consolidated annual financial statements

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14. Financial instruments and risk management *(continued)*

14.1 Financial risk management objectives and policies *(continued)*

The table below sets out the company's classification of financial assets and liabilities.

	Notes	At fair value through profit or loss - held for trading Rm	Financial liabilities at amortised cost Rm	Loans and receivables Rm	Total carrying value Rm	Fair value*** Rm
2018						
Classes of financial instruments per statement of financial position						
Assets		1 672	–	10 575	12 247	12 247
Other investments*	15.2	1 509	–	–	1 509	1 509
Trade and other receivables**	19	–	–	8 413	8 413	8 413
Other financial assets	20	163	–	–	163	163
Forward exchange contracts		14	–	–	14	14
Firm commitments		149	–	–	149	149
Asset finance receivables		–	–	–	–	–
Loans		–	–	–	–	–
Finance lease receivables	16	–	–	374	374	374
Cash and cash equivalents	21	–	–	1 788	1 788	1 788
Liabilities		(250)	(20 954)	–	(21 204)	(21 487)
Interest-bearing debt	26	–	(9 313)	–	(9 313)	(9 596)
Trade and other payables	30	–	(10 396)	–	(10 396)	(10 396)
Shareholders for dividend	35	–	(27)	–	(27)	(27)
Other financial liabilities	20	(250)	(1 217)	–	(1 467)	(1 467)
Forward exchange contracts		(222)	–	–	(222)	(222)
Interest rate swaps		(23)	–	–	(23)	(23)
Firm commitments		(5)	–	–	(5)	(5)
BCX Treasury fund		–	(1 217)	–	(1 217)	(1 217)
Credit facilities utilised	21	–	(1)	–	(1)	(1)

Notes to the consolidated annual financial statements

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14. Financial instruments and risk management *(continued)*

14.1 Financial risk management objectives and policies *(continued)*

	Notes	At fair value through profit or loss - held for trading Rm	Financial liabilities at amortised cost Rm	Loans and receivables Rm	Total carrying value Rm	Fair value*** Rm
2017						
Classes of financial instruments per statement of financial position						
Assets		2 466	–	7 871	10 337	10 337
Other investments*	15.2	2 388	–	–	2 388	2 388
Trade and other receivables**	19	–	–	6 359	6 359	6 359
Other financial assets	20	78	–	–	78	78
Forward exchange contracts		54	–	–	54	54
Firm commitments		24	–	–	24	24
Finance lease receivables	16	–	–	547	547	547
Cash and cash equivalents	21	–	–	965	965	965
Liabilities		(440)	(14 851)	–	(15 291)	(15 583)
Interest-bearing debt	26	–	(6 168)	–	(6 168)	(6 460)
Trade and other payables	30	–	(8 657)	–	(8 657)	(8 657)
Shareholders for dividend	35	–	(23)	–	(23)	(23)
Other financial liabilities	20	(440)	–	–	(440)	(440)
Forward exchange contracts		(189)	–	–	(189)	(189)
Interest rate swaps		(22)	–	–	(22)	(22)
Firm commitments		(229)	–	–	(229)	(229)
Credit facilities utilised	21	–	(3)	–	(3)	(3)

* *Other investments are disclosed net of investments accounted for using the equity method of R50 million (31 March 2017: R29 million). The balance has been restated to include the cell captive investment (refer to note 15.2).*

** *Trade and other receivables are disclosed net of prepayments of R175 million (31 March 2017: R411 million) for the company and R364 million (31 March 2017: R599 million) for the group.*

*** *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.*

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14. Financial instruments and risk management *(continued)*

14.2 Fair value of financial instruments

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

Fair value of all financial instruments noted in the statement of financial position approximates carrying value except as disclosed below.

The carrying amount of financial instruments approximates fair value, with the exception of interest-bearing debt (at amortised cost) which has a fair value of R9 694 million (31 March 2017: R6 578 million) and a carrying amount of R9 412 million (31 March 2017: R6 285 million).

The fair value of financial assets and financial liabilities that are traded in active markets is based on quoted market prices or dealer price quotations.

For financial assets and liabilities not traded in an active market, a valuation technique is applied to derive the fair value, which takes into account quoted prices for similar or identical liabilities in active markets using observable inputs where necessary.

Type of financial instrument – Group	Fair value at 31 March 2018 Rm	Valuation technique	Significant inputs
Derivative assets	163	Discounted cash flows	Yield curves Market interest rates Market foreign exchange rates
Derivative liabilities	(250)		
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 rates Market foreign exchange rates

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14. Financial instruments and risk management *(continued)*

14.2 Fair value of financial instruments *(continued)*

Fair value hierarchy

The following table presents the group's assets and liabilities that are measured at fair value at reporting date. The different levels have been defined as follows:

Level 1: Quoted prices in active markets.

Level 2: All significant inputs required to value an instrument are based on observable market data.

Level 3: Significant inputs required to value an instrument are not based on observable market data.

There were no transfers between levels in the current financial year.

		Group			
	Notes	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
2018					
Assets measured at fair value					
Forward exchange contracts	20	14	–	14	–
Firm commitments	20	149	–	149	–
FutureMakers	15.2	50	–	–	50
Investment in Cell Captive preference shares	15.2	1 509	–	1 509	–
Liabilities measured at fair value					
Forward exchange contracts	20	(222)	–	(222)	–
Firm commitments	20	(5)	–	(5)	–
Interest rate swaps	20	(23)	–	(23)	–
Liabilities measured at amortised cost					
Interest-bearing debt	26	(9 694)	–	(9 694)	–
2017					
Assets measured at fair value					
Forward exchange contracts	20	54	–	54	–
Firm commitments	20	24	–	24	–
FutureMakers	15.2	11	–	–	11
Investment in Cell Captive preference shares	15.2	2 388	–	2 388	–
Liabilities measured at fair value					
Forward exchange contracts	20	(189)	–	(189)	–
Firm commitments	20	(229)	–	(229)	–
Interest rate swaps	20	(22)	–	(22)	–
Liabilities measured at amortised cost					
Interest-bearing debt	26	(6 578)	–	(6 578)	–

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14. Financial instruments and risk management *(continued)*

14.2 Fair value of financial instruments *(continued)*

		Company			
	Notes	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
2018					
Assets measured at fair value					
Forward exchange contracts	20	14	–	14	–
Firm commitments	20	149	–	149	–
Investment in Cell Captive preference shares	15.2	1 509	–	1 509	–
Liabilities measured at fair value					
Forward exchange contracts	20	(222)	–	(222)	–
Firm commitments	20	(5)	–	(5)	–
Interest rate swaps	20	(23)	–	(23)	–
Liabilities measured at amortised cost					
Interest-bearing debt	26	(9 596)	–	(9 596)	–
2017					
Assets measured at fair value					
Forward exchange contracts	20	54	–	54	–
Firm commitments	20	24	–	24	–
Investment in Cell Captive preference shares	15.2	2 388	–	2 388	–
Liabilities measured at fair value					
Forward exchange contracts	20	(189)	–	(189)	–
Firm commitments	20	(229)	–	(229)	–
Interest rate swaps	20	(22)	–	(22)	–
Liabilities measured at amortised cost					
Interest-bearing debt	26	(6 460)	–	(6 460)	–

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14. Financial instruments and risk management *(continued)*

14.3 Credit risk management

Credit risk or the risk of financial loss is the risk that a counterparty will not meet its contractual obligations as they fall due. The group is exposed to credit risk from its operating activities and from financing activities, including deposits with banks and financial institutions. The group is not exposed to significant concentrations of credit risk as credit limits are set on an individual basis and reviewed annually.

The group's maximum exposure to credit risk is represented by the gross carrying amount of the financial assets that are exposed to credit risk.

The group's exposure to credit risk is influenced mainly by the individual characteristics of each type of customer. Management reduces the risk of irrecoverable debt by improving credit management through credit checks and limits. To reduce the risk of counterparty failure, limits are set based on the individual ratings of counterparties by well-known rating agencies. Trade receivables comprise a large widespread customer base, covering residential, business, government, wholesale, global and corporate customer profiles.

Credit checks are performed on all customers, other than pre-paid customers, on application for new services on an ongoing basis, where appropriate.

The group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets as well as expected future cash flows (refer to note 19).

Credit risk from balances with banks and financial institutions is managed by the group's treasury department in accordance with the group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed annually or when the need arises. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure.

The maximum exposure to credit risk for financial assets at the reporting date by type of instrument and counterparty was:

	Group – Carrying amount		Company – Carrying amount	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Trade receivables (refer to note 19)				
Telkom SA	**5 802**	4 757	**7 563**	6 070
Business and residential	**1 492**	1 363	**1 492**	1 363
Global, corporate and wholesale	**1 596**	1 172	**3 357**	2 485
Government	**862**	894	**862**	894
Other customers	**1 852**	1 328	**1 852**	1 328
South African subsidiaries	**1 698**	2 214	**–**	–
Impairment of trade receivables (refer to note 19)	**(933)**	(596)	**(697)**	(448)
Subtotal for trade receivables	**6 567**	6 375	**6 866**	5 622
Other receivables	**1 195**	1 182	**1 547**	737
Derivatives	**163**	78	**163**	78
Asset finance	**29**	73	**–**	–
Loans	**31**	35	**–**	–
Investments*	**1 559**	2 399	**1 649**	2 528
Finance lease receivables	**374**	547	**374**	547
Net cash and cash equivalents	**2 698**	1 519	**1 787**	962
	12 616	12 208	**12 386**	10 474

* *Other investments are disclosed net of investments accounted for using the equity method of R50 million (31 March 2017: R29 million). The balance has been restated to include the Cell Captive short-term investment.*

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14. Financial instruments and risk management *(continued)*

14.3 Credit risk management *(continued)*

	Group – Carrying amount		Company – Carrying amount	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
The ageing of trade receivables at the reporting date was:				
Not past due/current	**4 529**	4 695	**5 143**	4 559
Past due but not impaired	**4**	–	**–**	–
21 to 60 days	**1 267**	1 471	**974**	881
61 to 90 days	**822**	313	**792**	185
91 to 120 days	**160**	124	**117**	79
120+ days	**718**	368	**537**	366
	7 500	6 971	**7 563**	6 070
The ageing in the allowance for the impairment of trade receivables at reporting date was:				
Current defaulted trade	**74**	54	**48**	28
21 to 60 days	**47**	45	**42**	44
61 to 90 days	**78**	58	**73**	57
91 to 120 days	**68**	46	**61**	44
120+ days	**666**	393	**473**	275
	933	596	**697**	448

The movement in the allowance for impairment in respect of trade receivables during the year is disclosed in note 19. Included in the allowance for doubtful debts, for Telkom company are individually impaired receivables with a balance of R354 million (31 March 2017: R174 million) which have been identified as being unable to service their debt obligation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the future cash flows. The group does not hold any collateral over these balances.

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14. Financial instruments and risk management *(continued)*

14.4 Liquidity risk management

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

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

There were no material changes in the exposure to liquidity risk and its objectives, policies and processes for managing and measuring the risk during the 2018 financial year.

The table below summarises the maturity profile of the group's financial liabilities based on undiscounted contractual cash flow at the reporting date.

		Group					
	Notes	Carrying amount Rm	Contractual cash flows Rm	0 – 12 months Rm	1 – 2 years Rm	2 – 5 years Rm	> 5 years Rm
2018							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	26	**9 320**	**9 672**	**2 204**	**3 657**	**2 001**	**1 810**
Credit facilities utilised	21	**30**	**30**	**30**	**–**	**–**	**–**
Trade and other payables	30	**6 878**	**6 878**	**6 878**	**–**	**–**	**–**
Finance lease liabilities	26	**92**	**92**	**43**	**49**	**–**	**–**
Shareholders for dividend	35	**58**	**58**	**58**	**–**	**–**	**–**
Derivative financial liabilities							
Interest rate swaps	20	**23**	**23**	**23**	**–**	**–**	**–**
Firm commitment	20	**5**	**5**	**5**	**–**	**–**	**–**
Forward exchange contracts	20	**222**	**222**	**222**	**–**	**–**	**–**
		16 628	**16 980**	**9 463**	**3 706**	**2 001**	**1 810**
2017							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	26	6 175	6 677	1 518	700	4 350	109
Credit facilities utilised	21	93	93	93	–	–	–
Trade and other payables	30	7 516	7 516	7 516	–	–	–
Finance lease liabilities	26	110	116	42	63	11	–
Shareholders for dividend	35	25	25	25	–	–	–
Derivative financial liabilities							
Interest rate swaps	20	22	22	22	–	–	–
Firm commitment	20	229	229	229	–	–	–
Forward exchange contracts	20	189	189	189	–	–	–
		14 359	14 867	9 634	763	4 361	109

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14. Financial instruments and risk management *(continued)*

14.4 Liquidity risk management *(continued)*

	Notes	Company					
		Carrying amount Rm	Contractual cash flows Rm	0 – 12 months Rm	1 – 2 years Rm	2 – 5 years Rm	> 5 years Rm
2018							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	26	**9 309**	**9 661**	**2 200**	**3 650**	**2 001**	**1 810**
Credit facilities utilised	21	**1**	**1**	**1**	**–**	**–**	**–**
Trade and other payables	30	**10 396**	**10 396**	**10 396**	**–**	**–**	**–**
Finance lease liabilities	26	**4**	**4**	**4**	**–**	**–**	**–**
Shareholders for dividend	35	**27**	**27**	**27**	**–**	**–**	**–**
Derivative financial liabilities							
Interest rate swaps	20	**23**	**23**	**23**	**–**	**–**	**–**
Firm commitment	20	**5**	**5**	**5**	**–**	**–**	**–**
Forward exchange contracts	20	**222**	**222**	**222**	**–**	**–**	**–**
		19 987	**20 339**	**12 878**	**3 650**	**2 001**	**1 810**
2017							
Non-derivative financial liabilities							
Interest-bearing debt (excluding finance leases)	26	6 158	6 660	1 500	700	4 351	109
Credit facilities utilised	21	3	3	3	–	–	–
Trade and other payables	30	8 657	8 657	8 657	–	–	–
Finance lease liabilities	26	10	10	7	3	–	–
Shareholders for dividend	35	23	23	23	–	–	–
Derivative financial liabilities							
Interest rate swaps	20	22	22	22	–	–	–
Firm commitment	20	229	229	229	–	–	–
Forward exchange contracts	20	189	189	189	–	–	–
		15 291	15 793	10 630	703	4 351	109

Notes to the consolidated annual financial statements

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14. Financial instruments and risk management *(continued)*

14.5 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective of market risk management is to manage and control market risk exposure. Market risks comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk.

Changes in the market prices have an impact on the values of the underlying derivatives and an analysis has been prepared on the basis of changes in one variable and all other variables remaining constant.

There has been no significant change noted to the manner in which credit risk is managed in the current period.

Interest rate risk management

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises from the repricing of the group's forward cover and floating rate debt as well as incremental funding or new borrowings and refinancing of existing borrowings.

The group's policy is to manage interest cost through the utilisation of a mix of fixed and floating rate debt. In order to manage this mix in a cost-efficient manner and to hedge specific exposure in the interest rate repricing profile of the existing borrowings, the group makes use of interest rate swaps. Fixed-rate debt represents approximately 54% (2017: 60%) of the total debt. The debt profile of mainly fixed rate debt has been maintained to limit the group's exposure to interest rate increases.

The guideline is to target a fixed/floating debt ratio of 65% fixed, but adjusted to market conditions. In a scenario of low interest rates, a higher ratio may be established.

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

	Group		Company	
	Average maturity	Notional amount Rm	Average maturity	Notional amount Rm
2018				
Interest rate swaps outstanding				
Pay fixed and receive floating	**3.19 years**	**1 080**	**3.19 years**	**1 080**
2017				
Interest rate swaps outstanding				
Pay fixed and receive floating	4.13 years	1 420	4.13 years	1 420

The floating rate is based on the three-month JIBAR, and is settled quarterly in arrears. The interest rate swaps are used to manage interest rate risk on debt instruments.

Foreign currency exchange rate risk management

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The group manages its foreign currency exchange rate risk by economically hedging all identifiable exposures via various financial instruments suitable to the group's risk exposure. The group implements fair value hedge accounting.

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

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

	Group		Company	
Purchased	Foreign contract value Rm	Contract value Rm	Foreign contract value Rm	Contract value Rm
2018				
Currency				
USD	**148**	**1 998**	**169**	**2 239**
Euro	**16**	**244**	**16**	**244**
Other	**1**	**11**	**1**	**10**
		2 253		**2 493**
2017				
Currency				
USD	271	3 822	270	3 815
Euro	16	252	16	252
Other	–	5	–	5
		4 079		4 072

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14. Financial instruments and risk management *(continued)*

14.5 Market risk *(continued)*

Sell	Group Foreign contract value m	Group Contract value Rm	Company Foreign contract value m	Company Contract value Rm
2018				
Currency				
USD	**1**	**7**	**–**	**–**
Euro	**–**	**6**	**–**	**6**
Other	**–**	**–**	**–**	**–**
		13		**6**
2017				
Currency				
USD	30	409	30	409
Other	–	7	–	7
		416		416

The group has various monetary assets and liabilities in currencies other than the group's functional currency. The following table represents the net currency exposure (net carrying amount of foreign-denominated monetary assets and liabilities) of the group according to the different foreign currencies.

	Group Euro Rm	Group United States dollar Rm	Group Other Rm	Company Euro Rm	Company United States dollar Rm	Company Other Rm
2018						
Net foreign currency monetary assets/(liabilities)						
Functional currency of company operation						
South African rand	**(22)**	**(416)**	**4**	**(21)**	**(363)**	**–**
2017						
Net foreign currency monetary assets/(liabilities)						
Functional currency of company operation						
South African rand	(31)	(428)	(1)	(31)	(428)	(1)

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14. Financial instruments and risk management *(continued)*

14.5 Market risk *(continued)*

Sensitivity analysis

Interest rate risk

An interest rate sensitivity analysis is based on an increase or decrease of 1% (100 basis points) in the South African market interest rates and the prevailing information as at the reporting date.

The analysis assumes that all other variables remain constant. The analysis and changes in interest rates is performed on the same basis as was used in prior years.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the group's and company's profit for the year ended 31 March 2018 would decrease/increase by R23 million (31 March 2017: decrease/increase by R33 million).

The following table illustrates the sensitivity to a 100 basis points change in the interest rates on profit before taxes, with all other variables held constant:

	Group movement		Company movement	
Classes of financial instruments per statement of financial position	+ 1% Profit Rm	- 1% Profit Rm	+ 1% Profit Rm	- 1% Profit Rm
2018				
Assets				
Other financial assets	9	(9)	9	(9)
Forward exchange contract	9	(9)	9	(9)
Liabilities				
Other financial liabilities	14	(14)	14	(14)
Interest rate swaps	14	(14)	14	(14)
	23	(23)	23	(23)
2017				
Assets				
Other financial assets	10	(10)	10	(10)
Forward exchange contract	10	(10)	10	(10)
Liabilities				
Other financial liabilities	23	(23)	23	(23)
Interest rate swaps	23	(23)	23	(23)
	33	(33)	33	(33)

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for the year ended 31 March 2018

14. Financial instruments and risk management *(continued)*

14.5 Market risk *(continued)*

Foreign exchange currency risk

The foreign currency sensitivity analysis is based on a 10% strengthening or weakening of the rand against all currencies, from the rates applicable and prevailing information as at the reporting date.

If foreign exchange rates had been 10% higher/lower and all other variables were held constant, the group's and company's profit for the year ended 31 March 2018 would increase/decrease by R27 million for group (31 March 2017: increase/decrease by R12 million) and R17 million for company (31 March 2017: increase/decrease by R12 million).

The following table illustrates the sensitivity to a 10% change in the exchange rates before taxes, with all other variables held constant:

	Group		Company	
Classes of financial instruments per statement of financial position	+ 10% movement (Depreciation) Rm	- 10% movement (Appreciation) Rm	+ 10% movement (Depreciation) Rm	- 10% movement (Appreciation) Rm
2018				
Assets				
Other financial assets	**221**	**(221)**	**221**	**(221)**
Forward exchange contracts	**221**	**(221)**	**221**	**(221)**
Liabilities				
Other financial liabilities	**(228)**	**228**	**(227)**	**227**
Firm commitment	**(227)**	**227**	**(227)**	**227**
Forward exchange contracts	**(1)**	**1**	**–**	**–**
Interest-bearing debt	**(20)**	**20**	**(11)**	**11**
	(27)	**27**	**(17)**	**17**
2017				
Assets				
Other financial assets	344	(344)	344	(344)
Forward exchange contracts	344	(344)	344	(344)
Liabilities				
Other financial liabilities	(321)	321	(321)	321
Firm commitment	(321)	321	(321)	321
Forward exchange contracts	–	–	–	–
Interest-bearing debt	(11)	11	(11)	11
	12	(12)	12	(12)

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14. Financial instruments and risk management *(continued)*

14.6 Equity price risk

The group's listed and unlisted investments are susceptible to market price risk arising from uncertainties about future values of the investment securities. Changes in the fair value of equity securities held by the group will fluctuate because of changes in market prices, caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded on the market. The group is not exposed to commodity price risk. The group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the group's senior management on a regular basis. The group's board of directors reviews and approves all equity investment decisions above R100 million.

At the reporting date, the total amount for local equity investments was R1 559 million (31 March 2017: R2 269 million). A 5% increase in the local and foreign equity portfolios at the reporting date would have increased profit or loss by R78 million (31 March 2017: R69 million) before tax. An equal and opposite change would have decreased profit or loss. A 5% fluctuation represents management's assessment of the reasonably possible changes in equity prices.

There will be no other impact on equity as the equity securities are classified as at fair value through profit or loss. The analysis assumes that all other variables remain constant and is performed on the same basis as the prior year.

14.7 Capital management

The group's policy is to manage the capital structure to ensure maximisation of shareholders' return, growth and ability to meet its obligations. Capital comprises equity and net debt which is monitored using, inter alia, a net debt to EBITDA ratio. The group's guidance is to keep the ratio below 1 times.

Net debt is defined as interest-bearing debts, credit facilities utilised and other financial liabilities, less cash and cash equivalents and other financial assets (excluding Cell Captive). EBITDA is defined as earnings before depreciation, amortisation, impairment and losses, investment income, finance charges and fair value movements and taxation.

The group's dividend policy, of an annual dividend of 60 percent of headline earnings with an interim dividend of 40 percent of interim headline earnings, aims to provide shareholders with a competitive return on their investment, while assuring sufficient reinvestment of profits to achieve its strategy. The determination to pay dividends, and the amount of dividends, will be based on a number of factors, including the consideration of the financial results, capital and operating requirements, net debt levels and growth opportunities.

The net debt to EBITDA ratio at reporting date was as follows:

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Non-current portion of interest-bearing debt	**7 165**	4 744	**7 109**	4 661
Current portion of interest-bearing debt	**2 247**	1 541	**2 204**	1 507
Credit facilities utilised	**30**	93	**1**	3
Current portion of other financial liabilities	**250**	440	**250**	441
Less: Cash and cash equivalents	**(2 728)**	(1 612)	**(1 788)**	(965)
Less: Other financial assets	**(163)**	(126)	**(163)**	(78)
Net debt	**6 801**	5 080	**7 613**	5 569
EBITDA	**10 544**	10 875	**6 349**	10 278
Net debt to EBITDA ratio	**0.65**	0.47	**1.20**	0.54

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15. Investments

	Company 2018 Rm	Company 2017 Rm
15.1 Investments in subsidiaries	**7 369**	6 201
Trudon (formerly known as TDS Directory Operations) Proprietary Limited		
64.90% shareholding at cost	**167**	167
Swiftnet Proprietary Limited (Gyro Masts and Towers)	**955**	25
100% shareholding at cost	**25**	25
Loan, preference shares and other facilities	**930**	–
Rossal No 65 Proprietary Limited		
100% shareholding at cost (R100)	**–**	–
Acajou Investments Proprietary Limited		
100% shareholding at cost (R100)	**–**	–
Intekom Proprietary Limited*		
100% shareholding at cost	**10**	10
Business Connexion Group Limited (BCX)	**6 135**	5 999
100% shareholding at cost	**2 654**	2 654
Loan, preference shares and other facilities	**3 481**	3 345
Gyro Properties Proprietary Limited	**98**	–
100% shareholding at cost (R100)	**–**	–
Loan, preference shares and other facilities	**98**	–
Gyro Solutions Proprietary Limited	**4**	–
100% shareholding at cost	**–**	–
Loan, preference shares and other facilities	**4**	

** Deregistration in progress*

Investments and loans key assumptions

Loans and investments are tested for impairment whenever there are impairment indicators, by comparing the recoverable amounts of the cash-generating units (CGU) to the carrying amounts of the investments and loans. At 31 March 2018 there were no impairment indicators.

The fair value of loans and preference shares approximate the fair value as the instuments have been granted on market-related terms.

For continuing operations, the recoverable amount of a CGU is determined based on value in use calculations. Value in use is based on the discounted cash flow method.

	Carrying value 2018 Rm	Carrying value 2017 Rm
Loans to BCX	**3 481**	3 345
1. An interest-bearing loan was granted to assist BCX in acquiring the Cybernest business unit. The loan accrues interest at a prevailing six-month JIBAR rate plus 200 basis points. The loan term is five years, payable in equal bi-annual repayments commencing after the first anniversary following the effective date.	**280**	433
2. Telkom also holds preference shares related to the sale of the Enterprise business in November 2016 to BCX at a fixed interest rate of 13.5% over a 15-year period.	**3 049**	2 686
3. The other loan to BCX relates to the repayment of the RMB loan as well as a revolving facility to assist BCX with working capital requirements. These loans accrue interest at rates linked to the three-month JIBAR with variables of 1.9%.	**152**	226
Gyro preference shares		
Telkom holds preference shares to the value of R1 032 million in the Gyro group related to the sale of assets and liabilities transactions to Gyro as described in note 11. All preference shares were issued effective 1 April 2017 and are repayable in 15 years. The preference share is split as follows:	**1 032**	–
Gyro Properties: The preference share carries interest at a fixed rate of 15.3%	**98**	–
Gyro Solutions: The preference share carries interest at a fixed rate of 15.3%	**4**	–
Gyro Masts and Towers: The preference share carries interest at a fixed rate of 14.9%	**930**	–

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15. Investments *(continued)*

15.2.1 Non-current other investments

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Unlisted investment	**100**	40	**140**	140
FutureMakers Fund	**50**	11	**140**	140
Investment	**60**	21	**150**	150
Impairment	**(10)**	(10)	**(10)**	(10)
Investment in associate	**6**	5	**–**	–
Equity investment in Number Portability Company	**6**	5	**–**	–
BCX Group interests	**44**	24	**–**	–
Associates	**21**	2	**–**	–
Joint ventures	**23**	22	**–**	–

15.2.2 Current other investments

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
At fair value through profit or loss	**1 509**	2 388	**1 509**	2 388
Cell Captive preference shares	**1 509**	2 388	**1 509**	2 388

Cell Captive preference share investment

The fair value through profit or loss investment was acquired to fund the post-retirement medical aid liability. The investment is made through a Cell Captive in which Telkom holds 100% of the preference shares, and represents the fair value of the underlying investments of the Cell Captive.

The Cell Captive preference shares are classified as current assets in the current financial year as it is highly probable that it will be liquidated in the short term.

FutureMakers Fund

This fund is an Enterprise and Supplier Development (ESD) programme. In partnership with Identity FutureFund (Pty) Ltd, the fund was created in terms of the Department of Trade and Industry's Code of Good Practice on Black Economic Empowerment 2007, as amended and specifically in terms of the Information and Technology Charter.

Telkom company holds the investment at cost. Telkom group consolidates the fund and holds the investments within the fund at fair value. During the current financial year, the partnership agreement was amended to also include BCX. BCX invested an amount of R100 million which is reflected as an investment in the BCX stand-alone financial statements and included in cash and cash equivalents in the group financial statements.

Investment in associate

The Number Portability Company (NPC) was incorporated in response to Regulations of 2005 that required a national centralised database of ported numbers for mobile numbers. The investment has been classified as an associate in line with the requirements of the revised IAS 28 Investments in Associates and Joint Ventures and IFRS 11 Joint Arrangements. The year-end of the associate, 31 December, is different to that of the company and the impact is not material.

Fair value

Refer to note 14.1 for the respective fair value disclosures related to the investments noted above.

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16. Finance lease receivables

The group provides voice and non-voice services to its customers, which make use of router and PABX equipment that is dedicated to specific customers. The disclosed information relates to those arrangements which were assessed to be finance leases in terms of IAS 17.

	Group			
	Total Rm	< 1 year Rm	1 – 5 years Rm	> 5 years Rm
2018				
Minimum lease payments receivable				
Lease payments receivable	**447**	**146**	**301**	**–**
Unearned finance income	**(73)**	**(34)**	**(39)**	**–**
Present value of minimum lease income (Lease receivables)	**374**	**112**	**262**	**–**
2017				
Minimum lease payments receivable				
Lease payments receivable	650	286	364	–
Unearned finance income	(103)	(49)	(54)	–
Present value of minimum lease income (Lease receivables)	547	237	310	-

	Company			
	Total Rm	< 1 year Rm	1 – 5 years Rm	> 5 years Rm
2018				
Minimum lease payments receivable				
Lease payments receivable	**447**	**146**	**301**	**–**
Unearned finance income	**(73)**	**(34)**	**(39)**	**–**
Present value of minimum lease income (Lease receivables)	**374**	**112**	**262**	**–**
2017				
Minimum lease payments receivable				
Lease payments receivable	650	286	364	–
Unearned finance income	(103)	(49)	(54)	–
Present value of minimum lease income (Lease receivables)	547	237	310	–

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17. Deferred taxation

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
	320	303	**317**	250
Opening balance	**303**	283	**250**	250
Profit and loss movements	**56**	50	**67**	–
Capital allowances	**(615)**	(241)	**(575)**	(261)
Provisions and other allowances	**592**	307	**577**	261
Tax losses	**64**	(35)	**65**	–
Common control transactions/business combinations	**15**	19	**–**	–
Movement related to disposals of subsidiaries	**(39)**	(30)	**–**	–
The balance comprises:	**320**	303	**317**	250
Capital allowances	**(961)**	(342)	**(892)**	(317)
Provisions and other allowances	**1 314**	724	**1 144**	567
Business combination	**(68)**	(83)	**–**	–
Common control transaction	**(32)**	–	**–**	–
Tax losses	**67**	4	**65**	–
Deferred taxation balance is made up as follows:	**320**	303	**317**	250
Deferred taxation assets	**499**	442	**317**	250
Deferred taxation liabilities	**(179)**	(139)	**–**	–

The group did not recognise deferred tax of R323 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.

18. Inventories

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
	1 435	1 384	**944**	859
Gross inventories	**1 643**	1 564	**1 123**	1 021
Write-down of inventories to net realisable value	**(208)**	(180)	**(179)**	(162)
Inventories consist of the following categories:	**1 435**	1 384	**944**	859
Installation material, maintenance material and network equipment	**653**	620	**562**	404
Merchandise	**782**	764	**382**	455
Write-down of inventories to net realisable value	**208**	180	**179**	162
Opening balance	**180**	91	**162**	76
Charged to selling, general and administrative expenses	**44**	109	**35**	89
Inventories written off	**(16)**	(20)	**(18)**	(3)

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19. Trade and other receivables

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
19. Trade and other receivables	**8 126**	8 156	**8 588**	6 770
Trade receivables	**6 567**	6 375	**6 866**	5 622
Gross trade receivables	**7 500**	6 971	**7 563**	6 070
Impairment of receivables	**(933)**	(596)	**(697)**	(448)
Other receivables	**1 195**	1 182	**1 547**	737
Prepayments	**364**	599	**175**	411
Allowance account for credit losses	**933**	596	**697**	449
Opening balance	**596**	664	**449**	518
Charged to selling, general and administrative expenses	**644**	551	**509**	453
Receivables written off	**(307)**	(619)	**(261)**	(522)

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.

Refer to note 14.3 for detailed credit risk analysis.

20. Other financial assets and liabilities

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
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:	**163**	126	**163**	78
– Derivative instruments	**163**	78	**163**	78
Forward exchange contracts	**14**	54	**14**	54
Firm commitments	**149**	24	**149**	24
– Asset finance receivables	**–**	48	**–**	–
Current other financial liabilities consist of:	**(250)**	(440)	**(1 467)**	(440)
– Derivative instruments	**(250)**	(440)	**(250)**	(440)
Forward exchange contracts	**(222)**	(189)	**(222)**	(189)
Firm commitments	**(5)**	(229)	**(5)**	(229)
Interest rate swaps	**(23)**	(22)	**(23)**	(22)
– BCX Treasury fund	**–**	–	**(1 217)**	–

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 forward exchange 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 consolidated annual financial statements

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21. Net cash and cash equivalents

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Cash disclosed as current assets	**2 728**	1 612	**1 788**	965
Cash and bank balances	**1 669**	953	**761**	388
Short-term deposits	**1 059**	659	**1 027**	577
Credit facilities utilised	**(30)**	(93)	**(1)**	(3)
Net cash and cash equivalents	**2 698**	1 519	**1 787**	962
Undrawn borrowing facilities	**5 250**	4 750	**5 250**	4 750

The undrawn borrowing facilities are unsecured and bear interest at a rate that will be mutually agreed between the borrower and lender at the time of drawdown. These facilities are subject to annual review and are in place to ensure liquidity. At 31 March 2018, R4.5 billion (31 March 2017: R4 billion) of these undrawn facilities was committed.

Short-term deposits

Short-term deposits are made mostly for varying periods of between one day and three months, depending on the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates.

Borrowing powers

Telkom's directors may mortgage or encumber Telkom's property, or any part thereof, and issue debentures, whether secured or unsecured, whether outright or as security for debt, liability or obligation of Telkom or any third party. For this purpose, the borrowing powers of Telkom are unlimited, but are subject to the restrictive financial covenants as well as specific restrictive clauses in the current funding arrangements.

22. Share capital

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Authorised and issued share capital is made up as follows:				
Authorised				
1 000 000 000 ordinary shares of R10 each	**10 000**	10 000	**10 000**	10 000
Issued				
504 975 439 (31 March 2017: 520 783 900) ordinary shares of R10 each	**5 050**	5 208	**5 050**	5 208
6 164 800 (31 March 2017: 6 164 800) at no consideration	**–**	–	**–**	–

The following table illustrates the movement within the number of shares issued:

	Number of shares		Number of shares	
Shares in issue at beginning of the year	**526 948 700**	526 948 700	**526 948 700**	526 948 700
Shares repurchased and cancelled during the year	**(15 808 461)**	–	**(15 808 461)**	–
Shares in issue at end of the year	**511 140 239**	526 948 700	**511 140 239**	526 948 700

The unissued shares are under the control of the directors until the next annual general meeting. The directors have been given the authority by the shareholders to buy back Telkom's own shares up to a limit of 10% of the current issued share capital.

Capital management

Refer to note 14.7 for detailed capital management disclosure.

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23. Share-based compensation reserve

Telkom's shareholders approved the Telkom group share plan at the September 2013 annual general meeting. The scheme covers certain operational and management employees and is aimed at giving shares to group employees, at a RNil exercise price, at the end of the vesting period. Although the number of shares awarded to employees was communicated at the grant date, the ultimate number of shares that vest may differ based on certain performance conditions being met. Refer to note 29.

	Group		Company	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
The movement within the share-based compensation reserve is:				
Balance at beginning of the year	452	241	431	241
Net (decrease)/increase in equity	(75)	211	(69)	190
Employee cost (refer to note 6)	48	222	29	201
Vesting of shares	(123)	(11)	(98)	(11)
Balance at end of the year	377	452	362	431

24. Non-distributable reserves

	Group		Company	
	2018 Rm	2017 Rm	2018 Rm	2017 Rm
	1 579	1 376	1 011	753
Opening balance	1 376	1 507	753	795
Movement during the year	203	(131)	258	(42)
Foreign currency translation reserve	(22)	(61)	–	–
Increase in Treasury shares for Telkom company share plan	(68)	(205)	(68)	(205)
Vesting of shares under group share plan	123	11	98	11
Sale of Treasury shares to BCX			58	–
Purchase of Telkom shares by subsidiaries for subsidiaries employee share scheme	–	(28)	–	–
Revaluation of the Cell Captive reserve	170	152	170	152
The balance comprises:	1 579	1 376	1 011	753
Cell Captive reserve	2 614	2 443	1 892	1 722
Foreign currency translation reserve	(92)	(70)	–	–
Shares held by subsidiaries and in Escrow	(943)	(997)	(881)	(969)

The fair value gains from the Cell Captive investment are recognised in profit or loss. The fair value gains are transferred to the non-distributable reserves until the date that the investment and the corresponding fair value gains are realised. On this date, the fair value gains are transferred back to retained earnings.

The reserve also represents amounts paid by Telkom to subsidiary, Rossal No 65 Proprietary Limited, for the acquisition of Telkom's shares to be utilised in terms of the Telkom share plan.

Fair value of ordinary shares in Telkom are held as follows:

	2018		2017	
	Number of shares	Rm	Number of shares	Rm
Treasury shares in Escrow	12 977 305	687	12 612 717	946
Rossal No 65 Proprietary Limited	1 930 875	102	4 630 125	347
Total	14 908 180	789	17 242 842	1 293

All shares will be allocated to employees as part of the share plan.

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25. Non-controlling interest

	Group 2018 Rm	Group 2017 Rm
Non-controlling interest	**359**	337
Balance at beginning of the year	**337**	390
Share of earnings	**106**	57
Disposal of non-controlling interest*	**(3)**	(3)
Dividend declared	**(81)**	(107)

The non-controlling interest relates to the minority shareholders of Trudon and BCX.

** Refer to note 11.*

26. Interest-bearing debt

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Non-current interest-bearing debt	**7 165**	4 744	**7 109**	4 661
Total interest-bearing debt	**9 412**	6 285	**9 313**	6 168
Gross interest-bearing debt	**9 672**	6 677	**9 661**	6 660
Discount on debt instruments issued	**(352)**	(502)	**(352)**	(502)
Finance leases	**92**	110	**4**	10
***Less:* Current portion of interest-bearing debt**	**(2 247)**	(1 541)	**(2 204)**	(1 507)
Local debt	**(2 200)**	(1 500)	**(2 200)**	(1 500)
Commercial paper bills	**(1 000)**	(800)	**(1 000)**	(800)
Other loans	**(1 200)**	(700)	**(1 200)**	(700)
Foreign debt	**(4)**	(2)	**–**	–
Finance leases	**(43)**	(39)	**(4)**	(7)
Total interest-bearing debt is made up as follows:	**9 412**	6 285	**9 313**	6 168
(a) Local debt	**9 198**	6 050	**9 198**	6 048
Telkom debt instruments	**9 198**	6 048	**9 198**	6 048
Name, maturity, rate p.a., nominal value				
TL20, 2020, 15% (2017:15%), R2 500 million (2017: R2 500 million)	**2 148**	1 998	**2 148**	1 998
TL22, 2021, 8.555%	**250**	–	**250**	–
TL23, 2022, 8.815%	**592**	–	**592**	–
TL24, 2022, 9.040%	**423**	–	**423**	–
TL25, 2024, 9.570%	**835**	–	**835**	–
TL26, 2024, 9.125%	**400**	–	**400**	–
Commercial paper bills, 2018, 7.842%	**346**	800	**346**	800
Commercial paper bills, 2019, 8.075%	**654**	–	**654**	–
Loans, 2022 - 2025, 7.35% - 9.12% (2017: 8.983% - 9.625%), R3 550 million (2017: R3 250 million)	**3 550**	3 250	**3 550**	3 250
Total interest-bearing debt is made up of R9 412 million debt at amortised cost (31 March 2017: R6 285 million debt at amortised cost). Finance costs accrued on debt are included in trade and other payables (refer to note 30).				
Other loans are repayable quarterly and bi-annually, and have maturities ranging from 2019 to 2021.				
Commercial paper bills are repayable at maturity with 6 and 12 months settlement periods.				
BCX debt instruments	**–**	2	**–**	–
IBM Global Finance	**–**	2	**–**	–

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26. Interest-bearing debt *(continued)*

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
(b) Foreign debt	**122**	125	**111**	110
Telkom	**111**	110	**111**	110
Maturity, rate p.a., nominal value				
Euro: 2022 - 2025, 0.14% (2017: 0.14%), €7.6 million (2017: €7.6 million)	**111**	110	**111**	110
BCX	**11**	15	**–**	–
Stanbic Tanzania	**7**	3	**–**	–
US dollar-denominated loan, repayable over 36 months at an interest rate of 9%, guaranteed by Business Connexion Proprietary Limited.				
Barclays Commercial Mortgage	**4**	4	**–**	–
A pound sterling-denominated loan repayable over 20 years at an interest rate of UK prime + 1.25%.				
Akiba Bank	**–**	8	**–**	–
(c) Finance leases	**92**	110	**4**	10
Telkom Content Delivery Platform Software	**4**	10	**4**	10
This amount is repayable within a period of five years at an approximate interest rate of 12.10%.				
BCX various leases	**82**	94	**–**	–
Finance leases are in respect of capitalised leased assets with a carrying value of R59 million (31 March 2017: R72 million). BCX has the option to purchase these assets at the end of the lease term.				
These amounts are repayable between periods of three and five years.				
Interest rates vary between 6.00% and 14.48%.				
Trudon various leases	**6**	6	**–**	–
The amounts are repayable within five years at an interest rate linked to the prime rate.				
Included in non-current and current debt is:				
Debt guaranteed by the South African government	**111**	109	**111**	109

The company may issue or re-issue locally registered debt instruments in terms of the Post Office Amendment Act, 85 of 1991. The borrowing powers of the company are set out as per note 21.

Interest-bearing debt

Interest-bearing debt is at amortised cost and finance cost accrued on debt are included in trade and other payables. The debts are unsecured but limits the group's ability to create encumbrances on revenue or assets and secure any indebtedness without securing the outstanding debts equally and rateably with such indebtedness.

Repayments/ refinancing of current portion of interest-bearing debt

The repayment of the current portion of interest-bearing debt of R2 204 million (31 March 2017: R1 507 million) for company and R2 247 million (31 March 2017: R1 541 million) for group as at 31 March 2018 is expected to be repaid from available cash, operational cash flow or the issue of new debt instruments.

Management believes that sufficient funding facilities will be available at the date of repayment.

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27. Provisions

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Non-current employee-related provisions	**2 388**	1 536	**2 368**	1 516
Post-retirement medical aid and subsidiary pension fund (refer to note 29 for the reconciliation of the opening to closing balance)	**21**	20	**–**	–
Telephone rebates (refer to note 29 for the reconciliation of the opening to closing balance)	**402**	365	**402**	365
Telkom Retirement Fund (refer to note 29 for the reconciliation of the opening to closing balance)	**1 965**	1 151	**1 966**	1 151
Current portion of employee-related provisions	**1 340**	1 397	**1 069**	1 067
Annual leave	**577**	514	**388**	348
Balance at beginning of the year	**514**	554	**348**	435
Charged to employee expenses	**101**	21	**75**	(26)
BCX leave provision recovery	**15**	34	**15**	34
Leave paid/utilised	**(53)**	(95)	**(50)**	(95)
Post-retirement medical aid	**6**	7	**–**	–
Telephone rebates	**39**	39	**39**	39
Bonus, termination packages and other benefits	**718**	837	**642**	680
Balance at beginning of the year	**837**	1 630	**680**	1 535
Charged to employee expenses	**763**	1 122	**687**	868
Payments made	**(882)**	(1 915)	**(725)**	(1 723)
Non-current non-employee related provisions				
Other	**44**	56	**7**	10
Current portion of non-employee related provisions				
Other	**164**	124	**52**	39

Annual leave

In terms of the group's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 22-30 days (31 March 2017: 22-30 days) which must be taken within a 12-18 month (31 March 2017: 12-18 month) leave cycle. The leave cycle is reviewed annually and is in accordance with legislation.

Bonus

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

Non-employee related provisions

Other provisions relate to site restoration obligations, provisions for legal matters as disclosed in the contingencies note (refer to note 37) and contingent consideration relating to prior year business combinations.

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28. Deferred revenue

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Deferred revenue	**2 053**	2 099	**1 966**	2 027
Non-current deferred revenue	**464**	529	**464**	529
Current portion of deferred revenue	**1 589**	1 570	**1 502**	1 498

The deferred revenue balance consists primarily of deferred installation fees and revenue billed in advance due to Telkom's various billing cycles.

29. Employee benefits

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Non-current assets	**627**	635	**627**	635
Telkom Pension Fund asset	**22**	23	**22**	23
Post-retirement medical aid recognition of net plan asset	**605**	612	**605**	612

The group provides benefits for its permanent employees through the Telkom Pension Fund and the Telkom Retirement Fund. Membership to one of the funds is compulsory. In addition, certain retired employees receive medical aid benefits and a telephone rebate. The liabilities for all of the benefits are actuarially determined in accordance with accounting requirements each year. In addition, statutory funding valuations for the retirement and pension funds are performed at intervals not exceeding three years.

Actuarial valuations were performed by qualified actuaries to determine the benefit obligation, plan asset and service costs for the pension and retirement funds for each of the financial periods presented.

The Telkom Pension Fund

The Telkom Pension Fund is a defined benefit fund that was created in terms of the Post Office Amendment Act, 85 of 1991.

The latest actuarial valuation performed at 31 March 2018 indicates that the pension fund is in a surplus position of R113 million (31 March 2017: R104 million). The recognition of the surplus is limited due to the application of the asset limitation criteria in IAS 19 Employee Benefits. The Telkom Pension Fund is closed to new members. The pension plan exposes the group to actuarial risks, such as longevity, currency, interest rate and market risk.

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29. Employee benefits *(continued)*

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
The funded status of the Telkom Pension Fund is disclosed below.				
The Telkom Pension Fund				
The net periodic pension costs include the following components:				
Interest cost on projected benefit obligations	9	10	9	10
Service cost on projected benefit obligations	2	3	2	3
Interest on plan assets after asset restriction	(11)	(21)	(11)	(21)
Net periodic pension gain recognised in profit or loss	–	(8)	–	(8)
The net periodic other comprehensive income includes the following components:				
Asset ceiling in terms of IAS 19.64	9	6	9	6
Net periodic pension expense recognised in other comprehensive income	9	6	9	6
Cumulative actuarial gain	(80)	(79)	(80)	(79)
Pension fund contributions	(1)	(1)	(1)	(1)
The status of the pension plan obligation is as follows:				
At beginning of the year	92	130	92	130
Interest cost	9	10	9	10
Current service cost	2	3	2	3
Employee contributions	1	1	1	1
Benefits paid	(9)	(50)	(9)	(50)
Actuarial gain	(6)	(2)	(6)	(2)
Benefit obligation at end of the year	89	92	89	92
Plan assets at fair value:				
At beginning of the year	196	320	196	320
Interest on plan assets	19	28	19	28
Benefits paid	(9)	(50)	(9)	(50)
Contributions	1	1	1	1
Transferred to Telkom Retirement Fund	–	(96)	–	(96)
Actuarial loss	(5)	(7)	(5)	(7)
Plan assets at end of the year	202	196	202	196
Present value of funded obligation	89	92	89	92
Fair value of plan assets	(202)	(196)	(202)	(196)
Fund surplus	(113)	(104)	(113)	(104)
Asset ceiling in terms of IAS 19.64	91	82	91	82
Recognised net asset	(22)	(22)	(22)	(22)
Interest on plan assets after asset restriction	11	21	11	21
Actuarial loss on plan assets	(5)	(7)	(5)	(7)
Actual return on plan assets	6	14	6	14
Plan assets balance comprises:				
Cash and cash equivalents	25	12	25	12
Equity securities	83	84	83	84
Property	4	8	4	8
Bonds	34	35	34	35
Commodities	5	6	5	6
Foreign investments	51	51	51	51
Total	202	196	202	196

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29. Employee benefits *(continued)*

Funding arrangements

The Telkom Pension Fund investment strategy has been implemented through the appointment of several asset managers with global balanced mandates. Within these mandates the managers are responsible for and have sole discretion of determining the asset allocation, i.e. the mix of the various asset classes used based on their investment views. In addition, a portion was allocated to Africa Equity, and SA Cash asset classes were added to further diversify the portfolio and to provide return enhancement.
The Telkom Pension Fund's total asset allocation is thus derived by combining the asset managers' portfolios with the Africa and additional cash allocation.

Principal actuarial assumptions were as follows:

Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:

	Group		Company	
	2018	2017	**2018**	2017
Males over 65	**16.5**	16.5	**16.5**	16.5
Females over 65	**20.7**	20.6	**20.7**	20.6
Discount rate (%)	**8.8**	9.7	**8.8**	9.7
Interest on plan assets (%)	**8.8**	9.7	**8.8**	9.7
Salary inflation rate (%)	**6.9**	8.0	**6.9**	8.0
Pension increase allowance (%)	**5.0**	4.5	**5.0**	4.5
The overall long-term expected interest on assets is 8.8%. This is based on the IAS 19 net interest requirement.				
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
Funding level per statutory actuarial valuation (%)	**100**	100	**100**	100
The number of employees registered under the Telkom Pension Fund	**32**	35	**32**	35
The fund portfolio consists of the following percentages:				
Cash (%)	**13**	6	**13**	6
Equities (%)	**41**	43	**41**	43
Property (%)	**2**	4	**2**	4
Bonds (%)	**17**	18	**17**	18
Commodities (%)	**2**	3	**2**	3
Foreign Investments (%)	**25**	26	**25**	26
Total	**100**	100	**100**	100

The total estimated contributions to be paid to the pension fund by the employer for the year ending 31 March 2019 is R1 million.

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29. Employee benefits *(continued)*

The Telkom Retirement Fund

The Telkom Retirement Fund was established on 1 July 1995 as a hybrid defined benefit and defined contribution plan. Existing employees were given the option to either remain in the Telkom Pension Fund or to be transferred to the Telkom Retirement Fund. All pensioners of the Telkom Pension Fund and employees who retired after 1 July 1995 were transferred to the Telkom Retirement Fund. Upon transfer the government ceased to guarantee the deficit in the Telkom Retirement Fund. Subsequent to 1 July 1995 further transfers of existing employees occurred. As from 1 September 2009 all new appointments will belong to the Telkom Retirement Fund but will not be able to retire from the Telkom Retirement Fund at retirement age. These members would be required to purchase their pensions from an insurance company.

The pensioner pool of the Telkom Retirement Fund only consists of pensioners and is funded through a liability driven investment strategy (LDI). Pensioner increases are subject to affordability targeting between 70% and 100% of CPI.

Telkom guarantees any actuarial shortfall of the pensioner pool in the retirement fund. This liability is initially funded through assets of the retirement fund.

The Telkom Retirement Fund is governed by the Pension Funds Act, 24 of 1956. In terms of section 37A of this Act, the pension benefits payable to the pensioners cannot be reduced. If therefore the present value of the funded obligation were to exceed the fair value of plan assets, Telkom would be required to fund the statutory deficit.

The funded status of the Telkom Retirement Fund is disclosed below:

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
The Telkom Retirement Fund				
The net periodic retirement costs include the following components:				
Interest cost on projected benefit obligations	**3 517**	3 554	**3 517**	3 554
Interest on plan assets	**(3 431)**	(3 461)	**(3 431)**	(3 461)
Service cost on projected benefit obligations	**586**	512	**496**	512
Net periodic pension expense recognised in profit or loss	**672**	605	**582**	605
The net periodic other comprehensive income includes the following components:				
Actuarial gain due to financial assumptions	**393**	312	**393**	312
Actuarial loss due to demographic assumptions	**(922)**	(136)	**(922)**	(136)
Net periodic pension expense recognised in other comprehensive income	**(529)**	176	**(529)**	176
Cumulative actuarial loss	**(1 894)**	(1 365)	**(1 894)**	(1 365)
Benefit obligation:				
At beginning of the year	**38 404**	39 527	**38 404**	39 527
Interest cost	**3 517**	3 554	**3 517**	3 554
Current service cost	**586**	512	**496**	512
Employee contributions	**290**	331	**290**	331
Benefits paid	**(1 579)**	(2 021)	**(1 579)**	(2 021)
Transfers in	**3**	51	**3**	51
Curtailment gain	**–**	(1 462)	**–**	(1 462)
Actuarial loss/(gain)	**400**	(2 088)	**400**	(2 088)
Benefit obligation at the end of the year for defined benefit plan	**41 621**	38 404	**41 531**	38 404

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29. Employee benefits *(continued)*

The Telkom Retirement Fund *(continued)*

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Plan assets at fair value:				
At beginning of the year	37 253	38 253	37 253	38 253
Interest on plan assets	3 431	3 461	3 431	3 461
Asset transfer to TRF	–	96	–	96
Employer contributions	400	481	400	481
Employee contributions	290	280	290	280
Benefits paid	(1 579)	(2 021)	(1 579)	(2 021)
Curtailment loss	–	(1 436)	–	(1 436)
Transfers in	3	51	3	51
Actuarial loss	(143)	(1 912)	(143)	(1 912)
Plan assets at end of the year	39 655	37 253	39 655	37 253
Present value of funded obligation	41 621	38 404	41 531	38 404
Fair value of plan assets	39 655	37 253	39 655	37 253
Net liability	1 966	1 151	1 876	1 151
Interest on plan assets	3 431	3 461	3 431	3 461
Actuarial loss on plan assets	(143)	(1 912)	(143)	(1 912)
Actual return on plan assets	3 288	1 549	3 288	1 549
Plan asset balance comprises:				
Equities	6 918	11 921	6 918	11 921
Property	2 012	1 490	2 012	1 490
Bonds	12 698	10 431	12 698	10 431
Africa	2 972	2 608	2 972	2 608
Cash	6 124	1 490	6 124	1 490
Foreign investments	8 931	9 313	8 931	9 313
Total	39 655	37 253	39 655	37 253

Funding arrangements

The Telkom Retirement Fund pensioner portfolio's strategic asset allocation (SAA) is determined by an Asset Liability Model (ALM) based on the fund's unique liabilities, as determined by its member data and fund rules. The SAA is a reflection of the fund's targeted post-retirement interest rate (PRI), and the investment strategy is built around the target of providing consistent annual pension increases of between 70% to 100% of CPI.

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Included in the fair value of plan assets is:				
Telkom shares	29	16	29	16

The Telkom Retirement Fund invests its funds in South Africa and internationally. Twelve fund managers invest in South Africa and five of these managers specialise in trades with bonds on behalf of the Retirement Fund.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

29. Employee benefits *(continued)*

The Telkom Retirement Fund *(continued)*

	Group		Company	
	2018	2017	**2018**	2017
Principal actuarial assumptions were as follows:				
Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:				
Males over 65	**16.5**	16.5	**16.5**	16.5
Females over 65	**20.7**	20.6	**20.7**	20.6
Discount rate (%)	**8.8**	9.7	**8.8**	9.7
Interest on plan assets (%)	**8.8**	9.7	**8.8**	9.7
Pension increase allowance (%)	**5.9**	7.0	**5.9**	7.0
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) Ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
Funding level per statutory actuarial valuation (%)	**100**	100	**100**	100
The number of pensioners registered under the Telkom Retirement Fund	**12 480**	12 887	**12 480**	12 887
The number of in-service employees entitled to retire in the Telkom Retirement Fund	**12 608**	12 809	**12 608**	12 809
The fund portfolio consists of the following percentages:				
Equities (%)	**17**	32	**17**	32
Property (%)	**5**	4	**5**	4
Bonds (%)	**32**	28	**32**	28
Africa (%)	**8**	7	**8**	7
Cash (%)	**15**	4	**15**	4
Foreign investments (%)	**23**	25	**23**	25
Total	**100**	100	**100**	100

The total estimated contributions to be paid to the Telkom Retirement Fund by the employer for the year ending 31 March 2019 is R534 million.

Medical benefits

Telkom makes certain contributions to medical funds in respect of current and retired employees. The scheme is a defined benefit plan. The expense in respect of current employees' medical aid is disclosed in note 6.1. The amounts due in respect of post-retirement medical benefits to current and retired employees have been actuarially determined and provided for as set out in note 27. Telkom has terminated future post-retirement medical benefits in respect of employees joining after 1 July 2000.

There are three major categories of members entitled to the post-retirement medical aid: pensioners who retired before 1994 ('Pre-94'); those who retired after 2013; and the in-service members. The pensioners retiring post 2013 and the in-service members' liability are subject to a rand cap, which increases as per the board's approval.

Eligible employees must be employed by Telkom until retirement age to qualify for the post-retirement medical aid benefit. The most recent actuarial valuation of the benefit was performed as at 31 March 2018.

Telkom has allocated certain investments to fund this liability as set out in note 15.2. The annuity policy of the Cell Captive investment is the medical plan asset. The group is entitled to a refund of the full surplus in the annuity policy once all the beneficiaries have been paid. As such the group has recognised the full asset.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

29. Employee benefits *(continued)*

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Medical aid				
Benefit obligation:				
At beginning of the year	**2 288**	2 298	**2 260**	2 270
Interest cost	**208**	205	**208**	205
Service cost	**2**	2	**2**	2
Actuarial gain	**(41)**	(2)	**(41)**	(2)
Benefits paid from plan assets	**(182)**	(176)	**(182)**	(176)
Contributions paid by Telkom	**(35)**	(39)	**(35)**	(39)
Benefit obligation at end of the year	**2 240**	2 288	**2 212**	2 260
Plan assets at fair value:				
At beginning of the year	**2 872**	3 002	**2 872**	3 002
Interest on plan assets	**269**	276	**269**	276
Benefits paid from plan assets	**(182)**	(176)	**(182)**	(176)
Actuarial loss	**(142)**	(230)	**(142)**	(230)
Plan assets at end of the year	**2 817**	2 872	**2 817**	2 872
Present value of funded obligation	**2 240**	2 288	**2 212**	2 260
Fair value of plan assets	**(2 817)**	(2 872)	**(2 817)**	(2 872)
	(577)	(584)	**(605)**	(612)
Liability as disclosed in the statement of financial position (refer to note 27)	**28**	28	**–**	–
Asset as disclosed in the statement of financial position	**(605)**	(612)	**(605)**	(612)
The net periodic other comprehensive income includes the following components:				
Actuarial gain due to financial assumptions	**41**	2	**41**	2
Actuarial loss due to demographic assumptions	**(142)**	(230)	**(142)**	(230)
Net periodic pension expense recognised in other comprehensive income	**(101)**	(228)	**(101)**	(228)
Cumulative actuarial loss	**(1 981)**	(1 880)	**(1 981)**	(1 880)
Plan assets at fair value:				
Interest on plan assets	**269**	276	**269**	276
Actuarial loss on plan assets	**(142)**	(230)	**(142)**	(230)
Actual return on plan assets	**127**	46	**127**	46
Plan asset balance comprises:				
Cash and cash equivalents	**273**	201	**273**	201
Equity securities	**1 138**	1 235	**1 138**	1 235
Bonds	**613**	574	**613**	574
Foreign investments	**793**	862	**793**	862
Total	**2 817**	2 872	**2 817**	2 872

All equity securities and government bonds have quoted prices in active markets.

Funding arrangements

The general funding arrangements from the plan assets are to maximise long-term capital growth and long-term total return on Telkom's portfolio. The portfolios are managed as a segregated portfolio which includes international investments. The investment objective is to provide an absolute return, measured over a 36-month period, in excess of CPI-X plus 5% per annum. The funding arrangements of the plan assets are driven by designated asset managers to manage Telkom's portfolios by applying a flexible approach, which includes holding equities, property, fixed income or money market assets as part of the investment strategy, in variable weightings, at any point in time.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

29. Employee benefits *(continued)*

	Group		Company	
	2018	2017	**2018**	2017
Principal actuarial assumptions were as follows:				
Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:				
Males over 65	**16.5**	16.5	**16.5**	16.5
Females over 65	**20.7**	20.6	**20.7**	20.6
Discount rate (%)	**8.8**	9.7	**8.8**	9.7
Interest on plan assets (%)	**8.8**	9.7	**8.8**	9.7
Salary inflation rate (%)	**5.9**	7.0	**5.9**	7.0
Medical inflation rate (%)	**7.9**	9.0	**7.9**	9.0
The assumed rates of mortality are determined by reference to the SA85-90 (Light) ultimate table, as published by the Actuarial Society of South Africa, for pre-retirement purposes and the PA(90) ultimate table, minus one year age rating as published by the Institute and Faculty of Actuaries in London and Scotland, for retirement purposes.				
Contractual retirement age	**65**	65	**65**	65
Average retirement age	**60**	60	**60**	60
Number of in-service members	**785**	879	**785**	879
Number of pensioners	**3 996**	4 218	**3 996**	4 218

	Group		Company	
	2018	2017	**2018**	2017
The fund portfolio consists of the following percentages:				
Equities (%)	**10**	43	**10**	43
Bonds (%)	**40**	20	**40**	20
Cash and money market investments (%)	**22**	7	**22**	7
Foreign investments (%)	**28**	30	**28**	30
Total	**100**	100	**100**	100

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

29. Employee benefits *(continued)*

Telephone rebates

Telkom provides telephone rebates to its pensioners who joined prior to 1 August 2009. The most recent actuarial valuation was performed as at 31 March 2018. Eligible employees must be employed by Telkom until retirement age to qualify for the telephone rebates. The scheme is a defined benefit plan.

The status of the telephone rebate liability is disclosed below:

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
Benefit obligation:				
At beginning of the year	**404**	410	**404**	410
Current service cost	**2**	3	**2**	3
Interest cost	**37**	37	**37**	37
Actuarial loss/(gain)	**22**	(18)	**22**	(18)
Benefits paid	**(24)**	(28)	**(24)**	(28)
Liability as disclosed in the statement of financial position (refer to note 27)	**441**	404	**441**	404
The net periodic other comprehensive income includes the following components:				
Actuarial (loss)/gain due to demographic assumptions	**(5)**	1	**(5)**	1
Actuarial (loss)/gain due to financial assumptions	**(17)**	17	**(17)**	17
Net periodic pension income recognised in other comprehensive income	**(22)**	18	**(22)**	18
Cumulative actuarial (loss)/gain	**(4)**	18	**(4)**	18
Principal actuarial assumptions were as follows:				
Assumptions regarding future mortality are based on mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plan are as follows:				
Males over 65	**16.5**	16.5	**16.5**	16.5
Females over 65	**20.7**	20.6	**20.7**	20.6
Discount rate (%)	**8.8**	9.7	**8.8**	9.7
Contractual retirement	**65**	65	**65**	65
Average retirement age	**60**	60	**60**	60
The assumed rates of mortality are determined by reference to the standard published mortality table PA (90) Ultimate standard tables, as published by the Institute and Faculty of Actuaries in London and Scotland, rated down one year to value the pensioners.				
Number of members	**9 271**	9 235	**9 271**	9 235
Number of pensioners	**12 772**	12 722	**12 772**	12 722

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

29. Employee benefits *(continued)*

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
	Increase/(decrease) on the post-employment liability			
Sensitivity analysis				
The Telkom Pension Fund				
Increasing discount rate by 0.5%	**(3)**	(3)	**(3)**	(3)
Decreasing discount rate by 0.5%	**3**	3	**3**	3
Increase in inflation rate by 0.5%	**3**	3	**3**	3
Decrease in inflation rate by 0.5%	**(3)**	(3)	**(3)**	(3)
The Telkom Retirement Fund				
Increasing discount rate by 0.5%	**(1 241)**	(1 208)	**(1 241)**	(1 208)
Decreasing discount rate by 0.5%	**1 364**	1 329	**1 364**	1 329
Increase in inflation rate by 1%	**2 920**	2 841	**2 920**	2 841
Decrease in inflation rate by 1%	**(2 451)**	(2 380)	**(2 451)**	(2 380)
Medical benefits				
Increasing discount rate by 0.5%	**(81)**	(84)	**(81)**	(84)
Decreasing discount rate by 0.5%	**87**	90	**87**	90
Increase in inflation rate by 1%	**139**	147	**139**	147
Decrease in inflation rate by 1%	**(123)**	(130)	**(123)**	(130)
Telephone rebates				
Increasing discount rate by 0.5%	**(20)**	(17)	**(20)**	(17)
Decreasing discount rate by 0.5%	**19**	16	**19**	16
Increase in inflation rate (%)	**340**	290	**340**	290

Share Scheme

Telkom's shareholders approved the Telkom forfeitable share plan (FSP) and the additional share award (ASA) at the September 2013 Annual General Meeting. The 5th grants have occurred under this plan at 31 March 2018.

The FSP is made up of long-term incentive plan (LTIP) and the employee share ownership plan (ESOP).

In the FSP, employees acquire shareholder rights immediately on the forfeitable shares (these include dividends and voting rights).

An employee turnover assumption of 2.19% to 14.70% has been used in calculating the expected number of shares that will vest.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

29. Employee benefits *(continued)*

The vesting timelines and principal assumptions used in calculating the expected number of shares that will vest for the Telkom share plan are as follows:

	Vesting financial year					
Telkom LTIP grants	**2018**	2019	2020	2021	2022	2023
Telkom LTIP - 2014 financial year						
Vesting timelines	**–**	20%	–	–	–	–
Probability of meeting non-market related criteria	**–**	0%	–	–	–	–
Telkom LTIP - 2015 financial year						
Vesting timelines	**50%**	30%	20%	–	–	–
Probability of meeting non-market related criteria	**Fully vested**	65%	70%	–	–	–
Telkom LTIP - 2016 financial year						
Vesting timelines	**–**	50%	30%	20%	–	–
Probability of meeting non-market related criteria	**–**	55%	65%	70%	–	–
Telkom LTIP - 2017 financial year						
Vesting timelines	**–**	–	50%	30%	20%	–
Probability of meeting non-market related criteria	**–**	–	75%	80%	80%	–
Telkom LTIP - 2018 financial year						
Vesting timelines	**–**	–	–	50%	30%	20%
Probability of meeting non-market related criteria	**–**	–	–	100%	100%	100%

	Vesting financial year			
Telkom ESOP grants	**2018**	2019	2020	2021
Telkom ESOP - 2015 financial year				
Vesting timelines	**100%**	–	–	–
Probability of meeting non-market related criteria	**100%**	–	–	–
Telkom ESOP - 2016 financial year				
Vesting timelines	**–**	100%	–	–
Probability of meeting non-market related criteria	**–**	65%	–	–
Telkom ESOP - 2017 financial year				
Vesting timelines	**–**	–	100%	–
Probability of meeting non-market related criteria	**–**	–	65%	–
Telkom ESOP - 2018 financial year				
Vesting timelines	**–**	–	–	100%
Probability of meeting non-market related criteria	**–**	–	–	100%

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

29. Employee benefits *(continued)*

The vesting timelines and principal assumptions used in calculating the expected number of shares that will vest for the BCX share plan are as follows:

	Vesting financial year					
BCX grant	**2018**	2019	2020	2021	2022	2023
BCX grant - 2017 financial year						
Vesting timelines	**25%**	25%	25%	25%	–	–
Probability of meeting non-market related criteria	**100%**	100%	100%	100%	100%	–

The vesting timelines and principal assumptions used in calculating the expected number of shares that will vest for the Trudon share plan are as follows:

	Vesting financial year					
Trudon grant	**2018**	2019	2020	2021	2022	2023
Trudon grant - 2017 financial year						
Vesting timelines	**–**	–	40%	30%	30%	–
Probability of meeting non-market related criteria	**–**	–	100%	100%	100%	–

The vesting timelines and principal assumptions used in calculating the expected number of shares that will vest for the Gyro Share plan are as follows:

	Vesting financial year					
Gyro LTIP grant	**2018**	2019	2020	2021	2022	2023
Gyro grant - 2018 financial year						
Vesting timelines	**–**	–	–	50%	30%	20%
Probability of meeting non-market related criteria	**–**	–	–	100%	100%	100%

	Vesting financial year					
Gyro ESOP grant	**2018**	2019	2020	2021	2022	2023
Gyro grant - 2018 financial year						
Vesting timelines	**–**	–	–	100%	–	–
Probability of meeting non-market related criteria	**–**	–	–	100%	–	–

Certain BCX employees were granted shares in terms of a BCX share plan. Based on the BCX group achieving the performance condition, the shares will vest between the 2018 and 2021 financial years.

Certain Trudon employees were granted shares in terms of a Trudon share plan. Based on Trudon achieving the performance condition, the shares will vest between the 2020 and 2022 financial years.

Certain Gyro employees were granted shares in terms of a Gyro share plan. Based on Gyro achieving the performance condition, the shares will vest between the 2021 and 2023 financial years.

In order for the vesting to occur, the targets (including performance conditions) must be met. The targets are measured in each financial year after the grant date.

The weighted average remaining vesting period for all the shares outstanding as at 31 March 2018 is 1.79 years (31 March 2017: 1.64 years).

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

29. Employee benefits *(continued)*

The following table illustrates the movement of the maximum number of shares that were granted to employees:

	Group		Company	
	2018	2017	**2018**	2017
Beginning of the year	**10 024 780**	8 876 772	**8 830 865**	8 876 772
Vested shares during the year	**(3 336 227)**	(1 502 627)	**(3 276 736)**	(1 502 627)
Forfeited shares and other movements during the year	**741 286**	(3 515 502)	**1 727 825**	(3 429 367)
Granted during the year	**5 547 466**	6 166 137	**5 265 189**	4 886 087
Outstanding at end of the year	**12 977 305**	10 024 780	**12 547 143**	8 830 865

The fair value of the shares granted has been calculated by an actuary using the Black-Scholes-Merton model and the following values at grant date.

	Group and Company		
	Market share price (R)	Share price volatility	Future risk free interest rate
Telkom			
- Grant 1	27.30	35% p.a	8.5% p.a
- Grant 2	76.11	35% p.a	6.7% p.a
- Grant 3	64.31	35% p.a	8.0% p.a
- Grant 4	65.00	35% p.a	8.5% p.a
- Grant 5	80.03	35% p.a	8.0% p.a
BCX	69.45	35% p.a	8.5% p.a
Trudon	55.50	35% p.a	8.5% p.a
Gyro			
- Vesting 30 June 2020	53.78	35% p.a	7.7% p.a
- Vesting 30 June 2021	53.78	35% p.a	7.8% p.a
- Vesting 30 June 2022	53.78	35% p.a	8.0% p.a

The key performance indicators related to the share scheme are Net Promoter Score targets, headline earnings per share, free cash flow, return on invested capital and total shareholder return.

The share price volatility is based on the five-year average volatility observed for the Telkom share price.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
30. Trade and other payables	**6 878**	7 516	**10 396**	8 657
Trade and other payables	**3 273**	3 870	**5 569**	3 383
Finance cost accrued	**74**	60	**74**	60
Accruals	**3 531**	3 586	**4 753**	5 214

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 37.

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
31. Reconciliation of profit for the year to cash generated from operations				
Cash generated from operations	**10 171**	8 910	**6 393**	7 362
Profit for the year	**3 158**	3 854	**1 332**	4 705
Finance charges and fair value movements	**851**	888	**785**	801
Taxation	**1 133**	691	**(48)**	65
Investment income and income from associates	**(203)**	(219)	**(785)**	(522)
Interest received from trade receivables and subsidiaries	**(130)**	(236)	**(110)**	(213)
Non-cash items	**5 753**	4 431	**5 129**	2 738
Depreciation, amortisation, impairment/(reversals) and write-offs	**5 605**	5 661	**5 065**	5 229
Sale of Telkom Enterprise	**–**	–	**–**	(1 828)
Increase/(decrease) in provisions	**181**	(991)	**222**	(991)
Sale of property, plant and equipment	**(59)**	(217)	**(188)**	(161)
Foreign exchange movements	**25**	21	**61**	–
Share-based payment expenses	**48**	222	**29**	201
Deferred revenue	**(47)**	(265)	**(60)**	288
Decrease in working capital	**(391)**	(499)	**90**	(212)
Inventories	**(33)**	(363)	**(110)**	(305)
Accounts receivable	**207**	(556)	**(1 613)**	(1 845)
Accounts payable	**(565)**	420	**1 813**	1 938

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
32 . Net debt reconciliation				
Total interest-bearing debt at reporting date	**9 412**	6 285	**9 314**	6 168
Total interest-bearing debt at the beginning of the financial year	**6 285**	5 269	**6 168**	4 826
Loans raised	**7 680**	2 431	**7 680**	2 431
Loans repaid	**(4 685)**	(1 539)	**(4 678)**	(1 202)
Finance leases repaid	**(18)**	(43)	**(6)**	–
Other interest accruals	**–**	37	**–**	(17)
Finance charges capitalised to interest-bearing debt	**150**	130	**150**	130

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

The group classifies interest paid as cash flow from operating activities.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
33. Finance charges paid	**(731)**	(469)	**(669)**	(380)
Finance charges and fair value movements per statement of profit or loss and other comprehensive income	**(851)**	(889)	**(785)**	(802)
Non-cash items	**120**	420	**116**	422
Movements in interest accruals and interest on uncertain tax provisions	**147**	134	**147**	134
Net discount amortised	**150**	130	**150**	130
Borrowing costs capitalised (refer to note 8)	**(135)**	(130)	**(135)**	(130)
Hedging costs	**169**	518	**169**	456
Fair value adjustment*	**(186)**	(216)	**(171)**	(152)
Interest on BCX sinking fund capitalised	**–**	–	**17**	–
Unrealised foreign exchange loss	**(25)**	(16)	**(61)**	(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.*

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
34. Taxation paid	**(1 493)**	(1 181)	**(200)**	(666)
Net tax payable at the beginning of the year	**(424)**	(640)	**(305)**	(653)
Current taxation	**(1 157)**	(713)	**(19)**	(65)
Additional payment to SARS	**(200)**	(250)	**(200)**	(251)
Interest accrued	**(21)**	(2)	**(22)**	(2)
Net tax payable at the end of the year	**309**	424	**346**	305

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
35. Dividend paid	**(2 190)**	(2 171)	**(2 144)**	(2 111)
Dividend payable at the beginning of the year	**(25)**	(22)	**(23)**	(20)
Declared during the year - Dividend on ordinary shares	**(2 142)**	(2 095)	**(2 148)**	(2 114)
Dividends declared to non-controlling interests	**(81)**	(79)	**–**	–
Dividend payable at the end of the year	**58**	25	**27**	23

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
36. Commitments				
Capital commitments authorised	**9 270**	8 158	**9 252**	8 017
Commitments against authorised capital expenditure	**4 350**	6 594	**4 332**	6 524
Authorised capital expenditure not yet contracted	**4 920**	1 564	**4 920**	1 493

Capital commitments comprise commitments for property, plant and equipment and software included in intangible assets. Management expects these commitments to be financed from internally generated cash and other borrowings.

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for the year ended 31 March 2018

36. Commitments *(continued)*

	Group			
	Total Rm	**<1 year Rm**	**1 – 5 years Rm**	**>5 years Rm**
Operating lease commitments and (receivables)				
2018				
Land and buildings	**3 304**	**602**	**1 765**	**937**
Rental receivable on buildings	**(2 219)**	**(574)**	**(1 621)**	**(24)**
Customer premises equipment receivables	**(30)**	**(19)**	**(11)**	**–**
Vehicles	**5**	**3**	**2**	**–**
Other	**43**	**41**	**2**	**–**
Total	**1 103**	**53**	**137**	**913**
2017				
Land and buildings	2 913	644	1 522	747
Rental receivable on buildings	(1 236)	(413)	(721)	(102)
Customer premises equipment receivables	(37)	(21)	(16)	–
Vehicles	726	167	557	2
Other	52	12	40	–
Total	2 418	389	1 382	647

	Company			
	Total Rm	**<1 year Rm**	**1 – 5 years Rm**	**>5 years Rm**
Operating lease commitments and (receivables)				
2018				
Land and buildings	**1 968**	**496**	**1 338**	**134**
Rental receivable on buildings	**(2 219)**	**(574)**	**(1 621)**	**(24)**
Customer premises equipment receivables	**(30)**	**(19)**	**(11)**	**–**
Vehicles	**–**	**–**	**–**	**–**
Total	**(281)**	**(97)**	**(294)**	**110**
2017				
Land and buildings	1 420	514	903	3
Rental receivable on buildings	(1 236)	(413)	(721)	(102)
Customer premises equipment receivables	(37)	(21)	(16)	–
Vehicles	718	167	551	–
Total	865	247	717	(99)

Operating leases

The group leases certain buildings, vehicles and equipment. The majority of the lease terms negotiated for equipment-related premises are ten years with other leases signed for seven, five and three years. The majority of the leases contain an option clause entitling Telkom to renew the lease agreements for a period usually equal to the main lease term.

The minimum lease payments under these agreements are subject to annual escalations, which range from 6% to 15%.

Penalties in terms of the lease agreements are only payable should Telkom vacate a premises and negotiate to terminate the lease agreement prior to the expiry date, in which case the settlement payment will be negotiated in accordance with the market conditions of the premises. Future minimum lease payments under operating leases are included in the above note. Onerous leases for buildings, for which the company has no further use, no possibility of sub-lease and no option to cancel, are provided for in full and included in other provisions.

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36. Commitments *(continued)*

	Group finance lease commitments			
	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
2018				
Software				
Minimum lease payments	**11**	**6**	**5**	**–**
Finance charges	**(1)**	**(1)**	**–**	**–**
Finance lease obligation	**10**	**5**	**5**	**–**
Equipment				
Minimum lease payments	**24**	**9**	**15**	**–**
Finance charges	**(3)**	**(2)**	**(1)**	**–**
Finance lease obligation	**21**	**7**	**14**	**–**
2017				
Software				
Minimum lease payments	11	6	5	–
Finance charges	(1)	(1)	–	–
Finance lease obligation	10	5	5	–
Equipment				
Minimum lease payments	86	30	46	10
Finance charges	(12)	(6)	(5)	(1)
Finance lease obligation	74	24	41	9
Vehicles*				
Minimum lease payments	18	6	12	–
Finance charges	–	–	–	–
Finance lease obligation	18	6	12	–

** No vehicle finance lease commitments in the current financial year.*

	Company finance lease commitments			
	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
2018				
Software				
Minimum lease payments	**11**	**6**	**5**	**–**
Finance charges	**(2)**	**(1)**	**(1)**	**–**
Finance lease obligation	**9**	**5**	**4**	**–**
2017				
Software				
Minimum lease payments	11	6	5	–
Finance charges	(1)	(1)	–	–
Finance lease obligation	10	5	5	–

Finance leases

Finance leases on software relates to the lease of Content Delivery Platform software. The lease term for the software is for a period of 1 years and 9 months ending in December 2019.

Telkom has a commitment to migrate customers to new cable systems when the existing cables are decommissioned before the lease period expires. Refer to note 16 for lease payments.

BCX leases certain buildings, vehicles and equipment. The majority of the lease terms negotiated for equipment-related premises range from 3 to 10 years. The majority of the leases contain an option clause entitling BCX to renew the lease agreements for a period usually equal to the main lease term.

Trudon leases equipment and these finance leases have been secured by printers with a book value of R5.6 million.

The minimum lease payments under these agreements are subject to annual escalations, which range from 7% to 10%.

There are no major restrictions imposed by lease arrangements.

Notes to the consolidated annual financial statements

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37. 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 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 5 days, instead of 3 days. Telkom is assessing the impact of the amended Regulations on Telkom going forward.

High court

Radio Surveillance Security Services (Pty) Ltd (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 (Pty) Ltd (Phutuma)

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

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 30. A court date has been set for August 2018 for the matter to be heard.

38. Directors' interest and prescribed officers

	Group and Company			
	Beneficial		Non-beneficial	
Number of shares	Direct	Indirect	Direct	Indirect
Directors' shareholding				
2018				
Executive				
SN Maseko	**52 520**	**–**	–	–
DJ Fredericks	**48 711**	**534**	–	–
	101 231	**534**	–	–
Non-executive				
JA Mabuza	**26 000**	**–**	–	–
I Kgaboesele	**12 000**	**–**	–	–
KW Mzondeki	**748**	**–**	–	–
	38 748	**–**	–	–

There has been no change in the above since 31 March 2018 to the date of approval of consolidated annual financial statements.

	Direct	Indirect	Direct	Indirect
2017				
Executive				
SN Maseko	52 520	–	–	–
DJ Fredericks	48 711	267	–	–
	101 231	267	–	–
Non-executive				
JA Mabuza	26 000	–	–	–
I Kgaboesele	12 000	–	–	–
KW Mzondeki	267	–	–	–
	38 267	–	–	–

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

38. Directors' interest and prescribed officers *(continued)*

	Group and Company				
	Fees R	Remuneration R	Performance bonus R	Fringe and other benefits R	Total R
2018					
Emoluments per director:					
Non-executive	3 741 884	5 608 055	–	–	9 349 939
N Kapila	286 850	523 093	–	–	809 943
JA Mabuza	219 422	1 293 746	–	–	1 513 168
KW Mzondeki	575 868	548 810	–	–	1 124 678
SL Botha	272 600	378 810	–	–	651 410
KT Kweyama	219 600	378 810	–	–	598 410
F Petersen-Cook	366 076	378 810	–	–	744 886
LL Von Zeuner	548 418	378 810	–	–	927 228
GW Dempster	286 850	378 810	–	–	665 660
T Dingaan (Skweyiya)[1]	17 500	41 191	–	–	58 691
RG Tomlinson	375 468	378 810	–	–	754 278
H Toure	78 550	523 093	–	–	601 643
I Kgaboesele	494 682	378 810	–	–	873 492
S Moloko[2]	–	13 226	–	–	13 226
D Mokgatle[2]	–	13 226	–	–	13 226
Executive that held office during 31 March 2018		13 615 000	11 703 218	23 994	25 342 212
SN Maseko (CEO)		8 050 000	7 580 163	11 997	15 642 160
DJ Fredericks (CFO)		5 565 000	4 123 055	11 997	9 700 052
Total emoluments – paid by Telkom	3 741 884	19 223 055	11 703 218	23 994	34 692 151
2017					
Emoluments per director:					
Non-executive	4 311 834	5 495 701	–	–	9 807 535
N Kapila	362 500	505 404	–	–	867 904
JA Mabuza	273 000	1 249 992	–	–	1 522 992
KW Mzondeki	396 225	366 000	–	–	762 225
SL Botha	300 900	366 000	–	–	666 900
KT Kweyama	260 000	366 000	–	–	626 000
F Petersen-Cook	450 284	366 000	–	–	816 284
LL Von Zeuner	548 725	366 000	–	–	914 725
GW Dempster	362 500	366 000	–	–	728 500
T Dingaan	326 725	366 000	–	–	692 725
RG Tomlinson	336 225	366 000	–	–	702 225
RN Njeke (RN Ntshingila)	107 500	217 704	–	–	325 204
H Toure	207 500	228 601	–	–	436 101
I Kgaboesele	379 750	366 000	–	–	745 750
Executive that held office during 31 March 2017		12 691 200	13 179 664	23 994	25 894 858
SN Maseko (CEO)		7 441 200	8 813 911	11 997	16 267 108
DJ Fredericks (CFO)		5 250 000	4 365 753	11 997	9 627 750
Total emoluments – paid by Telkom	4 311 834	18 186 901	13 179 664	23 994	35 702 393

Refer to remuneration report for appointments and resignations.

Included in fringe and other benefits is motor car insurance for SN Maseko of R11 997 (31 March 2017: R11 997) and motor car insurance for DJ Fredericks of R11 997 (31 March 2017: R11 997).

SN Maseko was granted 215 155 shares (31 March 2017: 262 755 shares) and the total IFRS 2 expense decreased by R187 185 (31 March 2017: increased by R8 249 587). DJ Fredericks was granted 148 737 shares (31 March 2017: 69 043 shares) and the total IFRS 2 expense decreased by R129 401 (31 March 2017: increased by R3 159 554). The group re-assessed the estimated amount of shares to vest to executives based on the current performance against vesting targets. This decreased the share scheme expense in the current year.

[1] *resigned on 10 May 2017*
[2] *appointed 20 March 2018*

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38. Directors' interest and prescribed officers *(continued)*

	Group and Company				
	Remuneration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension – TRF 13%*** R
2018					
Emoluments per prescribed officer:					
BC Armstrong[1]	**1 250 336**	**–**	**4 736 586**	**5 986 922**	**79 771**
AN Samuels	**5 000 000**	**3 816 500**	**11 997**	**8 828 497**	**377 000**
LM de Villiers[2]	**3 387 101**	**2 295 218**	**1 424 527**	**7 106 846**	**460 646**
IM Russell	**5 000 000**	**–**	**11 997**	**5 011 997**	**390 000**
NM Lekota	**3 392 000**	**2 640 079**	**–**	**6 032 079**	**356 160**
A Vitai[2]	**6 004 900**	**4 634 525**	**3 209 501**	**13 848 926**	**–**
I Mophatlane[3]	**2 100 082**	**–**	**8 231 682**	**10 331 764**	**105 004**
T Seopa[4]	**2 018 441**	**–**	**3 791 836**	**5 810 277**	**152 190**
LTS Maloba[5]	**1 354 703**	**686 560**	**–**	**2 041 263**	**115 513**
TBL Molefe[6]	**4 085 000**	**3 142 969**	**–**	**7 227 969**	**308 009**
Total emoluments - granted by Telkom	**33 592 563**	**17 215 851**	**21 418 126**	**72 226 540**	**2 344 293**
2017					
Emoluments per prescribed officer:					
BC Armstrong	5 001 345	4 249 353	11 997	9 262 695	319 086
AN Samuels	4 500 000	4 433 738	11 997	8 945 735	339 300
LM de Villiers	3 288 448	2 681 058	11 997	5 981 503	447 229
IM Russell	4 153 353	4 103 244	11 997	8 268 594	323 961
NM Lekota	266 667	179 207	–	445 874	28 000
A Vitai	5 830 000	5 777 314	11 997	11 619 311	–
J Henning	1 900 000	594 660	96 371	2 591 031	172 841
I Mophatlane	5 804 827	5 341 562	519 909	11 666 298	246 371
T Seopa	3 460 184	–	–	3 460 184	260 898
Total emoluments - granted by Telkom	34 204 824	27 360 136	676 265	62 241 225	2 137 686

[1] *resigned on 30 June 2017*
[2] *resigned on 31 March 2018*
[3] *resigned on 31 July 2017*
[4] *resigned on 31 October 2017*
[5] *appointed on 13 November 2017*
[6] *appointed on 1 April 2017*

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38. Directors' interest and prescribed officers *(continued)*

Share allocation per prescribed officer:

	Total vested shares year To Date	Number of shares FY2013/2014	Number of shares FY2014/2015	Number of shares FY2015/2016	Number of shares FY2016/2017	Number of shares FY2017/2018	IFRS 2 expense
2018							
BC Armstrong	**131 040**	**24 958**	**82 717**	**50 553**	**65 773**	**50 127**	**(124 487)**
AN Samuels	**20 861**	**–**	**55 629**	**40 431**	**59 179**	**133 637**	**(233 173)**
LM de Villiers	**197 569**	**96 277**	**54 569**	**33 239**	**43 246**	**67 896**	**(84 962)**
IM Russell	**51 979**	**32 734**	**68 922**	**41 981**	**54 621**	**122 946**	**(234 226)**
NM Lekota	**–**	**–**	**–**	**–**	**–**	**67 994**	**(59 155)**
A Vitai	**198 825**	**–**	**95 374**	**58 929**	**76 670**	**160 494**	**(167 599)**
I Mophatlane	**118 914**	**–**	**–**	**–**	**255 384**	**–**	**(118 729)**
T Seopa	**59 491**	**–**	**–**	**–**	**147 805**	**–**	**(76 833)**
LTS Maloba	**–**	**–**	**–**	**–**	**–**	**–**	**–**
TBL Molefe	**–**	**–**	**–**	**–**	**–**	**109 181**	**(94 987)**
	778 679	**153 969**	**357 211**	**225 133**	**702 678**	**712 275**	**(1 194 151)**
2017							
Share allocation per prescribed officer:							
BC Armstrong	17 395	24 958	82 717	50 553	65 773	–	2 874 287
AN Samuels	–	–	55 629	40 431	59 179	–	1 991 962
LM de Villiers	60 976	96 277	54 569	33 239	43 246	–	2 917 017
IM Russell	20 732	32 734	68 922	41 981	54 621	–	2 543 963
NM Lekota	–	–	–	–	–	–	–
A Vitai	–	–	95 374	58 929	76 670	–	2 963 749
J Henning	15 449	30 897	23 680	13 443	17 491	–	1 097 241
I Mophatlane	–	–	–	–	255 384	–	4 920 868
T Seopa	–	–	–	–	147 804	–	2 195 988
	114 552	184 866	380 891	238 576	720 168	–	21 505 075

The group has identified exco members as prescribed officers because they exercise general executive control over the business.

* *Remuneration includes basic salary, company contribution towards TRF and flexible allowance and has been apportioned based on the period served as prescribed officers. Comparative information has been provided for members identified as prescribed officers.*

** *Fringe and other benefits include motor car insurance, relocation benefits, separation packages, notional completion bonuses and leave payments.*

*** *The pension contribution is a company contribution.*

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for the year ended 31 March 2018

39. Related parties

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
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				
Finance lease receivable	**56**	180	**56**	180
Trade receivables	**798**	692	**798**	692
Provision for doubtful debt	**(180)**	(147)	**(180)**	(147)
Related party transactions				
Revenue	**(4 870)**	(4 893)	**(3 970)**	(3 927)
Individually significant revenue**	**(1 443)**	(1 402)	**(1 228)**	(1 376)
Department of Correctional Services	**(96)**	(93)	**(89)**	(85)
Department of Justice	**(85)**	(107)	**(85)**	(107)
South African National Defence Force	**(66)**	(70)	**(66)**	(70)
South African Police Services	**(523)**	(586)	**(523)**	(586)
S.I.T.A. (Pty) Ltd	**(209)**	(214)	**(209)**	(214)
Ekurhuleni Metropolitan Council	**(226)**	(77)	**(46)**	(77)
City of Tshwane Metropolitan Municipality	**(67)**	(70)	**(39)**	(52)
Eastern Cape Department of Health***	**(53)**	(52)	**(53)**	(52)
KZN: Ethekwini Municipality	**(40)**	(54)	**(40)**	(54)
Province of KZN Health Service***	**(78)**	(79)	**(78)**	(79)
Collectively significant revenue**	**(3 427)**	(3 491)	**(2 742)**	(2 551)

* *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.*

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for the year ended 31 March 2018

39. Related parties *(continued)*

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.

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
With subsidiaries:				
Business Connexion Proprietary Limited				
Related party balances				
Trade receivables			**1 861**	999
Other receivables			**54**	–
Loans, preference shares and other facilities			**3 481**	3 345
Other financial liabilities			**(1 217)**	–
Interest receivable			**–**	–
Trade payables			**(969)**	(1 470)
Related party transactions				
Revenue and other income			**(6 580)**	(2 882)
Expenses			**2 710**	1 370
Interest received			**(387)**	(191)
Trudon Proprietary Limited				
Related party balances				
Trade receivables			**2**	4
Other receivables			**58**	–
Trade and other payables			**(280)**	(195)
Related party transactions				
Revenue			**(61)**	(70)
Expenses			**–**	12
Dividend received			**(149)**	(145)
Interest paid			**10**	–
Swiftnet Proprietary Limited				
Related party balances				
Trade receivables			**2**	1
Other receivables			**176**	–
Loans, preference shares and other facilities			**930**	–
Trade and other payables			**(640)**	(1)
Related party transactions				
Revenue			**(8)**	(4)
Expenses			**258**	69
Dividend received			**–**	(8)
Interest received			**(109)**	–
Rossal No 65 Proprietary Limited				
Related party balances				
Trade and other payables			**1**	(6)
Related party transactions				
Dividend paid			**(6)**	(19)
VS Gaming Proprietary Limited (formerly Acajou Investments Proprietary Limited)				
Related party balances				
Trade payables			**(17)**	–
Other receivables			**61**	–
Related party transactions				
Expenses			**15**	–

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

39. Related parties *(continued)*

	Group 2018 Rm	Group 2017 Rm	Company 2018 Rm	Company 2017 Rm
Intekom Proprietary Limited				
Related party balances				
Trade and other payables			**(109)**	(109)
Telkom Foundation				
Related party balances				
Sundry provision			**1**	(1)
Other payables			**(6)**	(6)
Related party transactions				
Expenses			**94**	50
Gyro Properties Proprietary Limited				
Related party balances				
Other receivables			**604**	–
Loans, preference shares and other facilities			**4**	–
Trade and other payables			**(165)**	–
Related party transactions				
Other income			**(115)**	–
Interest paid			**2**	–
Gyro Properties Proprietary Limited				
Related party balances				
Loans, preference shares and other facilities			**98**	–
Trade and other payables			**(39)**	–
Related party transactions				
Expenses			**36**	–
Interest received			**(12)**	–

Except as indicated above, outstanding balances at year-end are unsecured, include interest and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. Except as indicated above, for the year ended 31 March 2018, the company has not made any impairment of amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

	Group		Company	
	2018 Rm	2017 Rm	**2018 Rm**	2017 Rm
39. Related parties *(continued)*				
With entities under common control:				
Major public entities				
*Related party balances**				
Trade receivables	**204**	57	**25**	40
Trade payables	**(16)**	(21)	**(16)**	(21)
Related party transactions				
Revenue	**(670)**	(1 295)	**(157)**	(291)
Expenses	**229**	236	**229**	236
Individually significant expenses	**229**	236	**229**	236
South African Post Office	**55**	63	**55**	63
Eskom	**174**	173	**174**	173
Rent received	**(27)**	(35)	**(27)**	(35)
Individually significant rent received: South African Post Office	**(26)**	(26)	**(26)**	(26)
Collectively significant rent received	**(1)**	(9)	**(1)**	(9)
Rent paid	**23**	25	**23**	25
Individually significant rent paid: South African Post Office	**21**	20	**21**	20
Collectively significant rent paid	**2**	5	**2**	5
Key management personnel compensation:				
(Including directors and prescribed officers' emoluments)				
Related party transactions				
Short-term employee benefits	**247**	262	**211**	224
Post-employment benefits	**15**	13	**13**	12
Termination benefits	**25**	19	**7**	14
Equity compensation benefits	**(3)**	17	**(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 any related party receivables or payables.

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

Notes to the consolidated annual financial statements

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40. Group interest in subsidiaries and associates

Set out below is a list of the significant subsidiaries and associates of the group at 31 March 2018 held directly by Telkom SA. Unless otherwise stated, the entities as listed below have share capital consisting solely of ordinary shares, which are held directly by the group and the proportion of ownership interest held equals to the voting rights held by the group.

Country of incorporation: RSA – Republic of South Africa

	Country of incorporation	Issued share capital 2018 R	Interest in issued ordinary share capital 2018 %	Ownership interest held by non-controlling interest 2018 %	Issued share capital 2017 R	Interest in issued ordinary share capital 2017 %	Ownership interest held by non-controlling interest 2017 %
Business Connexion (Pty) Ltd	RSA	**2 280 500**	**100**	**–**	2 280 500	100	–
Trudon (Pty) Ltd	RSA	**100 000**	**64.9**	**35.1**	100 000	64.9	35.1
Rossal No 65 (Pty) Ltd	RSA	**100**	**100**	**–**	100	100	–
Acajou Investments (Pty) Ltd t/a VS Gaming	RSA	**100**	**100**	**–**	100	100	–
Intekom (Pty) Ltd	RSA	**10 001 000**	**100**	**–**	10 001 000	100	–
Swiftnet (Pty) Ltd	RSA	**5 000 000**	**100**	**–**	5 000 000	100	–
Number Portability Company	RSA	**100**	**20**	**–**	100	20	–
Gyro Properties	RSA	**100**	**100**	**–**	–	–	–
Gyro Solutions	RSA	**100**	**100**	**–**	–	–	–

The total non-controlling interest for the period is R359 million (31 March 2017: R337 million), which relates to Trudon and Business Connexion and is not considered material to the group.

The group's interest in the Number Portability Company is not regarded as individually material. The equity method is used to account for the financial information of the associate. The investment is recorded at cost.

Interest in operating profits, before eliminations, from subsidiaries and associates	Revenue Rm	EBITDA Rm	EBIT Rm	Net profit/ (loss) Rm
2018				
Business Connexion (Pty) Ltd	**21 167**	**3 736**	**3 150**	**1 747**
Trudon (Pty) Ltd	**850**	**219**	**210**	**137**
Swiftnet (Pty) Ltd	**912**	**312**	**277**	**95**
Rossal No 65 (Pty) Ltd	**–**	**–**	**–**	**–**
Acajou Investments (Pty) Ltd t/a VS Gaming	**26**	**(32)**	**(35)**	**(35)**
Intekom (Pty) Ltd	**–**	**–**	**–**	**–**
Telkom Foundation*	**94**	**37**	**37**	**37**
Gyro Properties	**257**	**18**	**15**	**4**
Gyro Solutions	**265**	**28**	**27**	**17**
2017				
Business Connexion (Pty) Ltd	13 977	2 118	1 785	1 065
Trudon (Pty) Ltd	987	216	221	114
Swiftnet (Pty) Ltd	184	53	30	21
Rossal No 65 (Pty) Ltd	–	–	–	–
Acajou Investments (Pty) Ltd	–	–	–	–
Intekom (Pty) Ltd	–	–	–	–
Telkom Foundation*	–	(1)	(1)	(1)

None of the group's equity-accounted investees are publicly listed entities and consequently do not have published price quotations.

There are no significant restrictions on the ability of the associate to transfer funds to the group in the form of cash dividends, or to repay loans or advances made by the group.

** Non-profitmaking trust.*

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

41. 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 Sipho Maseko and Deon Fredericks respectively in June 2017.

Establishment of the 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 (IP), all of which is 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 11 for investments 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 (Dingaan) had informed the board of her resignation as director from 10 May 2017.

42. 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 & 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.

Notes to the consolidated annual financial statements

for the year ended 31 March 2018

43. Shareholder analysis

	Number of shareholders	Percentage	Holdings	Percentage
Range of shareholders				
1 - 100 shares	55 408	69.66	1 962 178	0.38
101 - 1 000 shares	21 150	26.59	5 710 806	1.12
1 001 - 10 000 shares	2 374	2.98	6 483 254	1.27
10 001 - 50 000 shares	310	0.39	6 917 600	1.35
50 001 - 100 000 shares	85	0.11	6 009 340	1.18
100 001 - 1 000 000 shares	171	0.21	53 595 555	10.49
1 000 001 and more shares	47	0.06	430 461 506	84.22
	79 545	100	511 140 239	100
Type of shareholder				
Banks	226	0.28	151 387 212	29.62
Close corporations	53	0.07	107 294	0.02
Endowment funds	132	0.17	612 689	0.12
Individuals	76 478	96.14	13 509 987	2.64
Insurance companies	43	0.05	13 852 648	2.71
Investment companies	10	0.01	1 935 332	0.38
Medical aid schemes	17	0.02	301 978	0.06
Mutual funds	211	0.27	22 915 812	4.48
Other corporations	69	0.09	208 026 137	40.70
Private companies	165	0.21	1 023 909	0.20
Public companies	6	0.01	39 004	0.01
Retirement funds	144	0.18	79 008 157	15.46
Treasury stock	3	0.00	16 521 378	3.23
Trusts	1 988	2.50	1 898 702	0.37
	79 545	100	511 140 239	100
Geographical holdings by owner				
South Africa	79 186	99.55	357 149 422	69.87
United States	78	0.10	83 366 707	16.31
United Kingdom	116	0.15	49 300 089	9.65
Europe	56	0.07	11 119 219	2.18
Other	109	0.14	10 204 802	2.00
	79 545	100	511 140 239	100
Beneficial shareholders of more than 2%				
The Government of the Republic of South Africa			207 038 058	40.51
Government Employees Pension Fund			66 021 939	12.92
Telkom Treasury Stock			16 521 378	3.23
Old Mutual			11 091 511	2.17
			300 672 886	58.83
Public and non-public shareholders				
Non-public shareholders			223 773 177	43.78
The Government of the Republic of South Africa			207 038 058	40.51
Government buffer account			9 461	0.00
Telkom Treasury Stock			16 521 378	3.23
Executive and non-executive directors*			140 513	0.03
Subsidiaries directors*			63 767	0.01
Public shareholders				
Institutional and retail investors			287 367 062	56.22
			511 140 239	100

** Director holdings consist of direct and indirect holdings.*

The information above is based on registered shareholders, except where only beneficial shareholders' information was available as at 31 March 2018.

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1991/005476/30

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