Telkom SA SOC Ltd

Annual Financial Statements

for the year ended 31 March 2021

Telkom

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

Preparer and supervisor of the financial statements

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

Board approval

These financial statements were authorised for issue on 21 May 2021 by the Telkom SA SOC Ltd board of directors and published on 24 May 2021.

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Introduction statements

Directors' responsibility statement

for the year ended March 2021

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 directors have the responsibility for ensuring that accurate and complete accounting records are kept to enable the group and the company to satisfy their obligation with respect to the preparation of financial statements. The directors are also responsible for the oversight of the group's system of internal controls. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

The group's external auditors, PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc., jointly audited the group and company financial statements and have expressed an independent opinion on the consolidated and separate financial statements.

The external auditors were given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

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 company'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, and 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 and discussions with the external auditors 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 its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the company and its subsidiaries continue to adopt the going concern basis in preparing the annual financial statements.

Against the background, the directors of the company accept responsibility for the annual financial statements, which were approved by the board of directors on 21 May 2021, and are signed on its behalf by:

Sello Moloko
Chairperson

Sipho Maseko
Group Chief Executive Officer

Centurion
21 May 2021

CEO and CFO responsibility statement

for the year ended 31 March 2021

The directors, whose names are stated below, hereby confirms that:

- the Annual Financial Statements set out on pages 2 to 115, fairly present in all material respects the financial position, financial performance and cash flows of Telkom SA SOC Limited in terms of IFRS;
- no facts have been omitted or untrue statements made that would make the Annual Financial Statements false or misleading;
- internal financial controls have been put in place to ensure that material information relating to Telkom SA SOC Limited and its consolidated subsidiaries have been provided to effectively prepare the financial statements of Telkom SA SOC Limited; and
- the internal financial controls are adequate and effective and can be relied upon in compiling the Annual Financial Statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the Audit Committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.

Sipho Maseko
Group Chief Executive Officer (CEO)

Dirk Reyneke
Group Chief Financial Officer (CFO)

Certificate from the Group Company Secretary

I hereby certify in accordance with section 88(2)(e) of the Companies Act No. 71 of 2008, as amended, that the Company has lodged with the Commissioner of Companies all such returns as are required 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.

Ayanda Ceba
Group Company Secretary

21 May 2021

Directors' report

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 2021.

The directors confirm that Telkom complies with the provisions of the Companies Act and the laws of establishment, specifically relating to its incorporation; and it operates within conformity with its memorandum of incorporation and all relevant constitutional documents.

Nature of business

Telkom is an integrated communications and information technology service provider for South Africa.

Financial results

Profit for the year ended 31 March 2021 was R2 428 million (Restated March 2020: R540 million) representing basic earnings per share of 489.9 cents per share (Restated March 2020: 107.5 cents per share) and headline earnings per share of 522.2 cents per share (Restated March 2020: 194.4 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

Final ordinary dividend number 26 declared for 31 March 2020 (50.08410 cents per share) was paid on Monday, 13 July 2020 to shareholders recorded in the register of the Group at close of business on Friday, 10 July 2020.

In the current financial year, the Board suspended the dividend policy for the next three years from FY2021. No dividend was declared for the year ended 31 March 2021.

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 2021 were:

	2021 Rm	2020 Rm
Aggregate amount of profit after taxation	2 241	1 861

Share capital

Details of the authorised, issued and unissued share capital of the Company as at 31 March 2021, are contained in note 23 of the accompanying annual financial statements.

Share repurchases

Telkom purchased 8 million 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 notes 11 and 13 of the accompanying Group annual financial statements.

Significant events and transactions

Significant events and transactions during the year under review is disclosed on note 41 of 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 2020 to the date of this report:

Appointments	Date
DJ Reyneke	07 December 2020
AN Samuels	01 January 2021
H Singh	25 September 2020

Resignations	Date
TBL Molefe	04 December 2020

Retirements	Date
SL Botha	25 September 2020
KT Kweyama	31 December 2020

Deceased	Date
DD Mokgatle	09 January 2021

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

- MS Moloko (Chairperson)
- SN Maseko (Group Chief Executive Officer)
- DJ Reyneke (Group Chief Financial Officer)
- N Kapila
- PCS Luthuli
- KW Mzondeki
- F Petersen-Cook
- KA Rayner
- AN Samuels
- SP Sibisi
- H Singh
- RG Tomlinson
- LL von Zeuner

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

Directors' interest

At 31 March 2021, the following directors held a beneficial interest in the shares of Telkom SA.

Executive	
SN Maseko	52 520
TBL Molefe*	–
DJ Reyneke	–

Non-executive	
KW Mzondeki	748
AN Samuels	102 842

** Resigned on 04 December 2020*

Audit Committee report

Introduction and Mandate

The Audit Committee has formal terms of reference which are updated on an annual basis, or as and when required. The Board is satisfied that the Audit Committee has complied with these terms, and with its legal and regulatory responsibilities as set out in the Companies Act, King IV and the JSE Listings Requirements.

The primary role of the Audit Committee is to ensure the integrity of Telkom SA SOC Ltd ("Telkom" or "Company") and the Telkom Group's financial reporting and the audit processes and that a sound risk management and internal control system is maintained. In pursuing these objectives, the Audit Committee oversees relations with the external auditors and reviews the effectiveness of the internal audit function.

The Audit Committee consisted of six independent non-executive directors from 1 April 2020 to 31 March 2021. Keith Rayner is the chairperson of the committee, and Herman Singh was appointed following the retirement of Rex Tomlinson from the Committee on 25 September 2020. This was due to the reconstitution of the committees underpinned by the board skills gap analysis.

The Board believes that the directors collectively possess the knowledge and experience to supervise Telkom's financial management, internal and external auditors, the quality of Telkom's financial controls, the preparation and evaluation of Telkom's audited company and consolidated financial statements and Telkom's periodic financial reporting.

Attendance and membership

The attendance of Audit Committee members at its meetings during the financial year was as follows:

Member	Attendance
KA Rayner (chairperson)	7/7
PCS Luthuli	7/7
KW Mzondeki	7/7
H Singh[1,2]	1/2
RG Tomlinson[3]	5/5
LL von Zeuner	7/7

1 Apology
2 Mr Singh was appointed on 25 September 2020
3 Resigned as an Audit Committee Member on 25 September 2020 and appointed as Chairperson of Remuneration Committee and Nominations Committee Member respectively

The Telkom Group has established and maintains internal controls and procedures, which are reviewed on a regular basis by internal audit which then reports to the Risk and Audit Committees respectively. These reporting responsibilities are designed to manage the risk of business failures and to provide reasonable assurance against such failures. However, this is not a guarantee that such risks are eliminated.

Responsibility

It is the duty of the Audit Committee, inter alia, to monitor and review and where applicable, approve:

- the effectiveness of the internal audit function;
- the appointment and/or termination of the joint external auditors (refer to "EXTERNAL AUDITORS" below for details and definition), including their audit fee, independence and objectivity;
- the nature and extent of any non-audit services performed by the external auditors;
- the auditor suitability and recommendation for appointment and reappointment;
- the reports of both internal and joint external auditors;
- the expertise and experience of the chief financial officer;
- financial reporting systems to ensure that reporting procedures are functioning properly;
- the governance of information technology ("IT") and associated risks;
- the internal financial control compliance, combined assurance and enterprise risk management effectiveness;
- interim results and report, audited company and consolidated annual financial statements for the financial year ended 31 March 2021 ("audited company/ consolidated AFS"), integrated report and all other widely distributed financial documents and announcements;
- the quality and acceptability of the Telkom Group's accounting policies and practices;
- the compliance with applicable legislation, requirements of appropriate regulatory authorities and Telkom's
- Group Ethics Handbook;
- the integrity of the integrated report and associated reports (by ensuring that its content is reliable and recommending it to the board for approval); and
- policies and procedures for preventing and detecting fraud.

Annual financial statements

The Committee has reviewed and is satisfied that the audited company/consolidated AFS, including accounting policies are appropriate and comply with the International Financial Reporting Standards ("IFRS") of the International Accounting Standards Board ("IASB") and in compliance with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE listing requirements and the requirements of the Companies Act of South Africa 2008.

Significant matters that were addressed by Management and by the Audit Committee on a review basis are as follows:

IFRS 16 valuation	The review and consideration of the IFRS 16 valuation as a result of the high number of leases. The major lease categories that gave rise to a ROU asset and related liability, primarily relate to the Mast and Tower infrastructure lease agreements/Co-location agreements, Property leases and vehicle fleet leases. As at 31 March 2021, the ROU asset and liability were reflected at R4 519 million (31 March 2020: R4 502 million) and R4 972 million (31 March 2020: R4 775 million) respectively, with related depreciation and interest of R947 million (31 March 2020: R954 million) and R445 million (31 March 2020: R368 million) for the 12-month period then ended.
Dividend consideration	The review and recommendation to the Board to continue with the suspension of the declaration and payment of dividends as approved by the board in the 2020 financial year ended.
Actuarial Assumptions	The review and approval of the Actuarial Assumptions for recommendation to the Board for both the interim period end and financial year end for financial computation and compilation purposes.
Impairment testing	The review of the impairment testing of Telkom Group Cash Generating Units ("CGUs"), resulting in no impairment adjustments.
Provisions	Considering the impact of Covid-19 and the complexity of IFRS 9 with respect to the expected credit loss (ECL), a review of provisions relating to the Provision for impairment of trade and other receivables, finance lease receivables, contract assets and intercompany receivables and cash.
Key Audit Matters	The review and consideration of the Key Audit Matters detailed in the joint Independent Auditors Report on the audited company/consolidated AFS.
GCEO and GCFO Responsibility Statement	The review and consideration of the GCEO and GCFO Responsibility Statement required in terms of paragraph 3.84(k) of the JSE Listings Requirements.
Compliance to King IV and JSE Regulatory Disclosures	The review and consideration of the King IV disclosures, practices and principles and the JSE disclosures in accordance with the JSE Listing Requirements and the JSE Disclosure Policy.

Execution of Audit Committee mandate

The Audit Committee discharged all responsibilities and functions delegated to it in terms of the Audit Committee mandate, the Companies Act, King IV and the JSE Listings Requirements.

During the year the Audit Committee:

In respect of the joint external auditors:

- Considered and satisfied itself that the joint external audit firms and their two engagement partners are independent;
- Considered and satisfied itself with respect to the Auditor Suitability Review required by the JSE Listings Requirements (refer below);
- Reviewed the nature of non-audit services that were provided by the joint external auditors during the year;
- Approved the fees paid to the joint external auditors for the 2020 financial year;
- Approved and confirmed non-audit services and attendant fees which the external auditors performed during the year under review; and
- The Audit Committee chairperson held separate meetings with the external auditors prior to Audit Committee meetings.

In respect of financial reporting:

- Considered the appropriateness and experience of the group chief financial officer as required by the JSE Listings Requirements;
- Reviewed the audited company/consolidated AFS;
- Reviewed the appropriateness of any amendments to accounting policies and internal financial controls; and
- Reviewed the integrated reporting process.

In respect of internal audit:

- Approved the internal audit plan for the year;
- Monitored and provided oversight of the internal audit function; and
- The Audit Committee chairman held separate meetings with the CAE of internal audit prior to Audit Committee meetings.

In respect of the Audit Committee:

- Ensured the Audit Committee complied with the membership criteria as set out in the Companies Act, King IV and the JSE Listings Requirements; and
- Reviewed and approved the Audit Committee terms of reference.

In respect of information technology governance:

- Monitored Telkom's technology governance framework and processes including that of information security.

Audit Committee report

External auditors

The Audit Committee has primary responsibility for overseeing the relationship with, and performance of, the joint external auditors. This includes making the recommendation on the appointment, re-appointment and removal of the joint external auditors, assessing their independence on an ongoing basis and for reviewing and approving the audit fee.

The Audit Committee, after taking account of the audit approach, materiality and audit risks, reviewed and agreed both the interim period review plan and financial year end audit plan from the joint external auditors, and agreed both the interim and financial year end audit fees. The Audit Committee received updates during the year on the audit process, including how the auditor had challenged the Telkom Group's assumptions on the significant matters noted in this report.

In terms of section 90(1) of the Companies Act and in accordance with its board charter, the Company must appoint two external audit firms and two designated engagement partners that comply with the requirements of section 90(2) of the Companies Act and with the JSE Listings Requirements each year at its annual general meeting ("AGM"). The Board delegated the responsibility to review the Company's current appointed joint external auditors for re-appointment to the Audit Committee. The Board would then make a recommendation to the shareholders in the notice of AGM, based on the outcome of the review and report of the Audit Committee to the Board. The current appointed joint external audit firms are PricewaterhouseCoopers ("PwC") and SizweNtsalubaGobodo ("SNG") Grant Thornton and the respective current appointed engagement partners are Messrs KJ Dikana and GM Hafiz ("joint external auditors").

In compliance with paragraph 3.84(g)(iii) of the JSE Listings Requirements, the Audit Committee assessed the respective audit firms as well as the related engagement partners' suitability for appointment, taking into account the quality of the audit work and related reporting to the Audit Committee, industry expertise of the firm and its designated partners, findings by the IRBA, results of the most recent Public Company Accounting Oversight Board (PCAOB) and statements relating to independence as well as the representations made by the external auditors to the Audit Committee including those under ISQC 1 International Standard on Quality Control 1 ("The Auditor Suitability Review").

Based on the results of the Auditor Suitability Review and a review of the joint external auditors' independence, the Audit Committee recommends the reappointment of the joint external auditors for the March 2022 financial period at the annual general meeting. The Board concurred with the recommendation.

Auditor independence

The Audit Committee is also responsible for determining that the joint external auditors have the necessary independence. A key factor that may impair any such independence is a lack of control over non-audit services provided by the joint external auditors.

Telkom addresses this issue by ensuring prior approval by the chairperson of the Audit Committee of all non-audit services. Fees paid for non-audit services to the joint external auditors amounted to R1.7 million for the financial year end 31 March 2021 (31 March 2020: R3.2 million). Fees accrued for audit work performed for the financial year end 31 March 2021 by the joint external auditors amounted to R95.5 million (31 March 2020: R99.5 million).

The Audit Committee chairperson met with the joint external auditors prior to each Audit committee meeting to discuss and review the content of the joint external auditors' report to the Audit Committee.

The Audit Committee has reviewed and assessed the independence of the external auditor, and has confirmed that the criteria for independence, as set out in the rules of the Independent Regulatory Board for Auditors, the Public Company Accounting Oversight Board, and other relevant international bodies, have been followed. The Audit Committee is satisfied that the joint auditors are independent of the Telkom Group.

Internal auditors

The Internal Audit function adopts a co-source operating model to supplement its internal audit activities and execute on its mandate. During the financial year, the co-source agreement with SekelaXabiso CA Incorporated ("SkX Protiviti") and KPMG Services Proprietary Limited ("KPMG") continued. The co-source service providers form part of Telkom's Internal Audit function and report directly into the CAE.

The internal control systems of the Company are monitored by Internal Audit, which reports findings and recommendations to the Audit Committee and to senior management. The Audit Committee determines the purpose, authority and responsibility of the Internal Audit function in the Internal Audit Charter

The Internal Audit function is headed by the CAE, who may be appointed or dismissed by the Audit Committee. The Audit Committee is satisfied that the incumbent CAE has the requisite skills and experience and that he is supported by a sufficient staff complement with appropriate skills and training.

Telkom's Internal Audit operates in accordance with the International Standards for the Professional Practice of Internal Auditing as prescribed by the Institute of Internal Auditors. Internal Audit activities carried out during the year were identified and planned through a combination of the Telkom risk management framework and the risk- based methodologies adopted by Internal Audit. The Audit Committee approves the annual internal audit assurance plan presented by Internal Audit and monitors progress against the plan.

Internal Audit reports deficiencies to the Audit Committee every quarter together with recommended remedial actions, which are then followed up. Internal Audit provided the Audit Committee with a written report, which assessed as adequate the internal controls over financial reporting, IT governance and the risk management process during the financial year.

The chairperson of Audit Committee met with the CAE prior to each Audit committee meeting to discuss and review the content of the internal report to the Audit Committee.

Internal audit and the joint external auditors have unrestricted access to the Audit Committee, the Audit Committee chairperson and the chairperson of the Board, thereby ensuring the maintenance of independence.

Risk management

Reviews of the Telkom Group's risk management, enterprise risk management programmes, business continuity and forensic services are performed by the Telkom Group's Risk Committee. The top principal risks, being those risks that will prevent the Telkom Group from achieving its strategic objectives in the short and medium term are reported to and considered by the Risk Committee and the Board. All principal risks are currently managed within the risk appetite statements. The key focus areas, risk appetite and further details of the Telkom Group's principal risks are reported in the risk management report included in the Telkom Group's integrated report.

The internal audit department has conducted a review on the effectiveness of the risk management function in accordance with the approved risk management framework. The results of the review indicated that the risk management process was satisfactory as at 31 March 2021.

Combined assurance

The Telkom Group assessed risks based on principal risks as indicated above. The current combined assurance model in place is representative of how the risks are currently being managed between the three lines of assurance. Management and internal audit have implemented a coordinated structure for planning, executing and reporting on internal audit, compliance and risk activities. The committee is satisfied that the Group has optimised the assurance obtained from the three lines of assurance in accordance with the approved combined assurance model and that the model is effective in achieving the objectives of coordinating assurance and reporting to provide management and the Board with a clear view on what the Telkom Group risks are; what the effective risk mitigations are; and the resultant acceptable level of residual risks.

Audit Committee statement

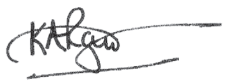
Based on information from, and discussions with, management and the joint external auditors, the Audit Committee is of the opinion that the financial records may be relied upon as the basis for preparation of the audited company/ consolidated AFS.

The Audit Committee has considered and discussed the audited company/consolidated AFS with both management and the external auditors. During this process, the Audit Committee:

- evaluated significant judgements and reporting decisions;
- determined that the going-concern basis of reporting is appropriate;
- evaluated the material factors and risks that could impact on the audited company/consolidated AFS and associated reports;
- evaluated the Telkom Group's solvency and liquidity and ensured the financial sustainability and disclosures of the Telkom Group;
- discussed the treatment of significant and unusual transactions with management and the joint external auditors;
- discussed the tenure of the joint external audit firms;
- discussed the rotation of the designated external audit partners; and
- discussed the Audit Committee's views on the effectiveness of the Chief Audit Executive.

A key requirement of our audited company/consolidated AFS is for the audited company/consolidated AFS to be fair, balanced, understandable and provide the information necessary for stakeholders to assess the Telkom Group's position, performance, business model and strategy. The Audit Committee and the Board are satisfied that the audited company/consolidated AFS meets this Requirement.

The Audit Committee considers that the audited company/ consolidated AFS comply in all material respects with the statutory requirements of the various laws and regulations governing disclosure and reporting of the audited company/consolidated AFS and that the audited company/consolidated AFS comply in all material respects with IFRS, as issued by the IASB, the SAICA Financial Reporting Guides issued by the Accounting Practices Committee and Financial Reporting Pronouncements issued by the Financial Reporting Standards Council, as well as the requirements of the South African Companies Act 2008 and the JSE Listings Requirements. The Audit Committee has recommended to the Board that the audited company/consolidated AFS be adopted and approved by the Board.



Keith Rayner CA(SA)
Chairperson: Audit Committee

21 May 2021

Independent auditors' report

for the year ended 31 March 2021

To the Shareholders of Telkom SA SOC Limited

Report on the audit of the consolidated and separate financial statements

Our opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Telkom SA SOC Limited (the Company) and its subsidiaries (together the Group) as at 31 March 2021, 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 and the requirements of the Companies Act of South Africa.

What we have audited

Telkom SA SOC Limited's consolidated and separate financial statements set out on pages 16 to 115 comprise:

- **the consolidated and separate statements of financial position as at 31 March 2021;**
- **the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;**
- **the consolidated and separate statements of changes in equity for the year then ended;**
- **the consolidated and separate statements of cash flows for the year then ended; and**
- **the notes to the financial statements, which include a summary of significant accounting policies.**

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the Independent Regulatory Board for Auditor *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards).*

PricewaterhouseCoopers Inc.
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Chief Executive Officer: L S Machaba

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

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

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Victor Sekese (Chief Executive)

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

SizweNtsalubaGobodo Incorporated.
Registration Number: M2005/034639/21

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment of goodwill, investment in Business Connexion Group Limited (BCX) and property, plant and equipment (applicable to the consolidated and separate financial statements) The Group's net assets include R1.3 billion of goodwill at the reporting date. The goodwill is attributable to two cash generating units (CGUs), the Company (Telkom) and Business Connexion Group Limited (BCX). The Group assessed internal and external indicators of impairment of the CGUs. Key indicators of impairment included the market capitalisation being below the net asset value and the continued impacts of COVID-19 on the macro-economic environment, which may trigger impairment of the underlying assets. As required by International Accounting Standard 36, Impairment of Assets (IAS 36), the Group performs an impairment assessment of goodwill on an annual basis and when impairment indicators are identified. The goodwill impairment assessment was a matter of most significance to our audit of the consolidated financial statements due to the significant judgements and assumptions made by management when performing the impairment assessment, and in estimating the key assumptions applied, particularly: - BCX cash flows are generated using Telkom's network assets; - Discount rate; - Cash flow forecasts, in particular the revenue growth rates and EBITDA margin; and - Terminal growth rates. For the year ended 31 March 2021, management performed an impairment assessment over the goodwill balance by performing the following: - Assessing the recoverable amount which was determined as the value in use amount; - A five-year period was used for the discounted cash flows which included the capital expenditure and working capital assumptions; - The valuation was performed taking into account the impacts of International Financial Reporting Standard 16, Leases (IFRS 16); and - The value in use for each CGU was calculated using a discounted cash flow model.	We evaluated management's identification of the Group's CGUs based on the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. A key consideration in this evaluation was the assessment of the Enterprise cash flows within BCX which are generated using Telkom's network assets. We tested the mathematical accuracy of the value in use model used by management and found no material differences. We also assessed the appropriateness of the valuation model applied by management, with reference to market practice and the requirements of IAS 36. We assessed the manner in which IFRS 16 was included in the value in use valuation model used by management, and specifically whether the cash outflows in respect of the lease payments were excluded from the model and whether the discount rate was adjusted to include the lease liability and the cost of leasing as required by IAS 36. We assessed the reasonability of the respective CGUs' budgets included in the business plans (which forms the basis of the cash flow forecasts) through discussions with management regarding the process followed to develop the budgets, forecasts and the assumptions utilised. We also compared the prior year budgets to the current year actual results to understand management's ability to follow a robust budgeting process which results in credible budgets, and evaluated differences noted against underlying documentation and explanations obtained from management. We assessed the assumptions contained within the calculations including growth assumptions, discount rates and implications of industry changes. Our audit procedures included: - Agreed the revenue growth rates and EBITDA margins used to calculate the cash flow forecasts to the latest board approved budgets, both of which cover a period of five years. We further benchmarked the revenue growth rate assumptions to industry data and history to assess comparability. We found the forecast assumptions to be comparable with these benchmarks; - Compared the terminal growth rates to forecast industry trends and to past growth rate trends. This was found to be comparable with historical trends; and - Evaluated whether the assumptions used, such as working capital and capital expenditure, had been determined and applied consistently across the CGUs. We agreed the capital expenditure to the approved budget.

Independent auditors' report

for the year ended 31 March 2021

Our audit approach continued

Key audit matter	How our audit addressed the key audit matter
This matter is disclosed in note 2.4.14 and note 13 to the consolidated and separate financial statements. In addition to the goodwill in the consolidated financial statements, the impairment considerations apply equally to the investment in BCX and the property plant and equipment (PPE) in the separate financial statements. The Company holds a 100% interest in BCX and accounts for this investment as a subsidiary in terms of International Accounting Standard 27, Separate Financial Statements (IAS 27). Under IAS 36, the Company is required to test investments in subsidiaries carried at cost for impairment if there is an indicator of impairment. Management identified an impairment indicator regarding the material investment in BCX due to the matters noted in the goodwill section above, and performed impairment tests as a result. PPE consists mainly of network equipment. The network equipment within the Company does not generate cash inflows that are largely independent of those from other assets or groups of assets. This resulted in PPE having to be assessed for impairment as part of the Telkom CGU. The recoverability of PPE is largely dependent on macro-economic factors, which include cash flows to be generated through the network assets, as well as internal assumptions and estimates related to realisation levels and operating costs. The impairment test included assessing the recoverable amount of PPE, with reference to all cash flows (including the fair value contributory asset income), and comparing this to the carrying amount of the PPE. The impairment assessment of the investment in BCX and the PPE is a matter of most significance to our audit of the separate financial statements due to the significant judgements and assumptions made by management when performing the impairment assessment, and in estimating the key assumptions applied, as specified under the goodwill section above. This matter is disclosed in note 11 and note 15 to the consolidated and separate financial statements.	Utilising our valuation expertise, we independently sourced data such as the long-term growth rates and discount rate, cost of debt, risk-free rates in the applicable market, market risk premiums, debt/equity ratios, as well as the beta of comparable companies. We then independently calculated a discount rate for each cash generating unit using our independently sourced data. This was compared to the discount rates used by management. We found the discount rates used by management to be within acceptable ranges of our independent calculations. We performed independent sensitivity analysis to assess the minimum changes in discount rates and terminal growth rates that would result in no headroom being available, and compared our results to that of management in order to evaluate whether the CGUs were not sensitive to reasonably possible changes in key assumptions. With respect to the investment in BCX in the separate financial statements, we compared the recoverable amount of the BCX CGU as assessed by way of the procedures above to the carrying amount of the investment in BCX, and noted the value in use range exceeded the carrying amount of the BCX investment. With respect to the PPE in the separate financial statements, we compared the recoverable amount of the Telkom CGU as assessed by way of the procedures above to the carrying amount of the Telkom CGU which includes PPE and goodwill, and noted that no impairment was identified. We assessed the appropriateness of the disclosures in the consolidated and separate financial statements as set out in Notes 2.4.14, 11 and 13 against the requirements of IAS 36.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Telkom SA SOC Limited Annual Financial Statements for the year ended 31 March 2021", which includes the Directors' Report, the Audit Committee's Report and the Certificate from the Group Company Secretary" as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the document titled "Telkom SA SOC Ltd Integrated Report for the year ended 31 March 2021",which is expected to be made available to us after that date. The other information does not include the consolidated or the separate 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 and will not express an audit opinion or 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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 and separate 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 and the Company'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 and/or the Company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report

for the year ended 31 March 2021

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 and separate financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated and separate 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 and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- 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 and the Company'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 and separate 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 and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate 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 PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc. have been the joint auditors of Telkom SA SOC Limited for 3 years.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: KJ Dikana
Registered Auditor
Johannesburg

21 May 2021

SizweNtsalubaGobodo Grant Thornton Inc.

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

21 May 2021

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

2

Annual financial statements

Notes to the financial statements

Annexures to the financial statements

Statements of profit or loss and other comprehensive income

for the year ended 31 March 2021

		Group		Company	
	Notes	31 March 2021 Rm	Restated 31 March[1] 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Revenue	4	43 222	43 043	39 220	39 251
Operating revenue		42 939	42 764	38 980	38 972
Interest revenue		283	279	240	279
Other income	5	619	676	1 018	1 577
Insurance service result	15.2	15	41	15	41
Payments to other operators		(3 878)	(3 683)	(3 822)	(3 604)
Cost of handsets, equipment, software and directories	6.1	(4 781)	(5 625)	(2 722)	(3 189)
Sales commission, incentives and logistical costs	6.2	(2 425)	(2 006)	(2 243)	(1 778)
Enterprise subcontracting costs[2]		–	–	(7 157)	(9 471)
Employee expenses	6.3	(9 312)	(10 713)	(4 762)	(6 311)
Other expenses	6.4	(2 197)	(2 756)	(953)	(877)
Maintenance	6.5	(3 971)	(3 880)	(4 871)	(4 855)
Marketing		(747)	(671)	(671)	(583)
Impairment of receivables and contract assets	19	(1 039)	(1 140)	(884)	(763)
Service fees	6.6	(3 316)	(3 274)	(2 858)	(2 753)
Lease-related expenses	6.7	(487)	(478)	(449)	(518)
EBITDA		11 703	9 534	8 861	6 167
Depreciation of property, plant and equipment	6.8	(4 918)	(4 868)	(4 546)	(4 512)
Depreciation of right-of-use assets	6.8	(947)	(954)	(1 416)	(1 510)
Amortisation of intangible assets	6.8	(805)	(679)	(708)	(579)
Write-offs, impairments and losses of property, plant and equipment and intangible assets	6.8	(200)	(414)	(193)	(207)
Operating profit/(loss)		4 833	2 619	1 998	(641)
Investment income	7	188	79	1 643	2 610
Income from associates		1	11	–	–
Net finance charges, hedging costs and fair value movements	8	(1 527)	(1 803)	(1 747)	(2 219)
Finance charges on lease liabilities		(445)	(368)	(560)	(555)
Net finance charges – other		(804)	(1 202)	(936)	(1 434)
Cost of hedging		(153)	(205)	(153)	(205)
Foreign exchange and fair value movements		(125)	(28)	(98)	(25)
Profit/(loss) before taxation		3 495	906	1 894	(250)
Taxation	9	(1 067)	(366)	(164)	706
Profit for the year		2 428	540	1 730	456
Other comprehensive income					
Items that will be reclassified subsequently to profit or loss					
Exchange (losses)/gains on translating foreign operations[3]	25	(25)	65	–	–
Items that will not be reclassified to profit or loss					
Defined benefit plan actuarial (losses)/gains	29	(69)	1 080	(69)	1 080
Income tax relating to other comprehensive income		19	(302)	19	(302)
Other comprehensive income for the year, net of taxation		(75)	843	(50)	778
Total comprehensive income for the year		2 353	1 383	1 680	1 234
Profit attributable to:					
Owners of Telkom		2 422	535	1 730	456
Non-controlling interests		6	5	–	–
Profit for the year		2 428	540	1 730	456
Total comprehensive income attributable to:					
Owners of Telkom		2 347	1 378	1 680	1 234
Non-controlling interests		6	5	–	–
Total comprehensive income for the year		2 353	1 383	1 680	1 234
Basic earnings per share (cents)	10	489.9	107.5		
Diluted earnings per share (cents)	10	484.0	106.0		

[1] *Restated. Refer to notes 2.3.1.1 and 2.6.*
[2] *Subcontracting costs relates to Enterprise customers which were sold to BCX from Telkom, refer to note 4.*
[3] *This component of other comprehensive income does not attract any tax.*

Statements of financial position

as at 31 March 2021

		Group			Company	
	Notes	31 March 2021 Rm	Restated 31 March[1] 2020 Rm	Restated 1 April[1] 2019 Rm	31 March 2021 Rm	31 March 2020 Rm
Assets						
Non-current assets		47 901	45 071	37 961	52 634	51 077
Property, plant and equipment	11	36 271	33 608	32 035	33 991	31 531
Right-of-use assets	12.1	4 519	4 502	–	5 523	6 275
Intangible assets	13	4 605	4 739	4 521	2 924	3 139
Investment in subsidiaries	15.1.1	–	–	–	8 418	8 418
Other investments	15.2	115	62	78	–	–
Employee benefits	29	1 317	992	729	1 317	992
Other financial assets	21.1	81	192	133	–	–
Finance lease receivables	16.1	270	148	210	85	147
Deferred taxation	17	723	828	255	376	575
Current assets		15 930	16 315	14 783	12 032	13 404
Inventories	18	1 026	972	1 267	779	640
Income tax receivable	34	91	9	76	–	–
Loans to subsidiaries	15.1.2	–	–	–	–	128
Finance lease receivables	16.1	228	106	108	79	106
Trade and other receivables	19.1	7 227	7 019	7 425	6 890	6 197
Contract assets	19.2	1 747	1 979	2 161	1 635	1 850
Other current assets	20	459	536	357	459	536
Other financial assets	21.1	88	759	388	88	507
Absa sinking fund investment	15.2	–	161	1 573	–	161
Investment in insurance cell captive	15.2	61	46	–	61	46
Cash and cash equivalents	22	5 003	4 728	1 428	2 041	3 233
Assets classified as held for sale		–	–	200	–	–
Total assets		**63 831**	**61 386**	**52 944**	**64 666**	**64 481**
Equity and liabilities						
Equity attributable to owners of the parent		31 366	29 390	29 527	27 863	26 558
Share capital	23	5 050	5 050	5 050	5 050	5 050
Share-based compensation reserve	24	1 036	835	512	964	810
Non-distributable reserves	25	1 361	1 642	1 621	732	989
Retained earnings		23 919	21 863	22 344	21 117	19 709
Non-controlling interests		(25)	(29)	195	–	–
Total equity		**31 341**	**29 361**	**29 722**	**27 863**	**26 558**
Non-current liabilities		15 121	14 767	6 740	15 326	15 780
Interest-bearing debt	26	10 173	10 105	4 840	10 173	10 105
Lease liabilities	12.2	3 761	3 708	–	4 325	4 970
Provisions	27	619	343	1 193	601	330
Other financial liabilities	21.2	107	62	79	–	–
Deferred revenue	28	235	396	466	227	375
Deferred taxation	17	226	153	162	–	–
Current liabilities		17 369	17 258	16 482	21 477	22 143
Trade and other payables	30	11 493	8 339	6 536	14 028	10 716
Shareholders for dividend	35	31	31	29	31	31
Interest-bearing debt	26	693	1 900	5 401	693	1 900
Lease liabilities	12.2	1 211	1 067	–	1 836	1 704
Provisions	27	1 613	2 006	1 362	1 043	1 589
Deferred revenue	28	1 696	1 754	1 396	1 587	1 616
Income tax payable	34	9	1 240	1 335	11	1 161
Other financial liabilities	21.2	622	919	423	2 248	3 426
Credit facilities utilised	22	1	2	–	–	–
Total liabilities		**32 490**	**32 025**	**23 222**	**36 803**	**37 923**
Total equity and liabilities		**63 831**	**61 386**	**52 944**	**64 666**	**64 481**

[1] *Restated. Refer to notes 2.3.1.1 and 2.7.*

Statements of changes in equity

for the year ended 31 March 2021

	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 as at 1 April 2019 (as previously reported)	5 050	1 621	512	22 390	29 573	195	29 768
Restatement of third party service costs*	–	–	–	(46)	(46)	–	(46)
Restated balance at 1 April	5 050	1 621	512	22 344	29 527	195	29 722
Total comprehensive income	–	65	–	1 313	1 378	5	1 383
Restated profit for the year*	–	–	–	535	535	5	540
Other comprehensive income	–	65	–	778	843	–	843
Exchange gains on translating foreign operations	–	65	–	–	65	–	65
Net defined benefit plan remeasurements	–	–	–	778	778	–	778
Transactions with owners recorded directly in equity							
Fair value movement on the sinking fund investment transferred to non-distributable reserves (refer to note 25)	–	88	–	(88)	–	–	–
Movement on the insurance service result transferred to non-distributable reserves (refer to note 25)	–	41	–	(41)	–	–	–
Increase in share-based compensation reserve (refer to note 24)	–	–	244	–	244	–	244
Increase in subsidiaries share-based compensation reserve (refer to note 24)	–	–	79	–	79	–	79
Escrow shares realised for settlement to employees (refer to note 25)	–	(14)	–	–	(14)	–	(14)
Increase in treasury shares (refer to note 25)	–	(159)	–	–	(159)	–	(159)
Increase in treasury shares from Yellow Pages	–	–	–	(12)	(12)	–	(12)
Disposal of subsidiary	–	–	–	–	–	(9)	(9)
Acquisition of non-controlling interest	–	–	–	57	57	(217)	(160)
Dividend declared (refer to note 35)	–	–	–	(1 710)	(1 710)	–	(1 710)
Contributions by and distributions to non-controlling interest							
Dividend declared**	–	–	–	–	–	(3)	(3)
Balance at 31 March 2020	**5 050**	**1 642**	**835**	**21 863**	**29 390**	**(29)**	**29 361**

Statements of changes in equity continued

for the year ended 31 March 2021

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
	Attributable to equity holders of Telkom						
Balance at 1 April 2020 (as previously reported)	5 050	1 642	835	21 977	29 504	(29)	29 475
Restatement of third party service costs*	–	–	–	(114)	(114)	–	(114)
Restated balance at 1 April	5 050	1 642	835	21 863	29 390	(29)	29 361
Correction of prior period error in the current year*	–	–	–	(44)	(44)	–	(44)
Total comprehensive income	–	(25)	–	2 372	2 347	6	2 353
Profit for the year	–	–	–	2 422	2 422	6	2 428
Other comprehensive income	–	(25)	–	(50)	(75)	–	(75)
Exchange losses on translating foreign operations	–	(25)	–	–	(25)	–	(25)
Net defined benefit plan remeasurements	–	–	–	(50)	(50)	–	(50)
Transactions with owners recorded directly in equity							
Fair value movement on the sinking fund investment transferred to non-distributable reserves (refer to note 25)	–	1	–	(1)	–	–	–
Movement on the insurance service result transferred to non-distributable reserves (refer to note 25)	–	15	–	(15)	–	–	–
Increase in share-based compensation reserve (refer to note 24)	–	–	154	–	154	–	154
Increase in subsidiaries share-based compensation reserve (refer to note 24)	–	–	49	–	49	–	49
Vesting of Telkom and BCX share plan (refer to note 24)	–	2	(2)	–	–	–	–
Escrow shares realised for settlement to employees (refer to note 25)	–	12	–	–	12	–	12
Increase in treasury shares (refer to note 25)	–	(286)	–	–	(286)	–	(286)
Dividend declared (refer to note 35)	–	–	–	(256)	(256)	–	(256)
Contributions by and distributions to non–controlling interest							
Dividend declared**	–	–	–	–	–	(2)	(2)
Balance at 31 March 2021	**5 050**	**1 361**	**1 036**	**23 919**	**31 366**	**(25)**	**31 341**

* *Refer to note 2.3.1.1.*
** *Dividend declared includes dividend to the non–controlling interests of the BCX Group.*

Statements of changes in equity continued

for the year ended 31 March 2021

Company	Share capital Rm	Non-distributable reserves Rm	Share-based compensation reserve Rm	Retained earnings Rm	Total equity Rm
	Attributable to equity holders of Telkom				
Balance as at 1 April 2019 (as previously reported)	5 050	1 033	487	20 254	26 824
Total comprehensive income	–	–	–	1 234	1 234
Profit for the year	–	–	–	456	456
Other comprehensive income	–	–	–	778	778
Net defined benefit plan remeasurements	–	–	–	778	778
Transactions with owners recorded directly in equity					
Fair value movement on the sinking fund investment transferred to non-distributable reserves (refer to note 25)	–	88	–	(88)	–
Movement on the insurance service result transferred to non-distributable reserves (refer to note 25)	–	41	–	(41)	–
Increase in treasury shares (refer to note 25)	–	(159)	–	–	(159)
Increase in treasury shares from Yellow Pages	–	–	–	(12)	(12)
Escrow shares realised for settlement to employees (refer to note 25)	–	(14)	–	–	(14)
Increase in share-based compensation reserve (refer to note 24)	–	–	323	–	323
Dividend declared (refer to note 35)	–	–	–	(1 638)	(1 638)
Balance at 31 March 2020	**5 050**	**989**	**810**	**19 709**	**26 558**
Balance at 1 April 2020 (as previously reported)	5 050	989	810	19 709	26 558
Total comprehensive income	–	–	–	1 680	1 680
Profit for the year	–	–	–	1 730	1 730
Other comprehensive income	–	–	–	(50)	(50)
Net defined benefit plan remeasurements	–	–	–	(50)	(50)
Transactions with owners recorded directly in equity					
Fair value movement on the sinking fund investment transferred to non-distributable reserves (refer to note 25)	–	1	–	(1)	–
Movement on the insurance service result transferred to non-distributable reserves (refer to note 25)	–	15	–	(15)	–
Increase in treasury shares (refer to note 25)	–	(285)	–	–	(285)
Escrow shares realised for settlement to employees (refer to note 25)	–	12	–	–	12
Increase in share-based compensation reserve (refer to note 24)	–	–	154	–	154
Dividend declared (refer to note 35)	–	–	–	(256)	(256)
Balance at 31 March 2021	**5 050**	**732**	**964**	**21 117**	**27 863**

Statements of cash flows

for the year ended 31 March 2021

		Group		Company	
	Notes	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Cash flows from operating activities		10 834	8 563	8 782	7 745
Cash receipts from customers		43 790	43 239	39 646	42 551
Cash paid to suppliers and employees		(29 546)	(30 483)	(28 331)	(31 412)
Cash generated from operations	31	14 244	12 756	11 315	11 139
Interest received		332	212	243	168
Dividend received		–	–	26	–
Finance charges paid	33	(1 291)	(1 374)	(1 434)	(1 626)
Taxation paid	34	(2 194)	(1 320)	(1 112)	(300)
Cash generated from operations before dividend paid		11 091	10 274	9 038	9 381
Dividend paid	35	(257)	(1 711)	(256)	(1 636)
Cash flows utilised for investing activities		(8 056)	(5 961)	(7 164)	(5 642)
Proceeds on disposal of property, plant and equipment and intangible assets		6	28	3	10
Additions to assets for capital expansion		(8 172)	(7 712)	(7 459)	(6 935)
Loans repaid by subsidiaries/(loans advanced to subsidiaries)		–	–	128	(8)
Proceeds on disposal of SOX, BCX Nigeria and BCX Tanzania		–	244	–	–
Transfer of funds from subsidiaries for sinking fund (preference share settlement reserve)		–	–	–	(209)
Investments made by FutureMakers		(54)	(21)	–	–
Withdrawal from the Absa sinking fund investment	15.2.2	164	1 500	164	1 500
Cash flows from financing activities		(2 502)	696	(2 810)	555
Loans raised	32	268	8 660	268	8 660
Loans repaid	32	(1 400)	(6 950)	(1 400)	(6 950)
Other financing activities		–	(104)	–	(104)
Purchase of shares for the Telkom and subsidiaries long-term incentive share scheme		(285)	(172)	(285)	(172)
Acquisition of non-controlling interest in Yellow Pages		–	(160)	–	–
Repayment of lease liability		(856)	(780)	(1 164)	(1 081)
Repayment of derivatives		(734)	(176)	(734)	(176)
Proceeds from derivatives		505	378	505	378
Net increase/(decrease) in cash and cash equivalents		276	3 298	(1 192)	2 658
Net cash and cash equivalents at 1 April		4 726	1 428	3 233	575
Net cash and cash equivalents at the end of the year	22	**5 002**	**4 726**	**2 041**	**3 233**

Notes to the financial statements

for the year ended 31 March 2021

1. Corporate information

Telkom SA SOC Ltd (Telkom), the ultimate parent of the Group, is a company incorporated and domiciled in the Republic of South Africa (South Africa) whose shares are publicly traded on the Johannesburg Stock Exchange (JSE). The main objective of Telkom and its subsidiaries (the Group) and associates is to supply telecommunication, multimedia, technology, information, mobile communication services and other related information technology services to the Group's customers in Africa. Refer to note 2.5.9.1 for a description of the products and services offered by the Group.

2. Significant accounting policies, judgements, estimates and assumptions

2.1 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and in compliance with the South African Institute of Chartered Accountants (SAICA) Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act, 71 of 2008 (the Companies Act).

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

The financial statements are prepared on the historical cost basis, with the exception of certain financial instruments subsequently measured at fair value. The carrying values of the 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 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 and amendments as listed below.

2.2 New accounting pronouncements

2.2.1 Other standards, amendments to standards and interpretations

The standards and amendments listed below will be effective in future reporting periods. It is expected that the Group will adopt the pronouncements on their respective effective dates. With the exception of IFRS 17, the amendments are not expected to have a material impact. The adoption of IFRS 17 will result in greater disclosures within the Group, however the recognition and measurement in terms of the standard are not expected to be material.

Consideration	Effective date
Amendments resulting from Annual Improvements to IFRS Standards 2018–2020 (subsidiary as a first-time adopter)	Annual periods beginning on or after 1 January 2022
IFRS 3 (Business Combinations) Amendments updating a reference to the Conceptual Framework	Annual periods beginning on or after 1 January 2022
IFRS 4 (Insurance Contracts) Amendments regarding replacement issues in the context of the IBOR reform	Annual periods beginning on or after 1 January 2021
IFRS 7 (Financial Instruments Disclosures) Amendments regarding replacement issues in the context of the IBOR reform	Annual periods beginning on or after 1 January 2021
IFRS 9 (Financial Instruments) Amendments regarding replacement issues in the context of the IBOR reform	Annual periods beginning on or after 1 January 2021
Amendment to extend the exemption from assessing whether a COVID-19-related rent concession is a lease modification	Annual periods beginning on or after 1 April 2021
IFRS 17 (Insurance Contracts) Amendments to address concerns and implementation challenges that were identified after IFRS 17 was published (includes a deferral of the effective date to annual periods beginning on or after 1 January 2023)	Annual periods beginning on or after 1 January 2023
IAS 1 (Presentation of Financial Statements) Amendments regarding the classification of liabilities	Annual periods beginning on or after 1 January 2023
IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) Amendments regarding the definition of material	Annual periods beginning on or after 1 January 2020
IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) Amendments regarding the costs to include when assessing whether a contract is onerous	Annual periods beginning on or after 1 January 2022

Notes to the financial statements continued

for the year ended 31 March 2021

2. Significant accounting policies, judgements, estimates and assumptions continued

2.3 Restatement due to prior period error

2.3.1 Prior period error

2.3.1.1 Restatement of third party service costs

BCX uses subcontractors to fulfil obligations related to certain customer contracts and incurs third party service costs. During the current reporting period, BCX identified that certain third party service costs incurred on a customer contract were not accrued for in the correct period in which these costs were incurred. This resulted in the understatement of provisions in the statement of financial position and third party service costs (included in the other expenses line item on the statement of profit or loss and other comprehensive income).

A retrospective correction of this prior period error was made by restating each of the affected financial statement line items for the comparative periods. An adjustment of R46 million was made to the opening balance of retained earnings as at 1 April 2019, to correct the earliest prior period presented, resulting from the effect of increasing provisions and the related expense by R46 million. A R114 million adjustment was made to retained earnings as at 1 April 2020, which represents the cumulative impact of the error for the comparative periods. Refer to notes 2.6 and 2.7 for the impact of this error on each affected financial statement line item.

Revenue related to this customer contract is recognised over time and is measured using an input method based on costs incurred to measure progress towards satisfying performance obligations. As the third party services costs were not recognised in the correct periods, there was a consequential impact to the amount of revenue recognised in the comparative periods, therefore revenue was overstated. This error on the revenue line item was assessed to be immaterial for the prior periods and thus a retrospective correction was not made for the revenue overstatement. An adjustment of R44 million was processed to correct this error in the current year.

2.4 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:

2.4.1 Estimation of useful lives and residual values for 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 rollout strategy. The impact of the change in the expected useful lives of property, plant and equipment is described more fully in note 6.8. 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.

2.4.2 IFRS 16 (Leases)

2.4.2.1 Lease term

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

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

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

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

2.4.2.2 Lease discount rate

Except where a discount rate implicit in the lease has been stipulated in the lease agreement, the lease payments are discounted using the incremental borrowing rate. The calculation of an incremental borrowing rate requires significant judgement. The incremental borrowing rate is calculated as a function of base rate, plus credit spread, plus other adjustments. Other adjustments take into account the lease period, currency of the lease payments, lease duration, lease-specific adjustments such as asset class and country risk premiums.

Base rate is a risk-free rate based on the interest rate swap curve of the country of the lease payments currency and the base is matched to the lease period. The credit spread for Telkom company is based on Telkom's bond yield spread over the equivalent risk-free rate. The credit spread for other Telkom group entities (BCX, Gyro and Yellow Pages) is based on their credit risk relative to the Telkom group.

2.4.2.3 Lease and non-lease components

In lease agreements, where the gross rental amount includes operational cost, the Group applies judgement in allocating the consideration in the contract to each lease and non-lease component based on their relative stand-alone selling prices. The stand-alone selling prices of each component are based on available market prices.

2.4.3 Inventories

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Judgement is involved in determining whether inventories need to be written off to net realisable value. Factors considered include the age of the stock, inventory turnover, exchange rates, new phone models released and the ability to bundle devices with other value-added services, such as voice, data, SMSes, etc.

Inventory write-downs related to slow moving stock, short cables and faulty equipment are determined by considering the following:

Slow moving stock
For network build stock, the identification of obsolete and excess warehouse stock for build stock entails the running of quarterly reports by management detailing obsolete and excess stock:

- Obsolete stock: all material items per material group with no movement for the last 12 months.
- Excess stock: all material items per material group with more than 12 month's stock on hand, with five year's stock cover consideration.

New items not used yet and items planned for projects are excluded. The balance is then taken through the write-off process.

The identification of obsolete and excess stock for maintenance spares entails the running of quarterly reports by management detailing obsolete and excess spares:

- Obsolete stock: all material items per material group with no movement for the last 24 months.
- Excess stock: all material items per material group with more than 24 month's stock on hand.

New items not used yet and items planned for projects are excluded. The balance is then taken through the write-off process.

Short cables
When a customer requests a cable of a specific length, the required length is cut upon request and delivered to the customer. The remaining short length cable remains in stock.

Faulty stock
This category includes equipment that is faulty. This equipment is stored in an area in the warehouse referred to as the National Repair Centre.

2.4.4 Asset retirement obligations

Where an asset retirement obligation exists, 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.

IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) requires concluded lease agreements that have a contractual restoration obligation to be provided for if those obligations will have to be settled at the expiry of the lease agreement, should the lease not be renewed.

The vast majority of Telkom leases contain a rehabilitation clause which contractually binds the tenant to maintain the property in a good condition, along with the need for them to redecorate, remove any additions they have made to the property, or re-install any parts of the property they have removed when the lease comes to an end.

Lease obligation data and determination are managed by the service provider who determines the rehabilitation costs per square metre based on current market costs for restoring similar properties. The service provider then provides the data to Telkom for capturing. The split between current and non-current is done based on the lease end date.

2.4.5 Impairments of property, plant and equipment and intangible assets

Management is required to make judgements concerning the cause as well as the amount of impairment as indicated in notes 11 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 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 value in use. Value in use is calculated using the discounted cash flow valuation method. The determination of value in use is based on a number of factors which include the discount rate, revenue growth, EBITDA margins and capital expenditure. 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).

2.4.6 Impairment of trade and other receivables, finance lease receivables and contract assets

IFRS 9 (Financial Instruments) requires the Group to record expected credit losses on all of its debt securities, loans, trade receivables, other receivables, cash and cash equivalents and finance lease receivables, either on a 12-month or lifetime basis.

The Group has elected the simplified approach to recognise lifetime expected losses for its trade and other receivables and contract assets as permitted by IFRS 9. The historical loss rates are adjusted when their impact is material to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the contract asset. The Group has historically been raising provisions for bad debts based on incurred losses.

Notes to the financial statements continued

for the year ended 31 March 2021

2. Significant accounting policies, judgements, estimates and assumptions continued

2.4 Significant accounting judgements, estimates and assumptions continued

2.4.6 Impairment of trade and other receivables, finance lease receivables and contract assets continued

Impairment losses calculated using the simplified approach are calculated using a provision matrix. The provision matrix is a probability-weighted model which applies an expected loss percentage, based on the net write-off history experienced on receivables, to each ageing category of receivables at the end of each month in order to calculate the total provision to be raised on the receivable balances.

Receivables have been grouped together based on similar credit characteristics and a separate expected loss provision matrix has been calculated for each of the categories based on the net loss history associated to the specific category of receivable.

Following the adoption of IFRS 9, the Group has implemented a process whereby trade receivable balances are only written off at the point where there is no longer any probable recovery on a trade receivable balance.

Telkom recognises lifetime expected credit losses on finance lease receivables in terms of the simplified approach. Whenever a finance lease receivable is billed, the amount is moved from finance lease receivables to trade receivables and forms part of the trade receivables balance. To determine an expected credit loss for the outstanding lease receivables, the total outstanding amounts are proportioned into the various ageing buckets based on the proportions experienced in trade receivables. The same loss rates that are used for the fixed-line trade receivables segment are then applied to the outstanding lease receivables balance to derive the expected loss on finance lease receivables over the lifetime of the instrument. The underlying assumption attached to this is that the exposure to the finance lease balance will realise as the balance is billed to the customer over the lifetime of the instrument and will thus follow the same pattern of expected loss as the trade receivable balance.

The impact of COVID-19 on the expected credit loss recognised in the current financial year has been disclosed in note 14.3.

Twelve month expected credit losses are calculated for cash and cash equivalents using the general approach.

Impairments of all other financial assets that are not measured using the simplified approach will be calculated as the difference between the carrying value of the asset and the present value of the expected cash flows, discounted at the original effective interest rate of the instrument.

2.4.7 Recognition and measurement of revenue

2.4.7.1 Stand-alone selling prices and transaction price

The stand-alone selling prices for mobile devices are based on the standard list prices at which the Group sells them separately (without a service contract). Stand-alone selling prices for communication services are set based on prices for non-bundled offers with the same range of services. The transaction price is calculated as the total consideration receivable from the customer over the contract term.

2.4.7.2 Significant financing component

The Group applies the practical expedient in IFRS 15 paragraph 63 to not recognise a significant financing component for any contract when the goods and services provided, compared to when the payment is received, is 12 months or less. A model was designed to determine whether a significant financing component exists. This model calculates the financing component on a contract-by-contract basis. If the financing component is less than 5% of the total transaction price allocated to the customer premises equipment (CPE), it is deemed not to be significant and the finance component will not be recognised separately.

2.4.7.3 Material right considerations

The Group considers installation fees on month-to-month contracts to provide a material substantive right to the customer as the customer can extend/renew the contract each month without paying an additional installation fee. This installation fee is a separate performance obligation and is capitalised and expensed over an estimated customer relationship period where it is concluded that the installation fee gives rise to a material substantive right.

2.4.7.4 Customer relationship periods

The average customer relationship periods for wholesale, voice and non-voice services are utilised to expense the capitalised 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 estimate.

2.4.7.5 Agent vs principal considerations in relation to co-operation with third party dealers

Dealers

The Group utilises a network of dealers to sell contract services (including these bundled with mobile devices), pre-paid services and mobile devices (without bundling them with a Telkom services contract). Telkom accounts for device sales through the dealers as a principal as Telkom can unilaterally redirect the handsets between dealers without the approval of the dealer in order to best realise the handset.

In terms of IFRS 15, Telkom has identified the specified goods or services being provided to the customer – the handset in this instance. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) that will be transferred to the customer. An entity is the principal in a transaction if it obtains control of the specified goods or services before they are transferred to the customer. An entity is an agent if it does not control the specified goods or services before they are transferred to the customer. We have assessed whether Telkom is a principal or agent for the device obligation on a contract-by-contract basis using the relevant indicators, taking into account the right of return policy with third party dealers.

Enterprise revenue

Telkom SA SOC Ltd recognises gross revenue for the Enterprise customer contracts which were sold to BCX, but not contractually ceded. Management has assessed that the primary obligation for service delivery to the Enterprise clients remains with Telkom. Similarly, price risk owing to the contracts not ceded is deemed to reside with Telkom. Cognisance is given to the fact that mechanisims exist for a transfer of credit risk between Telkom and BCX. It is on this basis that management has concluded that revenue from such contracts should be recognised in the accounting records of Telkom as a principal with the customers.

2.4.7.6 Reassessment of “grandfathered” leases relating to customer premise equipment (CPE)

The Group enters into contracts with customers which involve both the delivery of services and CPE. Prior to the adoption of IFRS 16, these contracts were accounted for as operating leases under IAS 17 (Leases). On adoption of IFRS 16, the Group elected the practical expedient not to reassess whether an existing contract is, or contains, a lease and management accordingly retained the assessment made under IAS 17 for these existing lease contracts. Subsequent to the adoption of IFRS 16, it was identified that these existing lease contracts which have reached the end of the initial lease term continue on a month-to-month basis allowing the customer to exit the contract with no penalty. This is different to the terms which applied during the initial lease term wherein the customer could not exit without a penalty.

If an entity chooses the practical expedient in IFRS 16 described above, then an entity shall identify a lease using the requirements of IFRS 16 only to contracts entered into or changed after the adoption date. IFRS 16, however, is silent on what constitutes a change to an existing contract.

Management exercised significant judgement and determined that the lease contracts continuing on a month-to-month basis without an exit penalty subsequent to the initial lease term constitutes a change in the contract, and therefore reassessed whether these contracts contain a lease in terms of IFRS 16. Upon such reassessment, it has been determined that while the CPE represents an identified asset, the customer does not have the right to direct how and for what purpose the CPE is used throughout the period of use. The Group, being the supplier has such a right and therefore such arrangements do not contain a lease. It is on this basis that management has concluded that revenue from such contracts should be recognised under IFRS 15 (Revenue from Contracts with Customers).

2.4.8 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.

2.4.9 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 involves judgements and estimations, in respect of certain items whose tax treatment cannot be finalised until resolution has been reached with the involved parties. The resolution of some items may give rise to material profits, losses and/or cash flows. Where the effect of tax is not certain, taxation liability estimates are made by management based on the available information, using either the most likely outcome approach or the expected value 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, 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.

2.4.10 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 JSE debt market. 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.

2.4.11 Provisions

For 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.

2.4.12 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.

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

COVID-19, the global pandemic which started in FY 2020, has continued to dramatically increase the risks collectively faced as a global community and has materially damaged the global and local economic prospects. While Telkom continues to drive the execution of its strategic objectives, the Group considers the impact of the situation as it unfolds and prudently manages its human capital and operational and financial risks.

Management has considered the impact on the Group by taking a variety of risk elements into account, which include considering macro-economic factors, contractual obligations and supply chain impacts.

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

Notes to the financial statements continued

for the year ended 31 March 2021

2. Significant accounting policies, judgements, estimates and assumptions continued

2.4 Significant accounting judgements, estimates and assumptions continued

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

COVID-19 consideration	Assessment	Potential impact	Note reference
Financial asset impairment (expected credit losses) Contract assets and trade receivables	The Group has based the measurement of expected credit losses (ECL) on an unbiased, probability-weighted amount that is determined by evaluating a range of possible outcomes and reflecting time value of money. IFRS 9 requires ECL provisions to be measured in a way that incorporates information available at the reporting date about past events, current conditions and forecasts of future economic conditions. All of these factors were taken into account in calculating the ECL on financial assets, contract assets and trade receivables.	High	Note 14.3
IFRS 16 (Leases) in which the Group/ Company is the lessee	The incremental borrowing rate applied to calculate the present value of the lease liability decreased due to a decline in the reference rate, which was slightly offset by an increase in the credit spread. This is applicable to leases entered into from 1 April 2020 onwards, as well as leases that were remeasured during FY2021 due to the alignment of the lease term to the rolling forecast period (five years) or modified due to changes in the lease contracts. The Group did not receive any rent concessions in relation to COVID-19.	Medium	Note 12
Non-financial asset impairment	Goodwill is tested for impairment annually and whenever there are indicators of impairment. In determining the recoverable amount of the Telkom CGU and the BCX CGU, the Group considered several sources of estimation uncertainty and made certain assumptions or judgements about the future. The cash flow projections in the valuation also incorporated the diverse impact of COVID-19 on the various revenue streams and related costs in terms of the financial year end 2020 and 2021 results.	Low	Note 13
Revenue	There was no significant impact of COVID-19 on mobile revenue as the telecommunications industry was declared as an essential service in South Africa. The Group's fixed and IT services revenue has however been impacted by COVID-19 post the reporting date.	Medium	Note 4.4
Credit risk	The Group's maximum exposure to credit risk is represented by the carrying amount of the Group's financial assets. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There was a material change in the Group's exposure to credit risk due to the impact of COVID-19. The Group credit risk objectives, policies and processes were amended to ensure effective responses to the increased risk. Some of the changes included stricter credit check criteria for new customers through certain higher risk sales channels and shorter collection periods for defaulters. The Group also maintained conservative exposures to its counterparty banks to reduce possible credit risk. To support the credit transmission mechanism of the South African economy, given the impact of COVID-19, the South African Reserve Bank (SARB) maintained the Repo (Repurchase) rate at 3.5%. In addition, facilitated by the SARB, the government has also implemented a bond purchase programme to provide liquidity to banks and enable a well-functioning credit transmission mechanism. This has diminished possible liquidity risk and interest rate risk in the capital markets.	Medium	Note 14.3
Liquidity risk	There was a change in the Group's objectives, policies and processes for managing and measuring liquidity risk during the 2021 financial year due to the impact of the COVID-19 pandemic and operational cash flow requirements. The Group has maintained elevated levels of liquidity in response to the potential impact of the pandemic, the economic slowdown and operational cash flow requirements. This will also mitigate the liquidity risk of the Group and consequently any possible credit rating downgrade.	Low	Note 14.4
Going concern	The Group continues to operate as a going concern, with a strong balance sheet and solid cash flow position. There has also been a limited disruption on operations as a result of the COVID-19 pandemic.	Low	Note 41

2.4.14 CGU and goodwill impairment assessment

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

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

Management uses cash flow projections per board-approved business plans. These cash flow projections are based on a five-year outlook for the current year-end. Management applied the following key assumptions in the discounted cash flow (DCF) valuation model:

- Revenue growth
- EBITDA margins
- Discount rates
- Terminal growth rates

Refer to note 13 for details of the impairment testing.

2.5 Summary of significant accounting policies

2.5.1 Basis of consolidation

The 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.

2.5.2 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.

2.5.3 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 acquirer'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.

2.5.4 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.

2.5.5 Investments in subsidiaries and associates

Investments in subsidiaries and associates are carried at cost at Company level and adjusted for any impairment losses.

2.5.6 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 from 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 predecessor value method. The Group has adopted an accounting policy of recycling the common control reserve through retained earnings.

The common control reserve is recycled fully when the business that it is related to is sold internally or externally. In the case where the business is sold back piecemeal, the full reserve will be recycled to retained earnings when the last part of the business is sold internally or externally. In a common control transaction, the seller recognises the difference between the transaction price and the net assets in the statement of profit or loss and other comprehensive income within the "other income" (profit) and "other expenses" (loss) line items.

2.5.7 Foreign currencies

Functional and presentation currency
The consolidated financial statements are presented in South African rand, which is the functional and presentation currency of the parent company.

Foreign currency transactions and balances
Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign operations
For the purpose of presenting consolidated annual financial statements, assets and liabilities have been translated to rand at the closing rate on the reporting date. Income and expenses have been translated to rand at the average rate over the reporting period. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated to rand at the closing rate.

Exchange differences are charged or credited to other comprehensive income and recognised in the foreign currency translation reserve (FCTR) in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

The functional currencies of entities within the Group have remained unchanged during the reporting period.

Notes to the financial statements continued

for the year ended 31 March 2021

2. Significant accounting policies, judgements, estimates and assumptions continued

2.5 Summary of significant accounting policies continued

2.5.8 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 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.

2.5.9 Revenue recognition and measurement

2.5.9.1 Nature of goods and services

Revenue from contracts with customers
The Group has elected to apply the IFRS 15 practical expedient on the significant financing component that allows the Group not to adjust the transaction price for the significant financing component for contracts where the time difference between customer payment and transfer of goods or services is expected to be within 12 months or less.

Products and services	Segment	Timing of revenue recognition	Nature of goods and services and significant payment terms
Mobile devices and customer premises equipment revenue	Openserve, Consumer and BCX	The Group recognises revenue at a point in time, when a customer takes possession of the communication equipment or products.	The total transaction price is allocated to the mobile device or customer premises equipment (CPE) on a relative stand-alone selling price basis. The relevant stand-alone selling prices are based on the market prices (as indicated in the Group's device catalogues and trade lists) of the individual performance obligations identified in the contract. The total consideration noted above is determined based on the assessed contract term. Some contracts include an early renewal clause. Based on the assessment of historical data, the Group has determined that there is not a significant number of contracts that are renewed on an earlier basis and has therefore applied the total contractual term in the calculation of the total consideration receivable under a contract. The amount of revenue recognised for devices is adjusted for expected returns, which are estimated based on the historical data. For devices sold separately (i.e. without the telecommunications contract), customers pay full price at the point of sale. For devices sold in bundled packages, customers usually pay monthly in equal instalments over the contract term. The Group assesses whether a significant financing component exists for all contracts in excess of 12 months. A financing element of greater than 5% of the portion of the transaction price allocated to the mobile device or customer equipment has been deemed to represent a significant financing component. The significant financing component is determined using a discount representative of the risk associated to the specific customer. The transaction price is reduced with the financing component and the financing component is recognised over the contract period. The Group does not provide separate warranties on equipment delivered to customers and therefore no performance obligations are identified associated to this.

Products and services	Segment	Timing of revenue recognition	Nature of goods and services and significant payment terms
Mobile and fixed-line telecommunication services	Openserve, Consumer and BCX. The Openserve business unit provides the following services: **Broadband solutions** This includes next generation access across fibre and copper networks enabling high-speed internet connectivity. **Optical and carrier solutions** Services constitute the provision of client-specific backhaul and managed connectivity, assuring world-class quality and reliability. **Enterprise solutions** Products include business-to-business connectivity, underpinned primarily by Ethernet-based products. **Global solutions** Interconnect-based services connecting South Africa and the rest of the global market. The Consumer business unit provides the following services to customers: - **Broadband data** - **Voice** - **Content** - **Gaming** - **Small and Medium Entity Information, Communication and Technology solutions** The BCX business unit provides fixed, telecommunication, voice and data services to customers including: - **Business mobility** - **Global telecommunication services** - **Broadband** - **Internet and value-added services**	The Group recognises revenue over time as these telecommunication services are provided.	Services purchased by a customer beyond the contract are treated as a separate contract and recognition of revenue from such services is based on the actual voice or data usage, or is made upon the expiration of the Group's obligation to provide the services. For pre-paid services, the customer pays the full price at the point of sale. For post-paid contracts, customers usually pay monthly in equal instalments over the contract term together with the additional billing for out-of-bundle usage. Where the payment of an installation fee attributable to a fixed telecommunication service on a month-to-month contract provides the customer with a material substantive right, the installation is a separate performance obligation and is recognised over an estimated customer relationship period. The customer usually pays the fee upfront when the installation has been completed. Refer to note 4 for the customer relationship periods per customer type. Interconnection revenue is derived from calls and other traffic that originate in other operators' networks but use the Telkom network. The Group receives interconnection fees based on agreements entered into with other telecommunication operators. These revenues are recognised in the period in which these services are rendered.
Information technology revenue	BCX BCX provides Information Technology goods and services to customers within the Group. The diversified technology product portfolio provides a wide range of services including: **Solutions** Cloud computing, unified communications and collaboration, security, big data analytics and mobility. **IT products** Enterprise and applications solutions, IT–managed services and infrastructure and cloud solutions.	Revenue from a contract to provide a service is recognised over time in the accounting period in which the services are rendered. Revenue for the provision of IT hardware and software is recognised at a point in time, once control of the goods has been transferred to the customer.	Installation fees are a separate performance obligation and is recognised based on the actual services provided, 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.
Directory services and advertising revenue	Consumer These services are rendered through the Yellow Pages subsidiary and includes the following products and services: - **Advertising** - **Digital and social media advertising, across a number of platforms** - **E-commerce** - **Omni-channel offerings**	Revenue from printed directories is recognised at a point in time when the directories are released for distribution. Electronic directory and advertising revenue is recognised over the contract term as the performance obligations are met based on the total transaction price agreed for the contract.	The relevant stand-alone selling prices are based on market prices. The contract term for the services in this revenue stream is usually 12 months or less and therefore no significant financing element has been included in the revenue recognition for this revenue stream.

Notes to the financial statements continued

for the year ended 31 March 2021

2. Significant accounting policies, judgements, estimates and assumptions continued

2.5 Summary of significant accounting policies continued

2.5.9 Revenue recognition and measurement continued

2.5.9.1 Nature of goods and services continued

Sundry revenue
Group and Company sundry revenue includes all the revenue that is not separately disclosed, such as revenue from directory services, advertising revenue, content revenue, gaming revenue and lease revenue.

Revenue from other contracts
Property and mast and towers rental income is generated by the Group through its subsidiaries. The revenue is recognised as part of the Gyro and Openserve segments.

The difference between the proceeds received from the transferred lease receivable and the carrying value of the lease receivable is recognised as revenue "discounting income".

All revenues are presented net of Value Added Tax, rebates and discounts. Invoice and payment terms are set out in note 19 of the financial statements.

2.5.9.2 Contract costs

Contract costs eligible for capitalisation as incremental costs of obtaining a contract comprise commission and connection incentives paid on new contracts entered into. Contract costs are capitalised unless the practical expedient per IFRS 15 paragraph 94 is applied, which states that incremental costs to obtain a contract can be recognised as an expense when incurred if the amortisation period of the asset, that the entity otherwise would have recognised, is one year or less. Contract costs are capitalised in the month of service activation if the Group expects to recover these costs and is amortised over the contract term.

The amortisation of the contract asset is included in sales commission, incentives and logistical costs based on the nature of the costs being deferred.

In all other cases, contract costs are expensed as incurred.

2.5.9.3 Contract assets

Contract assets represent the Group's right to consideration in exchange for mobile devices and customer premises equipment (CPE). The contract asset is recognised at the point where the Group transfers control of the device or CPE to the end customer.

IFRS 15 is silent regarding the derecognition of contract assets. Therefore, in terms of IAS 8, the Group has adopted a policy of using IFRS 9 derecognition principles and IFRS 7 derecognition disclosure principles when accounting for contract assets derecognition.

The Group recognises the gain on derecognition within the other income line item and/or loss on derecognition within the other expenses line item on the statement of profit or loss and other comprehensive income. The proceeds received are classified as cash generated from operating activities in the cash flow statement.

2.5.10 Contract liabilities

Deferred installation fees and revenue billed in advance represent customer payments received in advance of performance (contract liabilities). This is included in deferred revenue on the statement of financial position.

2.5.11 Payments to other operators

Payments to other operators relate to payments made to service providers who are in the same line of business as Telkom. The amounts included in this line item are directly related to the offering of products and services to customers.

2.5.12 Cost of handsets, equipment, software and directories and sales commission, incentives and logistical costs

The costs of handsets, equipment, software and directories represent the acquisition cost of the items sold, net of any supplier rebates and discounts. This line item does not include any allocated overhead costs.

Sales commission and incentives are costs paid to Telkom's independent sales channels. Logistical costs represent costs incurred with third parties outside the Group for the delivery of handsets to customers and stores. This line item does not include the allocation of any other expense classified by nature in the financial statements.

2.5.13 Property, plant and equipment

Recognition of PPE
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. 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. Subsequent costs are included in the carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

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

Subsequent measurement
Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Repairs and maintenance expenses are charged to profit or loss during the reporting period in which they are incurred.

Depreciation, residual values and useful lives
The residual value of PPE 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 technical nature of the assets of Telkom Group, the residual value is assumed to be zero based on the 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 estimated useful lives applied are provided in note 6.8.

2.5.14 IFRS 16 (Leases)

The Group's leases include mast and towers, network equipment, property and vehicles.

2.5.14.1 The Group as a lessee

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

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

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

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

The Group has elected to apply the following recognition exemptions:

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

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

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

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. office equipment) and for short-term leases, i.e. leases that, at commencement date, have lease terms of 12 months or less. The Group defines low-value leases as leases of assets for which the value of the underlying asset, when it is new, is R73 200 or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

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

Notes to the financial statements continued

for the year ended 31 March 2021

2. Significant accounting policies, judgements, estimates and assumptions continued

2.5 Summary of significant accounting policies continued

2.5.14 IFRS 16 Leases continued

2.5.14.2 The Group as a lessor

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

Finance lease receivables are subject to the derecognition requirements of IFRS 9. Finance lease receivables transferred with recourse remain classified as finance lease receivables. This is due to the fact that the derecognition criteria will not be met as the Company would have not transferred all the risks and rewards. Finance lease receivables transferred without recourse are derecognised as all the risks and rewards have been transferred.

2.5.15 Intangible assets

Initial recognition and measurement
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.

For internally generated intangible assets, directly attributable cost includes:

- Costs of materials and services used or consumed in generating the intangible asset
- Costs of employee benefits arising from the generation of the intangible asset
- Fees to register a legal right
- Amortisation of patents and licences that are used to generate the intangible asset

The following are not components of the cost of an internally generated intangible asset:

- Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
- Identified inefficiencies and initial operating losses incurred before the asset achieves planned performance; and
- Expenditure on training staff to operate the asset.

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.

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

Subsequent measurement
After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Repairs and maintenance expenses are charged to profit or loss during the reporting period in which they are incurred.

Subsequent costs in respect of intangible assets already functioning as intended by management are capitalised, provided that they meet the definition of an asset (e.g. relate to additional features and enhancements that result in additional future economic benefits).

Amortisation, residual values and useful lives
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.

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 expected useful lives applied are provided in note 6.8.

2.5.16 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 net finance charges. 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.

2.5.17 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 to 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.

2.5.18 Inventories

Stock valuation and work-in-progress
Initial cost of inventories includes the transfer of gains and losses on qualifying fair value hedges recognised as firm commitments, in respect of foreign currency denominated purchases.

Merchandise, installation material, maintenance material and network equipment 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 the 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.

The basis of determining the net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.5.19 Financial instruments

2.5.19.1 Recognition and initial measurement

Loans and trade receivables are initially recognised when they are originated.

All financial instruments are initially recognised at fair value plus or minus, 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.

Preference shares, which are mandatorily redeemable in cash on a specific date, are classified as financial liabilities. The unwinding of the discounted liability is recorded as finance costs in the statement of profit or loss and other comprehensive income.

2.5.19.2 Classification and subsequent measurement

Financial assets: classification and subsequent measurement
The Group classifies financial assets on initial recognition as measured at amortised cost or fair value through profit and loss (FVTPL) on the basis of the Group's business model for managing the financial asset and the cash flow characteristics of the financial asset. Refer to note 14 for the categories of financial instruments.

Financial assets are subsequently measured at amortised cost where they are held with the objective to collect contractual cash flows that are solely payments of principal amount outstanding and interest on the outstanding amount. These include cash and cash equivalents, trade and other receivables and loans to subsidiaries.

All other financial assets not measured at amortised cost, as described above, are subsequently measured at fair value through profit or loss. These include other investments.

Financial liabilities: classification and subsequent measurement
Financial liabilities are classified as measured at amortised cost or fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured at fair value and net gains and losses, including any interest expense. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

2.5.19.3 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

2.5.19.4 Derecognition of financial instruments

Financial assets
The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risk and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group accounts for the transfer or factoring of the financial asset to the third parties as follows:

- If the entity transfers substantially all the risks and rewards of ownership of the financial asset, then the Group derecognises the financial asset.
- If the entity retains substantially all the risks and rewards of ownership, then the Group continues to recognise the financial asset.

Where the Group retains the right to service the derecognised financial asset for a fee, service fees are accounted for as follows:

- If the fee to be received is not expected to compensate the Group adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset shall be recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset. Where the benefits of servicing exactly compensate the service provider for its servicing responsibilities, there is no servicing asset or liability and the service contract's fair value is zero.

Financial liabilities
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

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.

2.5.19.5 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.

The Group has elected to continue applying the hedge accounting requirements of IAS 39.

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.

Notes to the financial statements continued

for the year ended 31 March 2021

2. Significant accounting policies, judgements, estimates and assumptions continued

2.5 Summary of significant accounting policies continued

2.5.20 Cash and cash equivalents

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

2.5.21 Treasury shares

Where the Group acquires shares for purposes of its employee share scheme, 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.

2.5.22 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 returns 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 in determining the net value of the fund (fund assets less the fund obligation).

2.5.23 Share-based payments

The Group has a share-based payment compensation plan. The plan is an equity-settled plan, consisting of the long-term incentive plan (LTIP), 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 shareholders rights, including the right to vote and share in any dividend distribution.

2.5.24 Sinking fund investment

The sinking fund is an investment portfolio with Absa. The sinking fund investment 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.

2.5.25 Investment in insurance third-party cell captive

Telkom has entered into a cell captive arrangement with Mutual and Federal, a licensed insurance company. The cell is a ring-fenced insurance business established to serve the insurance needs of Telkom's customers, which is the insurance of mobile handset devices. The customers are responsible for paying the premium. The Group concluded that its cell captive arrangement does not satisfy the criteria to be a deemed separate entity and accordingly is not subject to consolidation.

The cell captive arrangement is considered to have transferred significant insurance risk to the Group due to the contractual requirement imposed on the Group to maintain the solvency of the cell. The cell captive arrangement therefore meets the definition of an insurance contract contained in IFRS 4 (Insurance Contracts).

Telkom recognised its initial investment in the cell based on the cost price of the shares at acquisition date. The cell captive is disclosed as a non-current asset in the statement of financial position as "Investment in insurance cell captive".

The results of the insurance business are determined in accordance with the shareholder's agreement. In accordance with IFRS 4, the underwriting activities are determined on an annual basis whereby the earned premiums and incurred costs of claims and related expenses are recognised as an insurance service result in the statement of profit or loss and other comprehensive income.

The results of the cell captive arrangement are presented on a net basis in the statement of financial position as either a net receivable from, or net payable to, the Group as an investment in insurance cell captive.

The value of the investment in insurance cell captive is determined based on the net asset value of the insurance cell captive at the reporting date.

Movements during the year, which are included in the net returns of the investment in insurance cell captive, comprise the following:

- Premiums earned
- Claims recovered
- Investment and other income earned from the cell captive assets
- Claims paid
- Other operational expenses

Telkom does not incur or recognise any commission from this existing insurance contract.

Telkom will derecognise the cell captive asset from its statement of financial position in the event that the contract is cancelled, expired or upon liquidation of the insurer.

The detailed movement in the investment in insurance cell captive has been included in note 15.2.

The cell captive arrangement exposes Telkom to insurance risk. This insurance risk relates to the risk that there will be insufficient capital available to honour the claims made by the policyholders in the cell captive arrangement. Telkom manages the risk through ensuring that there is proper screening of the applicant during the insurance application, insurance premiums take into consideration the value of the phone that is covered and that the fund used is well managed and reputable. In addition, Telkom also reviews the financial statements of the cell to stay abreast of the financial performance and position.

2.5.26 Asset finance receivables and asset finance payables

The Group leases equipment to certain customers. In BCX, the business model for managing finance lease receivables is to collect contractual cash flows. The finance lease receivables are also securitised to financial institutions. Where the derecognition criteria for the sale of the lease receivable to the financial institution in terms of IFRS 9 has been met, the lease receivable is derecognised. If the derecognition criteria are not met and the Group does not transfer all risks and rewards (i.e. credit risk), the lease receivable is not derecognised. Refer to note 21.

2.5.27 Current taxation

Current tax is calculated as amounts that are expected to be paid (or recovered), using the tax rates and laws that have been enacted or substantively enacted by the reporting period date. Deferred tax is calculated on all taxable temporary differences that exist at the reporting date, except those that are exempted based on IAS 12.

Telkom periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation. The Group establishes provisions where the position is considered more likely than not to occur. The provision is recognised and measured based on the single most likely outcome approach.

2.6 Restatements to the consolidated statements of profit or loss and other comprehensive income

	Group		
	For the year ended 31 March 2020		
Extract from the consolidated statement of profit or loss and other comprehensive income	**As previously reported Rm**	**Restatement* Rm**	**Restated Rm**
Other expenses	(2 688)	(68)	(2 756)
EBITDA	9 602	(68)	**9 534**
Operating profit	2 687	(68)	**2 619**
Profit before taxation	974	(68)	**906**
Profit for the year	608	(68)	**540**
Total comprehensive income for the year	**1 451**	**(68)**	**1 383**
Profit attributable to:			
Owners of Telkom	603	(68)	535
Non-controlling interests	5	–	5
Profit for the year	**608**	**(68)**	**540**
Total comprehensive income attributable to:			
Owners of Telkom	1 446	(68)	1 378
Non-controlling interests	5	–	5
Total comprehensive income for the year	**1 451**	**(68)**	**1 383**
Basic earnings per share (cents)	121.1	(13.6)	107.5
Diluted earnings per share (cents)	119.5	(13.5)	106.0

** Refer to note 2.3.1.1.*

Notes to the financial statements continued

for the year ended 31 March 2021

2.7 Restatements to the consolidated statement of financial position

Extract from the consolidated statement of financial position	Group					
	As at 31 March 2020			As at 1 April 2019		
	As previously reported Rm	Restatement* Rm	Restated Rm	As previously reported Rm	Restatement* Rm	Restated Rm
Equity and liabilities						
Equity attributable to owners of the parent	29 504	(114)	29 390	29 573	(46)	29 527
Retained earnings	21 977	(114)	21 863	22 390	(46)	22 344
Total equity	29 475	(114)	29 361	29 768	(46)	29 722
Current liabilities	17 144	114	17 258	16 436	46	16 482
Provisions	1 892	114	2 006	1 316	46	1 362
Total liabilities	31 911	114	32 025	23 176	46	23 222
Total equity and liabilities	61 386	–	61 386	52 944	–	52 944

* Refer to note 2.3.1.1.

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

The operating segments classification is based on the business units through which Telkom provides communications products and services via its customer-facing units: Consumer, Openserve and Telkom Small and Medium Business (SMB), as well as its subsidiaries, Gyro and BCX. The customer-facing units are supported by the Corporate Centre.

For the 2021 financial year, reports submitted to exco separately reported SMB's financial performance (statement of profit or loss and other comprehensive income). SMB consists of small and medium businesses that were previously managed as part of BCX, Consumer and Yellow Pages (previously included in "Other").

The reportable segments have been determined as Openserve, Consumer, BCX, Gyro and "Other". The SMB segment has been aggregated into the Consumer segment. The aggregation is based on the similarity in the nature of products and services. SMB customers include primarily sole proprietors and such customers who typically consume simplex products which are similar in nature to those consumed within the Consumer segment and the profile of the customers are similar by nature. A large portion of the SMB customer base makes use of the Telkom Direct Stores channels which is the same channel as that of the Consumer customers.

The CODM reviews the performance of the operating segments on an EBITDA basis. EBITDA is adjusted for significant non-recurring items such as restructurings and adoption of new accounting standards, when applicable. The current year EBITDA has been normalised for voluntary severance, retirement and retrenchment package expenses of R270 million. EBITDA in the published FY2020 financial statements was adjusted to include expected credit losses of R626 million on trade receivables and contract assets, arising from the expected impact of COVID-19. In the current year, management revised the assessment of whether the expected impact of COVID-19 is a significant non-recurring item, and taking into account actual experience, it has been assessed that the impact of COVID-19 on expected credit losses is a recurring item that should be taken into account in the ordinary course of business. As such, management has made a decision not to adjust EBITDA for the expected credit losses arising from the impact of COVID-19. The comparative year has therefore been restated and normalised only for voluntary severance and retirement expenses of R1 186 million.

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

- Interest revenue; and
- Interest on overdue accounts

The interest revenue is included in operating revenue as a separate component of revenue.

March 2021	Openserve Rm	Consumer Rm	BCX Rm	Gyro Rm	Other Rm	Eliminations Rm	IFRS 16 reversal Rm	Consolidated Rm
Revenue from external customers[1]	3 690	25 520	13 324	688	–	–	–	43 222
Revenue from contracts with customers recognised over time	3 589	22 614	11 676	–	–	–	–	37 879
Voice	–	7 170	3 182	–	–	–	–	10 352
Interconnection	435	485	–	–	–	–	–	920
Data	3 077	14 578	3 127	–	–	–	–	20 782
Information technology services[2]	–	–	4 511	–	–	–	–	4 511
Customer premises equipment related services[2]	–	132	770	–	–	–	–	902
Interest revenue	–	240	42	–	–	–	–	282
Sundry revenue	77	9	44	–	–	–	–	130
Revenue from contracts with customers recognised at a point in time	–	2 906	1 648	–	–	–	–	4 554
Customer premises equipment	–	2 520	215	–	–	–	–	2 735
Information technology hardware	–	–	1 433	–	–	–	–	1 433
Sundry revenue	–	386	–	–	–	–	–	386
Lease revenue[3]	101	–	–	688	–	–	–	789
Intersegmental operating revenue	9 795	295	2 418	765	836	(13 428)	(681)	–
Other income	197	540	76	–	283	(477)	–	619
Insurance service result	–	–	–	–	15	–	–	15
Total expenses	(9 507)	(21 347)	(13 354)	(318)	(1 262)	13 905	–	(31 883)
Cost of handsets, equipment, software and directories	–	(2 846)	(2 025)	–	–	90	–	(4 781)
Sales commission, incentives and logistical costs	–	(2 243)	(182)	–	–	–	–	(2 425)
Payments to other operators	(770)	(3 052)	(491)	–	–	435	–	(3 878)
Employee expenses	(2 917)	(970)	(4 159)	(113)	(886)	3	–	(9 042)
Selling, general and administrative expenses	(3 536)	(11 423)	(5 995)	(124)	(127)	13 251	–	(7 954)
Service fees	(1 951)	(642)	(454)	(77)	(274)	82	–	(3 316)
Lease-related expenses	(333)	(171)	(48)	(4)	25	44	–	(487)
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	4 175	5 008	2 464	1 135	(128)	–	(681)	11 973
Reconciliation of operating profit to profit before tax								
Normalisations								
Voluntary severance, retirement and retrenchment package expenses								(270)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments								11 703
Depreciation, amortisation, impairments and write-offs								(6 870)
Operating profit								4 833
Investment income								188
Income from associates								1
Net finance charges, hedging costs and fair value movements								(1 527)
Profit before taxation								3 495
Other segment information								
Capital expenditure of property, plant and equipment and intangible assets	2 942	4 597	519	217	173	–	–	8 448

Notes to the financial statements continued

for the year ended 31 March 2021

3. Segment information continued

Restated March 2020[4]	Openserve Rm	Consumer[5] Rm	BCX[5] Rm	Gyro Rm	Other[5] Rm	Eliminations Rm	IFRS 16 reversal Rm	Consolidated Rm
Revenue from external customers[1,6]	3 990	23 181	15 220	651	1	–	–	43 043
Revenue from contracts with customers recognised over time	3 880	20 232	13 728	–	1	–	–	37 841
Voice	–	7 865	3 854	–	–	–	–	11 719
Interconnection	537	420	–	–	–	–	–	957
Data	3 216	11 555	3 268	–	1	–	–	18 040
Information technology services[2]	–	4	5 819	–	–	–	–	5 823
Customer premises equipment related services[2]	–	96	738	–	–	–	–	834
Significant financing component revenue	–	279	–	–	–	–	–	279
Sundry revenue	127	13	49	–	–	–	–	189
Revenue from contracts with customers recognised at a point in time	–	2 949	1 492	–	–	–	–	4 441
Customer premises equipment	–	2 470	460	–	–	–	–	2 930
Information technology hardware	–	–	1 032	–	–	–	–	1 032
Sundry revenue	–	479	–	–	–	–	–	479
Lease revenue[3]	110	–	–	651	–	–	–	761
Intersegmental operating revenue	11 145	259	2 280	777	1 403	(15 171)	(693)	–
Other income	274	575	81	10	754	(1 018)	–	676
Insurance service result	–	–	–	–	41	–	–	41
Total expenses	(10 865)	(21 381)	(15 270)	(251)	(1 462)	16 189	–	(33 040)
Cost of handsets, equipment, software and directories	–	(3 372)	(2 253)	–	–	–	–	(5 625)
Sales commission, incentives and logistical costs	–	(1 782)	(224)	–	–	–	–	(2 006)
Payments to other operators	(915)	(2 716)	(592)	–	–	540	–	(3 683)
Employee expenses	(3 858)	(980)	(4 203)	(113)	(378)	5	–	(9 527)
Selling, general and administrative expenses	(3 929)	(11 668)	(7 428)	(125)	(814)	15 517	–	(8 447)
Service fees	(1 866)	(591)	(510)	(11)	(306)	10	–	(3 274)
Lease-related expenses	(297)	(272)	(60)	(2)	36	117	–	(478)
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments including intersegmental transactions	4 544	2 634	2 311	1 187	737	–	(693)	10 720
Reconciliation of operating profit to profit before tax								
Normalisations								
Voluntary severance, retirement and retrenchment package expenses								(1 186)
Earnings before interest, tax, depreciation and amortisation (EBITDA) for reportable segments								9 534
Depreciation, amortisation, impairments/(reversals) and write-offs								(6 915)
Operating profit								2 619
Investment income								79
Income/(loss) from associates								11
Net finance charges, hedging costs and fair value movements								(1 803)
Profit before taxation								906
Other segment information								
Capital expenditure of property, plant and equipment and intangible assets	2 992	3 760	552	203	248	–	–	7 755

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

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

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

1 *Revenue includes transactions generated by subsidiaries of BCX in countries outside of South Africa. These are however not considered material to the Group and are thus not disclosed separately.*
2 *Certain information technology hardware and software items and customer premises equipment related services were incorrectly reflected at a point in time and has now been moved to revenue over time. The comparatives have been re-presented. Refer to note 2.4.7.6 for the significant judgements regarding the CPE related services revenue.*
3 *In the current year, it was identified that lease revenue was incorrectly included in sundry revenue and has now been moved to a separate line item, "lease revenue". The comparatives have been re-presented.*
4 *Restated. Refer to notes 2.3.1.1 and 2.6.*
5 *The 31 March 2020 segment information has been restated to align with the change in the organisational structure, as a result of the introduction of SMB.*
6 *The comparatives have been re-presented for an amount of R86 million, due to Gyro internal cross charges that were previously reported as intersegmental operating revenue and have now been reclassified to service fees. This re-presentation is in relation to revenue categories and the revenue per the statement of profit or loss and other comprehensive income is not restated.*

4. Revenue

4.1 Disaggregation of revenue

	Company 31 March 2021 Rm	Company 31 March 2020 Rm
Revenue	39 220	39 251
Revenue from contracts with customers recognised over time	36 246	36 224
Voice	10 840	12 850
Interconnection	920	956
Data	21 731	18 906
Information technology	1 460	2 039
Customer premises equipment related services[1]	1 055	1 194
Interest revenue	240	279
Revenue from contracts with customers recognised at a point in time	2 873	2 917
Customer premises equipment	2 742	2 750
Sundry revenue	131	167
Lease revenue[2]	101	110

1 *Certain information technology hardware and software items and customer premises equipment related services were incorrectly reflected at a point in time and has now been moved to revenue over time. The comparatives have been re-presented. Refer to note 2.4.7.6 for the significant judgements regarding the CPE related services revenue.*
2 *In the current year, it was identified that lease revenue was incorrectly included in sundry revenue and has now been moved to a separate line item, "lease revenue". The comparatives have been restated.*

Refer to note 3 for the disaggregated revenue per segment for the Group.

Included in Telkom Company revenue is revenue, to the value of R7 157 million (31 March 2020: R9 471 million), which relates to Enterprise customer contracts which were sold to BCX in previous financial years, which have been retained in the name of Telkom SA SOC Ltd. Refer to note 2.4.7.5 for the significant judgements and estimates considered in determining that Telkom is the principal in relation to these transactions.

Notes to the financial statements continued

for the year ended 31 March 2021

4. Revenue continued

4.2 Transaction price allocated to the remaining performance obligations

The tables below include revenue expected to be recognised in the future, related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	Group 31 March 2021		
	2022 Rm	2023 Rm	Beyond 2024 Rm
Voice	431	148	14
Data	2 347	779	50
Information technology	125	8	–

	31 March 2020		
	2021 Rm	2022 Rm	Beyond 2023 Rm
Voice	439	131	7
Data	2 752	973	111
Information technology	158	23	–

	Company 31 March 2021		
	2022 Rm	2023 Rm	Beyond 2024 Rm
Voice	431	148	14
Data	2 347	779	50

	31 March 2020		
	2021 Rm	2022 Rm	Beyond 2023 Rm
Voice	439	131	7
Data	2 752	973	111

All revenue from contracts with customers is included in the amounts presented above.

The Group and Company apply the practical expedient in paragraph 121 of IFRS 15 and do not disclose information about remaining performance obligations that have original expected durations of one year or less.

4.3 Customer relationship periods

The customer relationship periods (CRP) in the current financial year are determined as follows:

- Voice revenue: 5.5 years (31 March 2020: 5 to 6.5 years)
- Wholesale revenue: 4 years (31 March 2020: 4 years)
- Non–voice revenue: 3.5 years (31 March 2020: 4 to 5.5 years)

The average CRP in respect of non-voice changed from 4 to 5.5 years as at March 2020 to 3.5 years as at March 2021. The voice CRP changed from 5 to 6.5 years as at March 2020 to 5.5 years as at March 2021. This is a change in an accounting estimate in terms of IAS 8 and accounted for prospectively. The change in the non-voice CRP resulted in an accelerated rate of deferred installation revenue recognition with the effect being an increase in revenue of R28 million in the 2021 financial year. The change in the voice CRP resulted in a decelerated rate of deferred installation revenue recognition with the effect being a decrease in revenue of R1.4 million in the 2021 financial year. Revenue recognition in respect of deferred installation fees for the future periods is expected to decrease by R26.6 million (31 March 2020: R32 million) due to these changes in accounting estimates.

4.4 Impact of COVID–19 on revenue

There was no significant impact of COVID-19 on Mobile revenue as the telecommunications industry was declared as an essential service in South Africa, which allowed the Group to continue to connect South Africans during the national lockdown period. This contributed to the Group experiencing a surge in fixed and mobile network traffic for telco services from people working from home. There were no significant contract modifications that took place and both new and existing contracts were assessed to be enforceable at the end of the reporting date.

Telkom enhanced broadband-led propositions across customer segments and scaled up digital platforms as the Telkom stores were closed during the early phase of the national lockdown. As a result, the Mobile business sustained its growth trajectory into the first half of the year, driven by data demand.

The Group's fixed and IT services revenue has however been negatively impacted by COVID-19 during the period under review. To curb the revenue decline in fixed line, Telkom has been migrating its fixed line customers to fibre and wireless from copper-based technology.

5. Other income

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
	619	676	1 018	1 577
Interest received from trade receivables[1]	151	128	108	78
Sundry income[2]	401	530	839	1 493
Profit on disposal of assets[3]	67	18	71	6

[1] *Interest received on trade receivables relates to interest on overdue trade receivables accounts. These are financial assets measured at amortised cost. Interest is recognised on a time proportionate basis, taking into account the principal amount outstanding and effective interest rate.*
[2] *Sundry income for Telkom Company includes income from management fees charged to subsidiaries.*
[3] *Included in the current year profit on disposal of assets for Group and Company is a gain on disposal of contract assets to the amount of R63 million.*

6. Expenses

6.1 Cost of handsets, equipment, software and directories

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Cost of handsets, equipment, software and directories	(4 781)	(5 625)	(2 722)	(3 189)
The decline in cost of handsets, equipment, software and directories is primarily due to the major distribution channels being closed during the COVID-19 national lockdown. This was largely in the first six months of the current financial year.				

6.2 Sales commission, incentives and logistical costs

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Sales commission, incentives and logistical costs	(2 425)	(2 006)	(2 243)	(1 778)
This increase is mainly as a result of the year on year growth in mobile revenues.				

Notes to the financial statements continued

for the year ended 31 March 2021

6. Expenses continued

6.3 Employee expenses

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Employee expenses	(9 312)	(10 713)	(4 762)	(6 311)
Salaries and wages	(7 755)	(8 563)	(3 466)	(4 329)
Post-retirement pension and retirement fund (refer to note 29)	(536)	(623)	(364)	(474)
Post-retirement medical aid (refer to note 29)	122	70	122	70
Post-retirement telephone rebates (refer to note 29)	(35)	(40)	(35)	(40)
Share-based compensation expense (refer to note 24)	(203)	(328)	(154)	(323)
Other benefits*	(1 117)	(1 620)	(1 077)	(1 606)
Employee expenses capitalised to capital projects	212	391	212	391

* *Other benefits include, among others, skills development, annual leave, performance incentive, service bonuses, voluntary employee severance/voluntary early retirement and retrenchment package costs and termination benefits. Included in other benefits as at 31 March 2021 is a R270 million (31 March 2020: R1 186 million) expense for voluntary severance, retirement and retrenchment packages.*

6.4 Other expenses

	Group		Company	
	31 March 2021 Rm	Restated 31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Other expenses	(2 197)	(2 756)	(953)	(877)
Included in the other expenses line item are the following expenses:				
Operating expenses	(1 886)	(2 448)	(608)	(584)
Sundry expenses	(147)	(207)	(80)	(36)
Licence fees	(370)	(292)	(354)	(281)
Subsistence and travel	(18)	(87)	(8)	(44)
Third party service costs	(1 055)	(1 499)	–	–
Image building and market research costs	(48)	(73)	(49)	(73)
Commission	(110)	(106)	(110)	(105)
Data procedure expenses	(76)	(87)	–	–
Other	(62)	(97)	(7)	(45)
Non-operating expenses	(311)	(308)	(345)	(293)
Donations	(1)	(45)	(32)	(44)
Losses	(307)	(248)	(307)	(248)
Other	(3)	(15)	(6)	(1)

6.5 Maintenance

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Maintenance Maintenance cost has slightly increased year on year, largely due to higher maintenance and support contract costs emanating from the growth in the Mobile business and from higher submarine cable maintenance.	(3 971)	(3 880)	(4 871)	(4 855)

6.6 Service fees

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Service fees	(3 316)	(3 274)	(2 858)	(2 753)
Facilities and property management	(2 037)	(1 990)	(1 815)	(1 776)
Consultancy, security and other services	(1 279)	(1 284)	(1 043)	(977)

6.7 Lease-related expenses

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Lease-related expenses Included in lease-related expenses is an amount of R54 million (31 March 2020: R168 million) for Group and Rnil (31 March 2020: R103 million) for Company related to short-term leases as well as month-to-month leases that are non-strategic in nature. Similar to prior year, there were no low value leases. Variable lease payments were not included in the lease liability in the current year.	(487)	(478)	(449)	(518)

6.8 Depreciation, amortisation, impairments and write-offs of non-financial assets

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Depreciation, amortisation, impairments and write-offs of non-financial assets	(6 870)	(6 915)	(6 863)	(6 808)
Depreciation of property, plant and equipment	(4 918)	(4 868)	(4 546)	(4 512)
Depreciation of right-of-use assets	(947)	(954)	(1 416)	(1 510)
Amortisation of intangible assets	(805)	(679)	(708)	(579)
Write-offs, impairments and losses of property, plant and equipment and intangible assets	(200)	(414)	(193)	(207)

The estimated useful lives assigned to groups of property, plant and equipment are:	Years	Years	Years	Years
Freehold buildings*	5 to 50	5 to 50	10 to 40	10 to 40
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 18	2 to 18	2 to 18	2 to 18
Support equipment	5 to 13	5 to 13	5 to 13	5 to 13
Furniture and office equipment	5 to 15	5 to 15	11 to 15	11 to 15
Data processing equipment and software	3 to 10	3 to 10	5 to 10	5 to 10
Telkom support services equipment	2 to 20	2 to 20	2 to 20	2 to 20

The expected useful lives assigned to intangible assets are:	Years	Years	Years	Years
Software and licences	3 to 10	5 to 10	5 to 10	5 to 10
Trademarks, copyrights and other	5 to 13	4 to 13	5 to 13	4 to 13

* *In the published FY2020 financial statements, 5 to 43 years were disclosed as the useful lives for freehold buildings which was based on the active asset categories which had lower maximum useful lives remaining. In the current year, Telkom has opted to disclose the maximum useful lives for which the assets can be used under this category.*

Notes to the financial statements continued

for the year ended 31 March 2021

6. Expenses continued

6.8 Depreciation, amortisation, impairments and write–offs of non–financial assets continued

During the year, the Group reassessed the useful lives on various technologies. The reassessment takes into account the Group's current capex strategy and changes in the technological environment. The reassessment of useful lives decreased the depreciation expense by R110 million and increased the amortisation expense by R66 million (31 March 2020: depreciation expense decreased by R272 million and the amortisation expense decreased by R17 million) at a company level and decreased the depreciation expense by R120 million and increased the amortisation expense by R62 million (31 March 2020: depreciation expense decreased by R284 million and the amortisation expense decreased by R23 million) at a group level. Refer to note 2.5.15 and note 2.5.13 for the related accounting policies.

7. Investment income

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Investment income	188	79	1 643	2 610
Interest income	188	79	134	691
Dividend income from subsidiaries	–	–	1 509	1 919

Interest income relates to interest earned from financial assets (cash and cash equivalents and loans at amortised cost) measured at amortised cost. Interest is recognised on a time proportionate basis, taking into account the principal amount outstanding and the effective interest rate.

8. Net finance charges, hedging costs and fair value movements

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Net finance charges, hedging costs and fair value movements	(1 527)	(1 803)	(1 747)	(2 219)
Net finance charges	(1 249)	(1 570)	(1 496)	(1 989)
Finance charges on lease liabilities	(445)	(368)	(560)	(555)
Net finance charges on local debt*	(835)	(1 254)	(967)	(1 486)
Less: Finance charges capitalised**	31	52	31	52
Foreign exchange, fair value movements and costs of hedging	(278)	(233)	(251)	(230)
Foreign exchange gain/(loss)	829	(549)	870	(562)
Cost of hedging	(153)	(205)	(153)	(205)
Fair value adjustments	(954)	521	(968)	537
Capitalisation rate for borrowing costs (%)	7.1	9.8	7.1	9.8

* *For interest-bearing debt movement, refer to note 26.*
** *Finance charges on general borrowings are capitalised to qualifying assets (PPE and intangible assets).*

Finance charges relate to interest expense on financial liabilities measured at amortised cost.

Finance charges on local and foreign debt decreased from R1 570 million in March 2020 to R1 251 million in March 2021, mainly due to reduced interest rates as a result of the COVID-19 pandemic. Included in finance charges, as at 31 March 2021, is an amount of R29 million relating to interest on the SARS liability.

9. Taxation

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
	(1 067)	(366)	(164)	706
South African normal company taxation	(870)	(1 230)	54	(115)
Current taxation	(945)	(1 118)	–	–
Overprovision/(underprovision) for prior year	75	(112)	54	(115)
Deferred taxation (refer to note 17)	(197)	879	(218)	821
Capital allowances	(156)	(1 971)	(154)	(2 017)
Provisions and other allowances	(196)	2 176	(264)	2 165
Tax losses	234	337	234	337
Acquisition of BCX	9	9	–	–
(Underprovision)/overprovision for prior year	(88)	328	(34)	336
Securities transfer tax	–	(14)	–	–
Common control transaction	–	(1)	–	–

Reconciliation of taxation rate	%	%	%	%
South African normal rate of taxation	28.0	28.0	28.0	28.0
Increased/(decreased) by the following adjustments:	2.5	12.4	(19.3)	253.4
Non-taxable income	(0.2)	(4.0)	(22.9)	295.4
Dividends received	–	–	(22.3)	214.2
Profit on sale of assets	(0.1)	–	–	–
Cell captive fair value adjustments	(0.1)	(4.0)	(0.3)	14.3
Other exempt income	–	–	(0.3)	66.9
Non-deductible expenditure	2.3	21.3	4.6	(72.0)
Capital expenditure	0.6	8.2	0.7	(24.5)
IFRS 2 share-based payment adjustments	0.5	10.7	0.4	(27.0)
Interest and penalties	0.5	1.5	–	–
Other disallowed expenditure*	0.7	0.9	3.5	(20.5)
Prior year adjustments	0.4	(6.5)	(1.0)	30.0
Prior year (overprovision)/underprovision tax expense**	0.4	(23.0)	(1.0)	30.0
Tax losses reversed**	–	16.5	–	–
Other taxes	–	1.6	–	–
Differences in tax rates, foreign tax and withholding tax	–	0.2	–	–
Securities transfer tax	–	1.4	–	–
Effective rate***	30.5	40.4	8.7	281.4

* *Other comprises mainly consulting fees, legal fees and donations which are not tax deductible.*
** *FY2020: Tax losses reversed, as well as prior year adjustments, related to a dispute with SARS in respect of the FY2015 – FY2019 years of assessment with regard to the tax treatment of two items. These disputes were resolved and the relevant liability settled in the current year (refer to note 34).*
*** *The effective tax rate for the Group for FY2020 is different than what was disclosed in the FY2020 financial statements (37.6%), due to the restatement which impacted the profit or loss for the year ended 31 March 2020 (refer to note 2.3.1.1).*

Notes to the financial statements continued

for the year ended 31 March 2021

10. Earnings and dividend per share

	Group	
	31 March 2021 Rm	Restated 31 March*** 2020 Rm
Total operations		
Basic earnings per share (cents)	489.9	107.5
Diluted earnings per share (cents)	484.0	106.0
Headline earnings per share (cents)*	522.2	194.4
Diluted headline earnings per share (cents)*	516.0	191.8

Reconciliation of weighted average number of ordinary shares:	Number of shares	Number of shares
Weighted ordinary shares in issue	511 140 239	511 140 239
Weighted average number of treasury shares	(16 718 676)	(13 288 103)
Weighted average number of shares outstanding	**494 421 563**	**497 852 136**

Reconciliation of diluted weighted average number of ordinary shares:

Weighted average number of shares outstanding	494 421 563	497 852 136
Expected future vesting of shares related to Group share scheme incentive plans (refer to note 24)	5 995 674	6 781 658
Diluted weighted average number of shares outstanding	**500 417 237**	**504 633 794**

* *The disclosure of headline earnings is a requirement of the JSE Ltd. It has been calculated in accordance with the South African Institute of Chartered Accountants' circular 1/2019 issued in this regard as well as the relevant requirements of IAS 33.*

	31 March 2021 Rm		Restated 31 March*** 2020 Rm	
Total operations	**Gross**	**Net****	**Gross**	**Net****
Reconciliation between earnings and headline earnings:				
Profit for the year		2 428		540
Non-controlling interests		(6)		(5)
Profit attributable to owners of Telkom		2 422		535
Profit on disposal of property, plant and equipment and intangible assets	(4)	(4)	(18)	(18)
Profit on disposal of subsidiaries and associates	–	–	(9)	(9)
Write-offs, impairments and losses of property, plant and equipment and intangible assets	200	164	414	392
Gain on remeasurement of non-current assets held for sale	–	–	(23)	(23)
Translation of net investment in a foreign operation	–	–	91	91
Headline earnings		2 582		968
Dividend per share (cents)		50.08		320.93

The dividend per share is based on a dividend of 50.08 cents per share declared on 19 June 2020 (31 March 2020: 249.40 cents per share declared on 27 May 2019 and 71.53 cents per share declared on 8 November 2019). A total of 511 140 239 number of ordinary shares were outstanding on the date of the dividend declaration (31 March 2020: 511 140 239).

** *The taxation impact consists of a R36 million increase (31 March 2020: R22 million) in tax expense related to the recoupment and scrapping of disposals and write-offs in respect of PPE and intangible assets.*

*** *Restated. Refer to notes 2.3.1.1 and 2.6.*

11. Property, plant and equipment

	2021			2020		
Group	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value Rm
Freehold land and buildings	7 209	(4 416)	2 793	7 332	(4 461)	2 871
Network equipment	91 517	(63 518)	27 999	88 198	(61 509)	26 689
Support equipment	5 619	(4 531)	1 088	5 891	(4 675)	1 216
Furniture and office equipment	889	(577)	312	811	(512)	299
Data processing equipment and software	3 750	(3 105)	645	3 872	(3 206)	666
Under construction	3 268	–	3 268	1 680	–	1 680
Other	647	(481)	166	698	(511)	187
	112 899	**(76 628)**	**36 271**	**108 482**	**(74 874)**	**33 608**

Company	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value Rm
Freehold land and buildings	4 396	(2 348)	2 048	4 551	(2 418)	2 133
Network equipment	90 381	(62 648)	27 733	87 255	(60 814)	26 441
Support equipment	4 494	(3 763)	731	4 675	(3 900)	775
Furniture and office equipment	163	(58)	105	147	(52)	95
Data processing equipment and software	3 709	(3 082)	627	3 833	(3 187)	646
Under construction	2 590	–	2 590	1 269	–	1 269
Other	538	(381)	157	581	(409)	172
	106 271	**(72 280)**	**33 991**	**102 311**	**(70 780)**	**31 531**

Finance charges of R31 million (31 March 2020: R51 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 R4 552 million for Group and R4 145 million for Company (31 March 2020 expansions: R3 647 million for Group and R3 156 million for Company). Expenditure due to maintenance is R3 112 million for Group and R2 967 million for Company (31 March 2020 maintenance: R3 119 million for Group and R2 956 million for Company).

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

Property, plant and equipment with a carrying amount of R5.8 million is held for sale at the 31 March 2021 reporting date for Group and Company. As this is not material, it has not been disclosed separately on the statement of financial position.

Notes to the financial statements continued

for the year ended 31 March 2021

11. Property, plant and equipment continued

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

Group	Carrying value at the beginning of the year Rm	Additions Rm	Transfers Rm	Foreign currency translation Rm	Disposals Rm	Depreciation Rm	Write-offs, impairments and impairment reversals Rm	Carrying value at the end of the year Rm
2021								
Freehold land and buildings	2 871	72	99	(1)	(4)	(214)	(30)	2 793
Network equipment	26 689	4 729	750	7	–	(4 039)	(137)	27 999
Support equipment	1 216	243	(22)	–	(2)	(345)	(2)	1 088
Furniture and office equipment	299	76	18	(1)	–	(74)	(6)	312
Data processing equipment and software	666	124	51	–	–	(200)	4	645
Under construction	1 680	2 432	(825)	–	(1)	–	(18)	3 268
Other	187	16	5	–	–	(46)	4	166
	33 608	**7 692**	**76**	**5**	**(7)**	**(4 918)**	**(185)**	**36 271**
2020								
Freehold land and buildings	2 888	103	78	2	(5)	(193)	(2)	2 871
Network equipment	24 528	5 194	1 065	–	4	(4 012)	(90)	26 689
Support equipment	1 062	161	359	1	(11)	(367)	11	1 216
Furniture and office equipment	306	46	19	1	(8)	(63)	(2)	299
Data processing equipment and software	971	66	(175)	–	(1)	(182)	(13)	666
Under construction	2 111	1 141	(1 425)	–	(1)	–	(146)	1 680
Other	162	55	25	–	(3)	(51)	(1)	187
	32 028	**6 766**	**(54)**	**4**	**(25)**	**(4 868)**	**(243)**	**33 608**

11. Property, plant and equipment continued

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

Company	Carrying value at the beginning of the year Rm	Additions Rm	Transfers Rm	Disposals Rm	Depreciation Rm	Write-offs and impairment reversals Rm	Carrying value at the end of the year Rm
2021							
Freehold land and buildings	2 133	68	31	(1)	(153)	(30)	2 048
Network equipment	26 441	4 712	650	–	(3 938)	(132)	27 733
Support equipment	775	150	14	–	(207)	(1)	731
Furniture and office equipment	95	10	16	–	(11)	(5)	105
Data processing equipment and software	646	123	51	–	(197)	4	627
Under construction	1 269	2 035	(696)	–	–	(18)	2 590
Other	172	15	6	–	(40)	4	157
	31 531	**7 113**	**72**	**(1)**	**(4 546)**	**(178)**	**33 991**
2020							
Freehold land and buildings	2 153	93	26	(2)	(135)	(2)	2 133
Network equipment	24 274	5 169	976	–	(3 921)	(57)	26 441
Support equipment	841	127	23	–	(226)	10	775
Furniture and office equipment	94	2	10	–	(10)	(1)	95
Data processing equipment and software	752	64	19	–	(176)	(13)	646
Under construction	1 905	611	(1 101)	–	–	(146)	1 269
Other	146	47	24	–	(44)	(1)	172
	30 165	**6 113**	**(23)**	**(2)**	**(4 512)**	**(210)**	**31 531**

16% of the capital expenditure in Telkom Company relates to the expansion of existing networks and services. Expansion of the Mobile network also contributed to a 58% growth in PPE. 11% of capital expenditure was on the Next Generation Network programme. The balance of 15% 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 migration of services, with a focus on Next Generation Network technologies, is expected to continue over the next few years.

The Group and Company have 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 R64 million (31 March 2020: R53 million) for Group and R64 million (31 March 2020: R23 million) for Company were reclassified from intangible assets to property, plant and equipment in the current year.

Assets with a carrying value of R42 million (31 March 2020: R66.1 million) for Group and R41 million (31 March 2020: R66.1 million) for Company relate to inventory that was transferred to property, plant and equipment in the current year.

Changes to the estimated useful lives of property, plant and equipment resulted in a decrease in depreciation to the value of R110 million (31 March 2020: R272 million) for Company and R120 million (31 March 2020: R284 million) for Group. Refer to note 6.8 for the useful lives.

Where assets have become technologically obsolete or damaged and can no longer contribute towards the Group and Company's revenue generating capacity, they are written off or impaired.

At Group, transfers were effected between property, plant and equipment, intangible assets and inventory. Transfers in Company mostly related to property, plant and equipment, assets held for sale and intangible assets.

Property, plant and equipment are included for testing in the impairment testing for the Telkom CGU. No impairment was identified. Refer to note 13.

Property, plant and equipment consists mainly of network equipment. The network equipment within the Company does not generate cash inflows that are largely independent of those from other assets or groups of assets. This resulted in PPE having to be assessed for impairment as part of the Telkom CGU. The recoverability of PPE is largely dependent on macro-economic factors, which include cash flows to be generated through the network assets, as well as internal assumptions and estimates related to realisation levels and operating costs. The impairment test included assessing the recoverable amount of PPE, with reference to all cash flows (including the fair value contributory asset income), and comparing this to the carrying amount of the PPE. Refer to note 13.

Notes to the financial statements continued

for the year ended 31 March 2021

11. Property, plant and equipment continued

	Group	
	31 March 2021	
Property, plant and equipment subject to operating leases	Freehold land and buildings Rm	Furniture and office equipment Rm
Adoption carrying amount	737	18
Additions	64	52
Depreciation	(39)	(20)
Transfers	–	7
Disposals	(1)	–
Closing carrying amount	**761**	**57**

12. Right-of-use assets and lease liabilities

The Group leases three asset categories, namely vehicles, property and network equipment. Vehicle leases mainly include a fleet of vehicles that are used by the technicians as part of the network operations. Property leases mainly relate to the lease of land and buildings/sites used for office purposes as well as property where masts and towers are erected. Network equipment mainly relates to the co-location on mast and towers and the lease of exchange assets.

The lease agreements do not impose any covenants on the Group. The existing leases do not have residual value guarantees.

At 31 March 2021, the Group has not committed to leases which have not yet commenced. There were no sale and leaseback transactions for the Group in the current or prior years.

Generally, the lease term is fixed but there is also a number of leases that run on a month-to-month basis. The Group applies judgement in assessing whether extension or termination options will be exercised and these options are only included in the lease term if the lease is reasonably certain to be extended or terminated.

In the current year, the lease calculation assumes that the Group will continue to use the strategic month-to-month contract for the next five years (current forecast period). Additionally, the Group concluded that it is reasonable that it will exercise available renewal options for all leases of strategic need, except in the case that there is evidence that it will not. For the rest of the assets, the lease calculation is based on the fixed term per the contract.

Some leases allow for earlier termination. In this case, the Group is required to serve a certain notice period and there is no financial penalty.

At 31 March 2021, a number of lease contracts relating to network equipment and properties include renewal options for various renewal periods. Due to the judgement exercised in relation to the determination of the lease period as outlined in the accounting policy, the Group is exposed to potential future cash outflows relating to an indefinite period which have not been included in the lease liability because it is not reasonably certain that the lease will be extended beyond the estimated lease period. The Group elected to not apply the COVID-19 related rent concession practical expedient.

12.1 Right-of-use assets

	2021			2020		
Group	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value Rm	Cost Rm	Accumulated depreciation and write-offs Rm	Carrying value Rm
Vehicles	388	(273)	115	521	(163)	358
Property	1 264	(400)	864	1 123	(206)	917
Network equipment	4 722	(1 182)	3 540	3 797	(570)	3 227
	6 374	**(1 855)**	**4 519**	**5 441**	**(939)**	**4 502**
Company						
Vehicles	348	(256)	92	494	(155)	339
Property	977	(543)	434	1 308	(347)	961
Network equipment	7 045	(2 048)	4 997	5 967	(992)	4 975
	8 370	**(2 847)**	**5 523**	**7 769**	**(1 494)**	**6 275**

The carrying amounts for the right-of-use assets can be reconciled as follows:

Group	Opening balance Rm	Cancelled leases Rm	New leases entered into Rm	Lease remeasurement Rm	Depreciation Rm	Closing balance Rm
2021						
Vehicles	358	(91)	22	(55)	(119)	115
Property	917	(3)	104	48	(202)	864
Network equipment	3 227	(22)	868	92	(626)	3 540
	4 502	**(116)**	**994**	**85**	**(947)**	**4 519**
2020						
Vehicles	522	–	8	(8)	(164)	358
Property	1 097	(10)	27	9	(206)	917
Network equipment	2 550	(198)	690	754	(569)	3 227
	4 169	**(208)**	**725**	**755**	**(939)**	**4 502**

Company	Opening balance Rm	Cancelled leases Rm	New leases entered into Rm	Lease remeasurement Rm	Depreciation Rm	Closing balance Rm
2021						
Vehicles	339	(91)	3	(52)	(107)	92
Property	961	(2)	36	(321)	(239)	434
Network equipment	4 975	(90)	1 096	85	(1 069)	4 997
	6 275	**(183)**	**1 135**	**(288)**	**(1 416)**	**5 523**
2020						
Vehicles	502	–	–	(8)	(155)	339
Property	1 643	(10)	9	(334)	(347)	961
Network equipment	4 725	(198)	687	753	(992)	4 975
	6 870	**(208)**	**696**	**411**	**(1 494)**	**6 275**

Notes to the financial statements continued

for the year ended 31 March 2021

12. Right-of-use assets and lease liabilities continued

12.2 Lease liabilities

Group

The closing balances for non-current lease liabilities can be reconciled as follows:	2021 Rm	2020 Rm
Vehicles	(37)	(193)
Property	(828)	(854)
Network equipment	(2 896)	(2 661)
	(3 761)	(3 708)

The closing balances for current lease liabilities can be reconciled as follows:		
Vehicles	(109)	(176)
Property	(229)	(223)
Network equipment	(873)	(668)
	(1 211)	(1 067)

Company

The closing balances for non-current lease liabilities can be reconciled as follows:	2021 Rm	2020 Rm
Vehicles	(27)	(185)
Property	(390)	(820)
Network equipment	(3 908)	(3 965)
	(4 325)	(4 970)

The closing balances for current lease liabilities can be reconciled as follows:		
Vehicles	(98)	(167)
Property	(306)	(373)
Network equipment	(1 432)	(1 164)
	(1 836)	(1 704)

The total cash outflow for leases in 2021 was R1 301 million (31 March 2020: R1 148 million) for the Group and R1 724 million (31 March 2020: R1 637 million) for the Company. Finance charges on lease liabilities of R445 million (31 March 2020: R368 million) for Group and R560 million (31 March 2020: R555 million) for Company have been recognised in the statement of profit or loss and other comprehensive income for the year ended 31 March 2021.

Refer to note 14.4 for the maturity analysis on lease liabilities.

Impact of COVID-19 on lease liabilities
The incremental borrowing rate applied to calculate the present value of the lease liability decreased due to a decline in the reference rate, which was slightly offset by an increase in the credit spread. This is applicable to leases entered into from 1 April 2020 onwards, as well as leases that were remeasured during FY2021 due to the alignment of the lease term to the rolling forecast period (five years) or modified due to changes in the lease contracts. This is included in the lease remeasurement.

The Group did not receive any rent concessions in relation to COVID-19.

12.3 Subleasing income from right-of-use assets and gains/losses from sale and leaseback transactions

In the current financial year, the Telkom Group has earned R9 million (31 March 2020: Rnil) subleasing income. Telkom Company does not earn any subleasing income.

13. Intangible assets

	2021			2020		
Group	Cost Rm	Accumulated amortisation and write-offs Rm	Carrying value Rm	Cost Rm	Accumulated amortisation and write-offs Rm	Carrying value Rm
Goodwill	1 268	(9)	1 259	1 268	(9)	1 259
Trademarks, copyrights and other	568	(399)	169	591	(381)	210
Software	12 527	(9 673)	2 854	12 932	(9 882)	3 050
Under construction	323	–	323	220	–	220
	14 686	(10 081)	4 605	15 011	(10 272)	4 739
Company						
Trademarks, copyrights and other	5	(3)	2	42	(39)	3
Software	12 033	(9 277)	2 756	12 322	(9 402)	2 920
Under construction	166	–	166	216	–	216
	12 204	(9 280)	2 924	12 580	(9 441)	3 139

The carrying amounts of intangible assets can be reconciled as follows: **Group**	Carrying value at the beginning of the year Rm	Additions Rm	Business combination Rm	Transfers Rm	Disposals Rm	Amortisation Rm	Write-offs and impairment reversals Rm	Carrying value at the end of the year Rm
2021								
Goodwill	1 259	–	–	–	–	–	–	1 259
Trademarks, copyrights and other	210	14	–	1	–	(56)	–	169
Software	3 050	449	–	125	–	(749)	(21)	2 854
Under construction	220	293	–	(196)	–	–	6	323
	4 739	756	–	(70)	–	(805)	(15)	4 605
2020								
Goodwill	1 259	–	–	–	–	–	–	1 259
Trademarks, copyrights and other	257	10	4	6	(7)	(54)	(6)	210
Software	2 746	897	–	191	(2)	(625)	(157)	3 050
Under construction	259	78	–	(107)	(2)	–	(8)	220
	4 521	985	4	90	(11)	(679)	(171)	4 739

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13. Intangible assets continued

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

Company	Carrying value at the beginning of the year Rm	Additions Rm	Transfers Rm	Amortisation Rm	Write-offs Rm	Carrying value at the end of the year Rm
2021						
Trademarks, copyrights and other	3	–	1	(2)	–	2
Software	2 920	435	122	(706)	(15)	2 756
Under construction	216	139	(189)	–	–	166
	3 139	**574**	**(66)**	**(708)**	**(15)**	**2 924**
2020						
Trademarks, copyrights and other	–	1	3	(1)	–	3
Software	2 627	792	75	(578)	4	2 920
Under construction	203	72	(56)	–	(3)	216
	2 830	**865**	**22**	**(579)**	**1**	**3 139**

The goodwill in Group is attributable to Yellow Pages, 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 two years (31 March 2020: four years).

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

Intangible assets under construction are included for testing in the impairment testing for the Telkom CGU. No impairment was identified.

Approximately R134 million (31 March 2020: R428 million) and R48 million (31 March 2020: R314 million) of additions relate to externally acquired intangible assets for Group and Company, respectively, while R609 million (31 March 2020: R548 million) relates to internal developments for Group and R524 million (31 March 2020: R547 million) relates to internal developments for Company.

Changes to the estimated useful lives of intangible assets resulted in an increase in amortisation to the value of R66 million (31 March 2020: R16.7 million) for Company and R62 million (31 March 2020: R23 million) for Group. Refer to note 6.8 for the useful lives.

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 write-off balance is not considered significant to the financial statements as a whole in the current or prior financial years.

	Group	
The Group's goodwill balance is as follows:	**2021 Rm**	**2020 Rm**
Closing balance	**1 259**	**1 259**

Description	Telkom CGU Rm	BCX CGU Rm	Total goodwill recognised Rm
Carrying amount	**63**	**1 196**	**1 259**

Impairment considerations – including the impact of COVID-19
Management has performed an annual impairment assessment for all goodwill balances as at 31 March 2021, in line with the requirements of IAS 36 (Impairment of Assets), and performed impairment assessments for assets where impairment indicators were identified. Management also tested the investment in BCX for impairment.

The following key indicators of impairment were identified:

- Market capitalisation fell below the net asset value
- COVID-19 trigger for impairment of the underlying assets

COVID-19 implications on the cash flow forecast
The cash flow projections in the valuation incorporated the diverse impact of FY2020 COVID-19 on the various revenue streams. The EBITDA margins also considered the anticipated future impact of COVID-19.

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

IFRS 16 impact on the cash flow forecasts
As a right-of-use (ROU) asset does not generate cash inflows largely independent from other assets, the ROU asset will be tested for impairment together with the CGU to which such an asset belongs.

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

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

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

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

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

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

Growth rates
The growth rates were consistent with publicly available information relating to long-term average growth rates for the market in which the CGU operated. The compound annual growth rate used for revenue is 6.3% and EBITDA is 3.2%.

Terminal growth rates
A terminal growth rate of 4.7% was applied. The growth rate considered steady state of growth rates to extrapolate revenue beyond the forecast period cash flows.

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

In the valuation, a discount rate range of 14.1% to 15.0% has been applied as a discount rate. The pre-tax discount rate for the BCX CGU ranges from 15.5% to 16.4%. A perpetuity calculation was also included after five years as per the terminal growth rate disclosure above.

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

Sensitivity to changes in assumptions
Given the significant headroom computed, no further sensitivity analysis has been performed.

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

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

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

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

Growth rates
The growth rates were consistent with publicly available information relating to long-term average growth rates for the market in which the CGU operated. The compound annual growth rate used for revenue is 9.5% and EBITDA is 14.2%.

Terminal growth rates
A terminal growth rate of 4.7% was applied. The terminal value was determined at the end of year five of the cash flow forecasts. The growth rate considered steady state of growth rates to extrapolate revenue beyond the forecast period cash flows.

Discount rate
In the valuation, a discount rate range of 12.3% to 13.3% has been applied as a discount rate. No specific risk premiums applied, as potential forecast risks were modelled as scenarios. The pre-tax discount rate for the Telkom CGU ranges from 14.6% to 15.4%. A perpetuity calculation was also included after five years as per the terminal rate disclosure above.

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

Sensitivity to changes in assumptions
Given the significant headroom computed, no further sensitivity analysis has been performed.

Notes to the financial statements continued

for the year ended 31 March 2021

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, lease liabilities and trade and other payables. The Group's financial liabilities are subjected to fair value measurements and adjustments.

The Group has finance lease receivables, trade and other receivables, contract assets, cash receivables and short-term deposits that arise directly from its operations. The main purpose of the interest-bearing debt is to raise finance for the Group's operations.

The Group is exposed to liquidity, credit and market risks. 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 Company'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 hedge accounting in the current and prior financial years.

		Group	
The table below sets out the Group's classification of financial assets and liabilities.	Notes	**At fair value through profit or loss Rm**	**At amortised cost Rm**
2021			
Classes of financial instruments per statement of financial position			
Assets		**256**	**12 311**
Other investments*	15.2	168	–
Trade and other receivables**	19	–	6 729
Other financial assets	21.1	88	81
Firm commitments		88	–
Asset finance receivables		–	81
Finance lease receivables	16.1	–	498
Cash and cash equivalents	22	–	5003
Liabilities		**(422)**	**(22 698)**
Interest-bearing debt	26	–	(10 866)
Trade and other payables	30	–	(11 403)
Shareholders for dividend	35	–	(31)
Other financial liabilities	21.2	(400)	–
Forward exchange contracts		(179)	–
Firm commitments		(19)	–
Interest rate swaps		(202)	–
Asset finance payables	21.2	–	(193)
Financial guarantees	21.2	(22)	–
Vendor financing	21.2	–	(114)
Credit facilities utilised	22	–	(1)
2020			
Classes of financial instruments per statement of financial position			
Assets* **		745	12 060
Other investments*	15.2	212	–
Trade and other receivables**	19	–	6 661
Other financial assets	21.1	533	418
Forward exchange contracts		533	–
Asset finance receivables		–	418
Finance lease receivables	16.1	–	253
Cash and cash equivalents	22	–	4 728
Liabilities		(673)	(20 685)
Interest-bearing debt	26	–	(12 005)
Trade and other payables	30	–	(8 339)
Shareholders for dividend	35	–	(31)
Other financial liabilities	21.2	(673)	–
Firm commitments		(530)	–
Interest rate swaps		(143)	–
Asset finance payables	21.2	–	(119)
Financial guarantees	21.2	–	(13)
Vendor financing	21.2	–	(176)
Credit facilities utilised	22	–	(2)

Notes to the financial statements continued

for the year ended 31 March 2021

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	Company At fair value through profit or loss Rm	Company At amortised cost Rm
2021			
Classes of financial instruments per statement of financial position			
Assets		149	8 815
Other investments	15.2	61	–
Trade and other receivables**	19	–	6 610
Other financial assets	21.1	88	–
Firm commitments		88	–
Finance lease receivables	16.1	–	164
Cash and cash equivalents	22	–	2 041
Liabilities		(394)	(26 779)
Interest-bearing debt	26	–	(10 866)
Trade and other payables	30	–	(14 028)
Shareholders for dividend	35	–	(31)
Other financial liabilities	21.2	(394)	(1 854)
Forward exchange contracts		(173)	–
Firm commitments		(19)	–
Interest rate swaps		(202)	–
BCX treasury fund		–	(1 854)
2020			
Classes of financial instruments per statement of financial position			
Assets* **		668	9 558
Other investments	15.2	161	–
Trade and other receivables**	19	–	6 072
Other financial assets	21.1	507	–
Forward exchange contracts		507	–
Finance lease receivables	16.1	–	253
Cash and cash equivalents	22	–	3 233
Liabilities		(673)	(25 505)
Interest-bearing debt	26	–	(12 005)
Trade and other payables	30	–	(10 716)
Shareholders for dividend	35	–	(31)
Other financial liabilities	21.2	(673)	(2 753)
Firm commitments		(530)	–
Interest rate swaps		(143)	–
BCX treasury fund		–	(2 753)

* *Other investments are disclosed net of investments accounted for using the equity method of R7 million (31 March 2020: R11 million).*

** *Trade and other receivables are disclosed excluding prepayments of R280 million (31 March 2020: R125 million) for the Company and R498 million (31 March 2020: R358 million) for the Group.*

*** *Contract assets were included as a financial instrument in the above tables for Group and Company. Contract assets are not financial assets at amortised cost within the scope of IFRS 9, but are scoped into IFRS 9 for impairment purposes only. The prior year tables have been restated to remove the contract asset line item.*

14.2 Fair value of financial instruments

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

The carrying amount of financial instruments approximates fair value, with the exception of interest-bearing debt (at amortised cost) for Telkom Company, which has a fair value of R11 078 million (31 March 2020: R12 097 million) and a carrying amount of R10 866 million (31 March 2020: R12 005 million).

The fair value of financial assets and financial liabilities that are traded in active markets are 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.

The impact of COVID-19 has resulted in the volatility of prices on various markets, which have a direct or an indirect impact on the fair values at the reporting date.

Type of financial instrument – Group	Fair value at 31 March 2021 Rm	Valuation technique	Significant inputs
Derivative assets	88	Discounted cash flows	Yield curves Market interest rates
Derivative liabilities	(400)		
Financial guarantees	(22)	Discounted cash flows	Market exchange rate and probability of default
Investment in FutureMakers entities	107	Discounted cash flows	Cash flow forecasts and market related discount rates
Interest-bearing debt	(11 078)	Discounted cash flows and quoted bond prices	Market interest rates

Notes to the financial statements continued

for the year ended 31 March 2021

14. Financial instruments and risk management continued

14.2 Fair value of financial instruments continued

14.2.2 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 for identical assets or liabilities.
Level 2: Inputs other than quoted prices that are observable for the asset or liability.
Level 3: Inputs for the asset or liability that 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
2021					
Assets measured at fair value					
Derivative assets					
Firm commitments	21.1	88	–	88	–
Investment made by FutureMakers	15.2	107	–	–	107
Liabilities measured at fair value					
Derivative liabilities					
Forward exchange contracts	21.2	(179)	–	(179)	–
Firm commitments	21.2	(19)	–	(19)	–
Interest rate swaps	21.2	(202)	–	(202)	–
Financial guarantees	21.2	(22)	–	–	(22)
Liabilities measured at amortised cost					
Interest-bearing debt	26	(11 078)	–	(11 078)	–
2020					
Assets measured at fair value					
Derivative assets					
Forward exchange contracts	21.1	533	–	533	–
Investment made by FutureMakers	21.2	51	–	–	51
Investment in Absa sinking fund	15.2	161	–	161	–
Liabilities measured at fair value					
Derivative liabilities					
Firm commitments	21.2	(530)	–	(530)	–
Interest rate swaps	21.2	(143)	–	(143)	–
Liabilities measured at amortised cost					
Interest-bearing debt	26	(12 097)	–	(12 097)	–

		Company			
	Notes	Total Rm	Level 1 Rm	Level 2 Rm	Level 3 Rm
2021					
Assets measured at fair value					
Derivative assets					
Firm commitments	21.1	88	–	88	–
Liabilities measured at fair value					
Derivative liabilities					
Forward exchange contracts	21.2	(173)	–	(173)	–
Firm commitments	21.2	(19)	–	(19)	–
Interest rate swaps	21.2	(202)	–	(202)	–
Liabilities measured at amortised cost					
Interest-bearing debt	26	(11 078)	–	(11 078)	–
2020					
Assets measured at fair value					
Derivative assets					
Forward exchange contracts	21.1	507	–	507	–
Investment in Absa sinking fund	15.2	161	–	161	–
Liabilities measured at fair value					
Derivative liabilities					
Firm commitments	21.2	(530)	–	(530)	–
Interest rate swaps	21.2	(143)	–	(143)	–
Liabilities measured at amortised cost					
Interest-bearing debt	26	(12 097)	–	(12 097)	–

Notes to the financial statements continued

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14. Financial instruments and risk management continued

14.3 Credit risk

14.3.1 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 per the stipulated contractual terms. The Group is exposed to credit risk from its operating activities and from investing activities, including deposits with banks and financial institutions. Telkom Company 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.

There was a material change in the Group's exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the 2020 financial year, due to the impact of COVID-19, which resulted in a national lockdown of the country for an initial period of 21 days from 26 March 2020, which was subsequently extended.

To support the credit transmission mechanism of the South African economy, given the impact of COVID-19, the South African Reserve Bank (SARB) maintained the Repo (Repurchase) rate at 3.5%. In addition, facilitated by the SARB, the government has also implemented a bond purchase programme to provide liquidity to banks and enable a well-functioning credit transmission mechanism. This has diminished possible liquidity risk and interest rate risk in the capital markets.

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 Group has the following types of assets that are subject to the expected credit loss model:

- Trade receivables from the Group's ordinary activities
- Contract assets
- Finance lease receivables
- Loans to subsidiaries
- Asset finance receivables
- Cash and cash equivalents

	Group – Carrying amount		Company – Carrying amount	
The maximum exposure to credit risk for financial assets at the reporting date by type of instrument and counterparty was:	**2021 Rm**	2020 Rm	**2021 Rm**	2020 Rm
Trade receivables (refer to note 19)	5 077	4 867	4 947	4 678
Telkom SA	7 198	6 627	6 699	5 871
Business and residential	3 060	2 948	3 060	2 947
Global, corporate and wholesale	3 579	3 567	3 135	2 980
Government	964	794	950	794
Other customers	(405)	(682)	(446)	(850)
South African subsidiaries	197	117	–	–
Impairment of trade receivables (refer to note 19)	(2 318)	(1 877)	(1 752)	(1 193)
Contract assets (refer to note 19)	1 747	1 979	1 635	1 850
Gross contract assets	2 157	2 411	2 045	2 282
Impairment of contract assets (refer to note 19)	(410)	(432)	(410)	(432)
Subtotal for trade receivables and contract assets	6 824	6 846	6 582	6 528
Other receivables	1 652	1 794	1 663	1 394
Derivatives	88	533	88	507
Other investments	107	212	–	161
Finance lease receivables	498	253	164	253
Net cash and cash equivalents	5 002	4 726	2 041	3 233
	14 171	14 364	10 538	12 076

14.3.2 Impairment of financial assets

The approach and methodology applied by Telkom when calculating expected credit losses under IFRS 9 is shown in the subsections below. Refer to note 19 for the reconciliation of the expected credit loss balances recognised.

14.3.2.1 Trade receivables and contract assets

The Group's receivables are split between different customer segments. Lifetime expected credit losses are calculated, per segment, for trade receivables using the simplified approach, as the instruments do not contain a significant financing component. This is calculated using a provision matrix, which has been derived from the Group's historic ageing and write-off data by considering the expected provision of a debtor based on its age at the end of the reporting period, as well as a provision being raised for the debtor based on the likelihood of it ending up in the ageing category where the instrument is likely to be written off.

Where a customer's service has been suspended or cancelled, an additional impairment is raised based on the historical write-off amount for trade receivables which have been included in the suspended/cancelled category.

For device debtors, Telkom uses loss rates from the trade receivables ageing analysis. These aren't applied at segment level, but an average loss rate is calculated per ageing bucket, evenly weighting the various segments and applying these across the whole.

Application of forward-looking information as a result of COVID-19 – Provision matrix
Impairment losses were calculated using the simplified approach, with historical losses used as an input to parameterise the expected loss percentage. The methodology considers expected losses over the average remaining life, with the historical calibration period selected to adequately capture the risk of the portfolio.

At 31 March 2020, management included an overlay to consider the expected impact of the current COVID-19 stress. The changes in percentage movements in the default rates within the credit ratings were analysed at reporting date at a customer profile level and these changes were then applied to existing ECL ratios. This overlay increased the ECL for trade receivables by R419 million.

In the current year, the ECL default rates (rate before adjusting for forward-looking information) increased due to increased credit risk. Forward-looking information was considered in calculating the ECL default rates. The forward-looking information took into consideration the available macro-economic information (GDP projections) which factored in the expected impact of COVID-19. Management decided to not track the COVID-19 impact separately, as the Group is currently operating in the COVID-19 period which it no longer views as a once-off impact event.

From the prior year, the carrying value of trade and other receivables marginally increased largely due to the impact of COVID-19, as well as the growth in the Mobile business. The expected credit loss marginally increased due to the increase in credit risk with COVID-19 financial distress being a contributor.

Post write-off recoveries
Telkom Company receivable books data shows that a significant proportion of recoveries come through subsequent to an account being written off. In the fixed-line book, for example, accounts are written off fairly quickly, as the collection strategy after write-off is more effective than before. Post write-off recoveries are taken into account in the expected credit loss model.

Notes to the financial statements continued

for the year ended 31 March 2021

14. Financial instruments and risk management continued

14.3 Credit risk continued

14.3.2 Impairment of financial assets continued

14.3.2.1 Trade receivables and contract assets continued

	Group – Carrying amount 2021			Company – Carrying amount 2021		
The ageing of trade receivables at the reporting date was:	**Trade receivables ageing Rm**	**Allowance for expected credit losses ageing Rm**	**Average expected credit loss ratio**	**Trade receivables ageing Rm**	**Allowance for expected credit losses ageing Rm**	**Average expected credit loss ratio**
Current	4 304	210	4.9%	3 479	168	4.8%
21 to 60 days past due	902	187	20.7%	789	144	18.3%
61 to 90 days past due	348	167	47.9%	285	126	44.2%
91 to 120 days past due	129	167	130.2%	76	154	202.2%
120+ days past due	1 712	1 587	92.7%	2 070	1 160	56.0%
	7 395	2 318	31.3%	6 699	1 752	26.1%

	Group – Carrying amount 2020			Company – Carrying amount 2020		
The ageing of trade receivables at the reporting date was:	Trade receivables ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio	Trade receivables ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio
Current	3 624	224	6.2%	3 380	76	2.2%
21 to 60 days past due	698	110	15.8%	544	73	13.5%
61 to 90 days past due	213	98	46.0%	155	64	41.1%
91 to 120 days past due	117	57	48.9%	70	45	64.8%
120+ days past due	2 092	1 387	66.3%	1 722	935	54.3%
	6 744	1 877	27.8%	5 872	1 193	20.3%

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 impairment for Telkom Company are individually impaired receivables with a balance of R365 million (31 March 2020: R89 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.

	Group and Company – Carrying amount 2021			Group and Company – Carrying amount 2020		
The ageing of contract assets at the reporting date was:	**Contract asset ageing Rm**	**Allowance for expected credit losses ageing Rm**	**Average expected credit loss ratio**	Contract asset ageing Rm	Allowance for expected credit losses ageing Rm	Average expected credit loss ratio
Current	459	70	15.3%	480	68	14.3%
21 to 60 days	246	50	20.3%	308	58	18.9%
61 to 90 days	260	52	20.0%	389	72	18.6%
91 to 120 days	237	49	20.7%	274	52	18.9%
120+ days	955	189	19.8%	960	181	18.8%
	2 157	410	19.0%	2 411	431	17.9%

COVID-19 impact on contract assets

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

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

At 31 March 2020, management included an overlay to consider the expected impact of the current COVID-19 stress. The methodology for this overlay was aligned to the approach used for trade receivables, which used the 2008 crisis for calibration purposes. The Group adjusted the loss rates used to calculate the ECL on contract assets. Based on this approach, the ECL increased by R207 million in the year ended 31 March 2020.

At 31 March 2021, this forward-looking COVID-19 ECL overlay was reassessed. It was noted that a significant portion of the March 2020 overlay was utilised as the customers' credit risk increased due to financial distress experienced by customers.

Due to uncertainties around the COVID-19 future impact, management continued to include an overlay to consider the expected impact of the future COVID-19 stress. The Group overlay is, however, low as the significant impact has been factored into the base historic credit risk. The methodology for this overlay was aligned to the approach used for trade receivables, which considered the GDP projections.

14.3.2.2 Finance lease receivables and asset finance receivables

The Group recognises lifetime expected credit losses on finance lease receivables and asset finance receivables in terms of the simplified approach. Whenever an amount receivable is billed, the amount is moved from finance leases or asset finance receivables to trade receivables and forms part of the trade receivables balance. To determine an expected credit loss for the outstanding lease receivables, the total outstanding amounts are proportioned into the various ageing buckets based on the proportions experienced in trade receivables, specifically the fixed-line segment. The same loss rates that are used for the trade receivables segment are then applied to the outstanding lease receivables balance to derive the expected loss on finance lease receivables over the lifetime of the instrument.

The underlying assumption attached to this is that the exposure to the finance lease balance will realise as the balance is billed to the customer over the lifetime of the instrument and will thus follow the same pattern of expected loss as the trade receivable balance.

14.3.2.3 Cash and cash equivalents

Twelve month expected credit losses are calculated for cash and cash equivalents using the general approach. Due to the fact that the Group's cash and cash equivalents are noted as being current assets, the 12-month and lifetime expected losses are expected to be equivalent. In addition, given that these amounts are invested with South Africa's four largest banks, management's expectation is that the impact on the total impairment is negligible.

As at the reporting date, the Group has not recognised any expected credit losses for cash and cash equivalents. This approach will only be reconsidered should there be a future downgrade of the banks with which the amounts are invested.

Notes to the financial statements continued

for the year ended 31 March 2021

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 committee. There was a change in the Group's objectives, policies and processes for managing and measuring liquidity risk during the 2021 financial year due to the impact of the COVID-19 pandemic and operational cash flow requirements. The Group has maintained elevated levels of liquidity in response to the potential impact of the pandemic, the economic slowdown and operational cash flow requirements. This will also mitigate the liquidity risk of the Group and consequently any possible credit rating downgrade.

The table below summarises the maturity profile of the Group's financial liabilities based on undiscounted contractual cash flows 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
2021							
Non–derivative financial liabilities							
Interest–bearing debt	26	10 866	13 437	1 903	1 984	6 767	2 783
Credit facilities utilised	22	1	1	1	–	–	–
Lease liabilities	12.2	4 972	6 891	1 272	1 124	2 701	1 793
Trade and other payables	30	11 493	11 493	11 493	–	–	–
Shareholders for dividend	35	31	31	31	–	–	–
Asset finance payables	21	193	193	193	–	–	–
Financial guarantees	21	22	22	22	–	–	–
Vendor financing	21	114	114	114	–	–	–
Derivative financial liabilities							
Interest rate swaps	21	202	202	202	–	–	–
Firm commitments	21	19	19	19	–	–	–
Forward exchange contracts	21	179	179	179	–	–	–
		28 092	32 582	15 429	3 108	9 468	4 576
2020							
Non–derivative financial liabilities							
Interest–bearing debt (excluding finance leases)	26	12 005	13 457	2 052	314	2 245	8 845
Credit facilities utilised	22	2	2	2	–	–	–
Lease liabilities	12	4 775	6 064	1 101	1 089	2 403	1 471
Trade and other payables	30	8 339	8 339	8 339	–	–	–
Shareholders for dividend	35	31	31	31	–	–	–
Asset finance payables	21	119	202	102	33	67	–
Financial guarantees	21	13	47	47	–	–	–
Vendor financing	21	176	176	176	–	–	–
Derivative financial liabilities							
Interest rate swaps	21	143	143	143	–	–	–
Firm commitments	21	530	530	530	–	–	–
		26 133	28 991	12 523	1 436	4 715	10 316

		Company					
	Notes	Carrying amount Rm	Contractual cash flows Rm	0 - 12 months Rm	1 - 2 years Rm	2 - 5 years Rm	> 5 years Rm
2021							
Non-derivative financial liabilities							
Interest-bearing debt	26	10 866	13 434	1 900	1 984	6 767	2 783
Lease liabilities	12.2	6 161	8 056	1 909	1 782	3 156	1 209
Trade and other payables	30	14 028	14 028	14 028	–	–	–
Shareholders for dividend	35	31	31	31	–	–	–
Derivative financial liabilities							
Interest rate swaps	21	202	202	202	–	–	–
Firm commitments	21	19	19	19	–	–	–
Forward exchange contracts	21	173	173	173	–	–	–
		31 480	35 943	18 262	3 766	9 923	3 992
2020							
Non-derivative financial liabilities							
Interest-bearing debt	26	12 005	12 109	1 900	193	1 881	8 135
Lease liabilities	12	6 674	8 023	1 775	1 738	3 640	870
Trade and other payables	30	10 716	10 716	10 716	–	–	–
Shareholders for dividend	35	31	31	31	–	–	–
Derivative financial liabilities							
Interest rate swaps	21	143	143	143	–	–	–
Firm commitments	21	530	530	530	–	–	–
		30 099	31 552	15 095	1 931	5 521	9 005

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 risk comprises 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 significant changes in the levels of market risk in the current year due to the impact of COVID-19. This has given rise to increased levels of volatility in both local and global markets. The associated impact and volatility were experienced in the foreign currency markets, levels and interest rates and commodity prices.

Given Telkom's conservative approach to foreign currency risk and the combination of fixed versus floating ratio of debt has largely mitigated the impact of COVID-19 on its financial profile.

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 48% (2020: 48%) of the total debt. The 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.

Notes to the financial statements continued

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14. Financial instruments and risk management continued

14.5 Market risk continued

The table below summarises the interest rate swaps outstanding as at the reporting date:	Group Average maturity	Group Notional amount Rm	Company Average maturity	Company Notional amount Rm
2021				
Interest rate swaps outstanding				
Pay fixed and receive floating	2.8 years	2 959	2.8 years	2 959
2020				
Interest rate swaps outstanding				
Pay fixed and receive floating	3.4 years	3 519	3.4 years	3 519

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's foreign currency exposure arises in its procurement environment where opex and capex items are procured from international suppliers. The Group manages its foreign currency exchange rate risk by hedging all identifiable exposures via various financial instruments suitable to the Group's risk exposure.

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

Refer to note 21 for the balances recognised relating to hedging instruments and hedged items.

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

	Group Foreign contract value m	Group Contract value Rm	Company Foreign contract value Rm	Company Contract value Rm
Purchased				
2021				
Currency				
USD	173	2 680	154	2 398
Euro	15	282	14	263
Chinese yuan	979	2 266	979	2 266
		5 228		4 927
2020				
Currency				
USD	449	3 388	200	3 111
Euro	13	233	13	233
Other	5	14	1	10
		3 635		3 354
Sell				
2021				
Currency				
USD	2	33	–	–
Euro	1	5	–	5
Other	1	16	–	–
		54		5
2020				
Currency				
USD	12	15	–	–
		15		–

The Group has various monetary assets and liabilities in currencies other than the parent company'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 Chinese yuan Rm	Group Other Rm	Company Euro Rm	Company United States dollar Rm	Company Chinese yuan Rm	Company Other Rm
2021								
Net foreign currency monetary assets/(liabilities)								
Functional currency of Company operation								
South African rand	(26)	(1 359)	(1 334)	(1)	(26)	(1 360)	(1 334)	(1)
2020								
Net foreign currency monetary assets/(liabilities)								
Functional currency of Company operation								
South African rand	(46)	(1 076)	–	1	(47)	(1 077)	–	–

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 of 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 profit for the year ended 31 March 2021 would decrease/increase by R100 million (31 March 2020: decrease/increase by R109 million) for Group and R99 million (31 March 2020: decrease/increase by R100 million) for Company.

The following table illustrates the sensitivity to a 100 basis points change in the interest rates (1%) on profit before taxes, with all other variables held constant:

Classes of financial instruments per statement of financial position	Group movement + 1% Profit Rm	Group movement - 1% Profit Rm	Company movement + 1% Profit Rm	Company movement - 1% Profit Rm
2021				
Assets				
Other financial assets	3	(3)	–	–
Finance lease receivable	3	(3)	–	–
Liabilities				
Other financial liabilities	97	(97)	99	(99)
Interest rate swaps	83	(83)	83	(83)
Forward exchange contracts	16	(16)	16	(16)
Asset finance payable	(2)	2	–	–
	100	(100)	99	(99)
2020				
Assets				
Other financial assets	7	(7)	7	(7)
Forward exchange contracts	7	(7)	7	(7)
Liabilities				
Other financial liabilities	93	(93)	93	(93)
Interest rate swaps	93	(93)	93	(93)
Interest-bearing debt	9	(9)	–	–
	109	(109)	100	(100)

Notes to the financial statements continued

for the year ended 31 March 2021

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 and Company's profit for the year ended 31 March 2021 would increase/decrease by R264 million for Group (31 March 2020: increase/decrease by R94 million) and R261 million for Company (31 March 2020: increase/decrease by R96 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	
	+ 10% movement (Depreciation) Rm	- 10% movement (Appreciation) Rm	+ 10% movement (Depreciation) Rm	- 10% movement (Appreciation) Rm
2021				
Assets				
Other financial assets	36	(36)	36	(36)
Firm commitments	36	(36)	36	(36)
Liabilities				
Other financial liabilities	(285)	285	(284)	284
Firm commitments	185	(185)	185	(185)
Forward exchange contracts	(470)	470	(469)	469
Interest-bearing debt	(13)	13	(13)	13
Financial guarantees	(2)	2	–	–
	(264)	264	(261)	261
2020				
Assets				
Other financial assets	385	(335)	382	(332)
Forward exchange contracts	385	(335)	382	(332)
Foreign trade receivables	1	(1)	–	–
Liabilities				
Other financial liabilities	(272)	222	(272)	222
Firm commitments	(272)	272	(272)	272
Forward exchange contracts	–	(50)	–	(50)
Interest-bearing debt	(14)	14	(14)	14
Financial guarantees	(1)	1	–	–
Foreign trade payables	(5)	5	–	–
	94	(94)	96	(96)

14.6 Equity price risk

The Group's 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 R107 million (31 March 2020: R212 million). A 10% increase (31 March 2020: 10% increase) in the local equity portfolios at the reporting date would have increased profit or loss by R11 million (31 March 2020: R21 million) before tax. An equal and opposite change would have decreased profit or loss. A 10% 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.

Net debt is defined as interest-bearing debt and credit facilities utilised, less cash and cash equivalents. EBITDA is defined as earnings before depreciation, amortisation, impairment and losses, investment income, finance charges and fair value movements and taxation, and includes significant financing revenue recognised under IFRS 15 (Revenue from Contracts with Customers).

	Group		Company	
The net debt (excluding lease liabilities) to EBITDA at reporting date was as follows:	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Non-current portion of interest-bearing debt	10 173	10 105	10 173	10 105
Current portion of interest-bearing debt	693	1 900	693	1 900
Credit facilities utilised	1	2	–	–
Less: Cash and cash equivalents	(5 003)	(4 728)	(2 041)	(3 233)
Net debt	5 864	7 279	8 825	8 772

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for the year ended 31 March 2021

15. Investments

15.1 Investment in subsidiaries and loans and preference share investment in subsidiaries

15.1.1 Investment in subsidiaries

	Company	
	31 March 2021 Rm	31 March 2020 Rm
	8 418	8 418
Yellow Pages (formerly known as TDS Directory Operations/Trudon) (Pty) Ltd		
100% shareholding at cost	326	326
Swiftnet (Pty) Ltd (Gyro Masts and Towers)		
100% shareholding at cost	1 239	1 239
Business Connexion Group Ltd (BCX)		
100% shareholding at cost	6 579	6 579
Gyro Properties (Pty) Ltd		
100% shareholding at cost (R100)	129	129
Gyro Solutions (Pty) Ltd		
100% shareholding at cost (R100)	5	5
Investment in the FutureMakers Fund	140	140

15.1.2 Loans and preference share investment in subsidiaries

	Carrying value	
	2021 Rm	2020 Rm
Current portion of Cybernest and RMB loans	–	128

15.2 Other investments

15.2.1 Non-current other investments

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Unlisted investment	115	62	–	–
FutureMakers Fund	107	51	–	–
Investment	117	61	–	–
Devaluation/impairment	(10)	(10)	–	–
Investment in associates	8	11	–	–

15.2.2 Current other investments

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Current other investments	61	207	61	207
At fair value through profit or loss	–	161	–	161
Absa sinking fund investment	–	161	–	161
Investment in insurance cell captive	61	46	61	46
Initial investment	5	5	5	5
Insurance service result	56	41	56	41
Insurance service result				
At 1 April	41	–	41	–
Net insurance revenue	15	41	15	41
Premiums earned	105	189	105	189
Claims paid	(78)	(119)	(78)	(119)
Investment income	4	8	4	8
Other expenses	(11)	(20)	(11)	(20)
Taxation paid	(5)	(17)	(5)	(17)
At 31 March	56	41	56	41

Notes to the financial statements continued

for the year ended 31 March 2021

15. Investments continued

15.2 Other investments continued

15.2.2 Current other investments continued

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 accounts for this at cost as an investment in a subsidiary. Telkom Group consolidates the fund and holds the investments within the fund at fair value. The underlying investments in the fund have been designated as at fair value through profit or loss as this more appropriately reflects the basis on which management measures and monitors the performance of the investment. No change was made to this designation following the adoption of IFRS 9. In 2018, the partnership agreement was amended to also include BCX. BCX invested an amount of R100 million which is reflected as a financial asset 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). The year end of the associate, 31 December, is different to that of the Company and the impact is not material.

Absa sinking fund investment
The Absa sinking fund investment is accounted for at fair value through profit or loss. The investment is a part of the Absa cell captive which is held in the form of a 100% preference share. The cell captive is divided into two ring-fenced funds. The annuity fund, which serves as the fund asset for Telkom's Post Retirement Medical Aid liability (refer to note 29) and the sinking fund. The investment above relates to the sinking fund and represents the fair value of the underlying investments made by the fund. The sinking fund is invested in highly liquid instruments and is classified as a current asset as it is management's intention to liquidate portions of the asset in the short term.

The significant decrease in the Absa sinking fund investment was due to a withdrawal in the current financial year.

Investment in insurance cell captive
Telkom has entered into a cell captive arrangement with Mutual and Federal and Guardrisk. Both Mutual and Federal and Guardrisk are licensed insurance companies.

Mutual and Federal underwrites the Telkom device insurance and Guardrisk underwrites the Telkom life insurance.

Both cells are a ring-fenced insurance business and Telkom's participation is restricted to the results of the insurance businesses. The cell captive arrangements effectively represent investments in a separate class of shares in the cell captive insurer (Guardrisk and Mutual and Federal). The customer is responsible for paying the premium.

Insurance risk
The device insurance allows Telkom's customers to insure their devices against theft, accidental loss and accidental physical damage. The life insurance allows customers to ensure lives with the main product being the death benefit cover. Both the Mutual and Federal third party cell captive and the Guardrisk third party cell captives meets the IFRS 4 (Insurance Contracts) definition of an insurance contract. Accordingly, the cell captive arrangement is accounted for in terms of IFRS 4.

Telkom is exposed to the risk that should there be insufficient capital available to honour the claims made by the policyholders in the cell captive arrangement it has to recapitalise the cell captive. Therefore, Telkom has accepted a sizeable insurance risk from the third parties (policy holders) in a controlled manner by investing in the businesses that is liable to compensate the third party in the event a specified risk occurs.

The following are events/risks that may lead to insufficient capital being available to honour the customer claims:

- *Loss rate risk* – risk that the actual experienced loss/claims are higher than that assumed and can't be covered by collected insurance premiums. For device insurance, this relates to claims due to loss of devices or accidental physical damage or theft. For life insurance, this relates to loss of insured life/assumed mortality rate.
- *Business volume risk* – risk that the insurance business may not attract and sell sufficient volumes to cover the fixed costs of running the business.
- *Contract persistency risk* – risk that customers will terminate their contracts prior to contractual maturity.

Telkom, as the cell owner of both cell captives, is obliged to ensure that the cell always maintains financially sound requirements (solvency and liquidity). Where the cell's solvency and liquidity requirements are adversely affected, Telkom is required to inject capital into the cell. Due to the insignificance of the risk exposure at this stage on both cell captives, Telkom has opted not to reinsure its insurance risk on both cell captives.

Telkom develops an annual business plan which is reviewed on a monthly basis, including the assessment of financial statements of the cell to monitor the financial performance and position. The risks are also mitigated through the cell captive arrangement with Mutual and Federal and Guardrisk, respectively, as both companies have vast experience in the insurance and financial management of insurance contracts. The claims ratio is closely monitored to ensure that they have considered that all possible risk mitigation actions are implemented.

Concentrations of insurance risk
In determining the value of the insurance liability/asset position, assumptions are made regarding the loss rates. The insurance investment is more sensitive to the loss/claim rates.

The assumptions are informed by extensive industry level insights and experience and are assessed annually. The assumptions are aligned to the Standards of Actual Practice. The uncertainty of these rates may result where actual experienced claims are different from the assumptions, however due to the close monitoring of the claims behaviour and vast experience and understanding of the insurance business, the difference between the assumptions and actuals are both quantitatively and qualitatively immaterial. Additionally, the uncertainties are resolved within a short period of time (less than 12 months). Management is of the view that at this stage risk exposure is not material enough to warrant re-insuring the risk. The risk arising from the sensitivity of the assumptions is mitigated through the governance and close monitoring of the cell performance and position by the Telkom insurance division's management and the respective cell captive boards.

Measurement
Aligned with IFRS 4 requirements, on initial recognition, Telkom recognised its contribution to the cell captive as an investment in insurance cell captive in the balance sheet.

Subsequently, the results of the insurance business are determined in accordance with the shareholders' agreement. In accordance with IFRS 4, the underwriting activities are determined on an annual basis whereby the earned premiums and incurred costs of claims and related expenses are recognised as an insurance service result in the statement of profit or loss and other comprehensive income.

The results of the cell captive arrangements are presented on a net basis in the statement of financial position as either a net receivable from, or net payable to, the Group as an investment in insurance cell captive. The value of the investment in insurance cell captive is determined based on the net asset value of the insurance cell captive at the reporting date. Movements during the year, which are included in the net returns of the investment in insurance cell captive, comprise the following:

- Premiums earned
- Claims recovered
- Investment and other income earned from the cell captive assets
- Claims paid
- Other operational and marketing expenses

Telkom does not incur or recognise any commission from this existing insurance contract.

15.3 Impairment considerations

The Company holds a 100% interest in BCX and accounts for this investment as a subsidiary in terms of IAS 27 (Consolidated and Separate Financial Statements). Under IAS 36 (Impairment of Assets), the Group is required to test investments in subsidiaries carried at cost for impairment if there is an indicator of impairment.

Management identified an impairment indicator regarding the material investment in BCX due to the matters noted in the goodwill section and performed impairment tests as a result. Refer to note 13.

16. Lease receivables

16.1 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 IFRS 16.

Group	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
2021				
Minimum lease payments receivable				
Lease payments receivable	565	260	305	–
Unearned finance income	(67)	(32)	(35)	–
Present value of minimum lease income (lease receivables)	**498**	**228**	**270**	**–**
2020				
Minimum lease payments receivable				
Lease payments receivable	293	128	165	–
Unearned finance income	(40)	(22)	(18)	–
Present value of minimum lease income (lease receivables)	253	106	147	–

Notes to the financial statements continued

for the year ended 31 March 2021

16. Lease receivables continued

16.1 Finance lease receivables continued

Company	Total Rm	<1 year Rm	1 – 5 years Rm	>5 years Rm
2021				
Minimum lease payments receivable				
Lease payments receivable	189	93	96	–
Unearned finance income	(25)	(14)	(11)	–
Present value of minimum lease income (lease receivables)	**164**	**79**	**85**	**–**
2020				
Minimum lease payments receivable				
Lease payments receivable	293	128	165	–
Unearned finance income	(40)	(22)	(18)	–
Present value of minimum lease income (lease receivables)	253	106	147	–

16.2 Operating lease revenue

Group	Total Rm	<1 year Rm	1 - 5 years Rm	>5 years Rm
2021				
Rental receivable on buildings	(102)	(31)	(39)	(32)
Exchanges	(196)	(62)	(134)	–
Mast and towers	(1 376)	(484)	(866)	(26)
Total	**(1 674)**	**(577)**	**(1 039)**	**(58)**
2020				
Rental receivable on buildings	(137)	(35)	(67)	(35)
Exchanges	(215)	(56)	(159)	–
Mast and towers	(1 506)	(531)	(974)	(1)
Total	(1 858)	(622)	(1 200)	(36)

Company	Total Rm	<1 year Rm	1 - 5 years Rm	>5 years Rm
2021				
Rental receivable on buildings	(24)	(21)	(2)	(1)
Exchanges	(165)	(53)	(112)	–
Total	**(189)**	**(74)**	**(114)**	**(1)**
2020				
Rental receivable on buildings	(58)	(26)	(33)	–
Exchanges	(176)	(48)	(128)	–
Total	(234)	(73)	(161)	–

17. Deferred taxation

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
	497	675	376	575
Opening balance	675	93	575	57
Profit and loss and opening balance movements	(197)	879	(218)	821
Capital allowances*	(156)	(1 971)	(154)	(2 017)
Provisions and other allowances**	(196)	2 176	(264)	2 165
Tax losses	234	337	234	337
Overprovision/(underprovision) prior year	(88)	328	(34)	336
Common control transactions/business combinations	9	9	–	–
Other comprehensive income deferred tax impact	19	(297)	19	(303)
The balance comprises:	497	675	376	575
Capital allowances*	(3 247)	(3 091)	(3 222)	(3 068)
Provisions and other allowances**	3 468	3 763	3 218	3 530
Business combination	(39)	(48)	–	–
Common control transaction	(32)	(32)	–	–
Tax losses	733	485	730	482
Overprovision prior year	–	3	–	–
Other comprehensive income tax impact	(386)	(405)	(350)	(369)
Deferred taxation balance is made up as follows:	497	675	376	575
Deferred taxation assets	723	828	376	575
Deferred taxation liabilities	(226)	(153)	–	–

* *In FY2020, the capital allowances were increased with the recognition of right-of-use assets due to the implementation of IFRS 16 (offset by the lease liabilities recognised in provisions and other allowances).*

** *The significant decrease in provisions and other allowances is mainly attributable to the employee restructuring expenses which realised during FY2021 and the lease liabilities recognised in FY2020 due to the implementation of IFRS 16.*

The decrease in the deferred taxation balance in the current year is primarily as a result of the reduced movements in temporary differences and tax losses through profit and loss and the effect of prior year over/under provisions. This decrease is offset by a R20 million additional asset (31 March 2020: R297 million additional liability) raised in Telkom SA SOC Ltd relating to the movement in other comprehensive income, including actuarial gains recognised on the post-employment benefit plans. This movement was accounted for in other comprehensive income.

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for the year ended 31 March 2021

18. Inventories

	Group 31 March 2021 Rm	Group 31 March 2020 Rm	Company 31 March 2021 Rm	Company 31 March 2020 Rm
	1 026	972	779	640
Gross inventories	1 180	1 130	891	764
Write-down of inventories to net realisable value	(154)	(158)	(112)	(124)
Inventories consist of the following categories:	1 180	1 130	890	764
Installation material, maintenance material and network equipment	477	382	476	383
Merchandise	703	748	414	381
Write-down of inventories to net realisable value	154	158	112	124
Opening balance	158	230	124	141
Charged to selling, general and administrative expenses	22	63	22	10
Inventories written off	(26)	(135)	(34)	(27)

The Group's inventory increased in the current financial year due to a network equipment bulk order discount deal.

19. Trade and other receivables and contract assets

19.1 Trade and other receivables

	Group 31 March 2021 Rm	Group 31 March 2020 Rm	Company 31 March 2021 Rm	Company 31 March 2020 Rm
Trade and other receivables	7 227	7 019	6 890	6 197
Trade receivables	5 077	4 867	4 947	4 678
Gross trade receivables	7 395	6 744	6 699	5 871
Impairment of receivables	(2 318)	(1 877)	(1 752)	(1 193)
Other receivables	1 652	1 794	1 663	1 394
Prepayments	498	358	280	125

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

Trade receivables are recognised initially at the transaction price, unless they contain significant financing components, in which case they are recognised at fair value.

Other receivables generally arise from transactions outside the usual operating activities of the Group.

	Group 31 March 2021 Rm	Group 31 March 2020 Rm	Company 31 March 2021 Rm	Company 31 March 2020 Rm
Allowance account for credit losses – trade receivables	2 318	1 877	1 752	1 193
Opening balance as previously reported	1 877	1 207	1 193	1 005
Charged to statement of profit or loss and other comprehensive income	1 008	795	853	418
Enterprise loss allowance movement	–	–	(119)	(18)
Receivables written off	(567)	(125)	(175)	(212)

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period ranging between 90 days past due and 180 days past due, based on the customer segment.

Refer to note 14.3 for a detailed credit risk analysis.

19.2 Contract assets

	Group 31 March 2021 Rm	Group 31 March 2020 Rm	Company 31 March 2021 Rm	Company 31 March 2020 Rm
Contract assets	1 747	1 979	1 635	1 850
Gross contract assets	2 157	2 411	2 045	2 282
Impairment of contract assets	(410)	(432)	(410)	(432)
Allowance account for credit losses – contract assets	410	432	410	432
Opening balance as previously reported	432	170	432	170
Charged to statement of profit or loss and other comprehensive income	31	345	31	345
Contract assets written off	(53)	(83)	(53)	(83)

Contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period ranging between 90 days past due and 180 days past due, based on the customer segment.

Refer to note 14.3 for a detailed credit risk analysis.

Sale of contract assets
Telkom entered into an agreement with a financial institution to factor a ring-fenced group of contract assets. The gross carrying amount of the contract assets factored is R422 million.

Per the arrangement, Telkom retains the contractual right to receive cash flows, and has assumed a contractual obligation to pay these cash flows received to the financial institution.

Based on the structure of the agreement, the IFRS 9 (Financial Instruments) "pass through" criteria were met for the derecognition of the contract assets and the contract asset portfolio was derecognised in its entirety as significant risks and rewards were transferred. Telkom recognised a derecognition gain of R63 million within other income in the statement of profit or loss and other comprehensive income. The total cash inflow related to the derecognition is included in cash flows from operating activities in the statement of cash flows.

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

Significant changes in contract assets
Contract assets have decreased from the prior year mainly due to the derecognition of contract assets in the current year.

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20. Other current assets

	Group		Company	
	31 March 2021 Rm	31 March* 2020 Rm	**31 March 2021 Rm**	31 March* 2020 Rm
Other current assets	459	536	459	536
Contract costs capitalised	261	299	261	299
Ongoing commission capitalised assets	198	237	198	237
Contract costs capitalised	261	299	261	299
Opening balance	299	226	299	226
Contract costs capitalised during the year	265	344	265	344
Contracts cancelled during the year	(26)	(21)	(26)	(21)
Amortisation recognised as cost of providing services during the year	(277)	(250)	(277)	(250)

* *In the current financial year, contracts cancelled are included in the above reconciliation. In the prior year, this was included in the contract costs capitalised line item during the year. The prior year disclosure has been updated for comparability purposes.*

Contract costs capitalised relate to commission and incentive costs paid to dealers and sales staff, which are considered incremental to the acquisition and fulfilment of the contract. The contract costs capitalised are amortised as an expense over the term of the contract to which the commission relates. Management expects that the full cost will be recovered through the revenue recognised on these contracts and has consequently not recognised any impairment on the contract costs capitalised. Contract costs capitalised have decreased due to lower sales during the COVID-19 lockdown period as the sales channels/stores were closed.

Ongoing commission capitalised assets				
Contract asset – ongoing commission	198	237	198	237
Ongoing commission (included in trade and other payables)	(198)	(237)	(198)	(237)
Opening balance	237	131	237	131
Expense amortised in the current year	(127)	(114)	(127)	(114)
New contracts entered into	206	286	206	286
Contracts cancelled during the year	(118)	(66)	(118)	(66)
Closing balance	**198**	**237**	**198**	**237**

21. Other financial assets and liabilities

21.1 Other financial assets

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	**31 March 2021 Rm**	31 March 2020 Rm
Non-current other financial assets	81	192	–	–
Other financial assets at amortised cost				
Asset finance receivables	81	192	–	–
Current other financial assets	88	759	88	507
Other financial assets at amortised cost				
Asset finance receivables	–	226	–	–
Other financial assets at fair value through profit or loss				
Derivative instruments used for hedging	88	533	88	507
Forward exchange contracts	–	533	–	507
Firm commitments	88	–	88	–

21.2 Other financial liabilities

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	**31 March 2021 Rm**	31 March 2020 Rm
Non-current other financial liabilities	(107)	(62)	–	–
Other financial liabilities at amortised cost				
Asset finance payables	(107)	(62)	–	–
Current other financial liabilities	(622)	(919)	(2 248)	(3 426)
Other financial liabilities at amortised cost	(200)	(233)	(1 854)	(2 753)
Asset finance payables	(86)	(57)	–	–
Vendor financing	(114)	(176)	–	–
BCX treasury fund	–	–	(1 854)	(2 753)
Other financial liabilities at fair value through profit or loss	(422)	(686)	(394)	(673)
Derivative instruments used for hedging	(400)	(673)	(394)	(673)
Forward exchange contracts	(179)	–	(173)	–
Firm commitments	(19)	(530)	(19)	(530)
Interest rate swaps	(202)	(143)	(202)	(143)
Financial guarantees	(22)	(13)	–	–

The South African rand appreciated in March 2021 against the USD. This resulted in losses in the fair value of FEC's and corresponding gains in the firm commitments. The losses in the interest rate swaps is due to the deterioration of the South African economy and the impact of the lower interest rate environment. The Group pays the fixed interest leg of the swap and receives the floating interest leg. The current fixed rates are higher than the floating rate in return. The interest rate swaps are used to hedge the debt which is predominately floating rate debt.

Financial guarantee

The sale of Business Connexion ICT Services (BCX Nigeria), previously a wholly owned subsidiary of Business Connexion International Group Holdings, was concluded on 31 January 2020. BCX has, in prior years, provided Stanbic Bank with a financial guarantee in respect of BCX Nigeria's banking facility with Stanbic Bank to the value of USD3 million. As part of the disposal agreement, BCX Nigeria needs to contractually reduce BCX's guaranteed exposure by an average amount of USD375 000 per quarter, starting on 31 March 2020, and then quarterly thereafter. The guarantee period ends 31 December 2022.

The total exposure on the financial guarantee relating to Nigeria (now a 3rd party – Arravo Global Services) amounts to R22 million as at 31 March 2021 (31 March 2020: R46 million), based on an expected credit loss (ECL) valuation that was performed to quantify the potential exposure. The total exposure of the financial guarantee will be triggered if Arravo was unable to meet its obligations in terms of the repayment agreement. During the current financial year, the default probability has been assessed by management as being likely. Management accounted for the full exposure as a financial guarantee liability and this is disclosed as part of other financial liabilities.

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21. Other financial assets and liabilities continued

21.2 Other financial liabilities continued

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

Derivatives that do not meet the hedge accounting requirements
The Group uses forward exchange contracts and interest rate swaps to economically hedge its foreign exchange and interest rate exposures. This relates to the "Other" category of forward exchange contracts as referred to in note 14.5. These derivative instruments are measured at fair value through profit or loss.

Derivatives that meet the hedge accounting requirements
The Group uses forward exchange contracts to hedge its exposure to changes attributable to movements in the spot exchange rate of its firm commitments. These derivatives are designated as fair value hedges.

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

The Group implements fair value hedge accounting where the hedging relationship meets the requirements of IAS 39.

Hedge effectiveness is determined at inception of the hedge relationship and at every reporting period end through the assessment of the hedged items and hedging instrument to determine whether there is still an economic relationship between the two.

The critical terms of the hedging instrument entered into exactly match the terms of the hedged item. As such, the economic relationship and hedge effectiveness are based on the qualitative factors and the use of a hypothetical derivative, where appropriate.

	Group				
	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge effectiveness
Derivatives that meet the hedge accounting requirements:	Rm	Assets Rm	Liabilities Rm	Rm	Rm
2021					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	2 963	–	(179)	Other financial assets and other financial liabilities	460
2020					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	3 621	533	–	Other financial assets and other financial liabilities	619

	Company				
	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the statement of financial position where the hedging instrument is located	Changes in fair value used for calculating hedge effectiveness
	Rm	Assets Rm	Liabilities Rm	Rm	Rm
2021					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	2 661	–	(173)	Other financial assets and other financial liabilities	460
2020					
Foreign exchange risk fair value hedging relationship					
Forward exchange contracts	3 344	507	–	Other financial assets and other financial liabilities	619

A decrease in fair value of the forward exchange contracts, designated as fair value hedges, of R460 million (31 March 2020: R619 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.

22. Net cash and cash equivalents

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Cash disclosed as current assets	5 003	4 728	2 041	3 233
Cash and bank balances	3 637	2 208	675	713
Short-term deposits	1 366	2 520	1 366	2 520
Credit facilities utilised	(1)	(2)	–	–
Net cash and cash equivalents	5 002	4 726	2 041	3 233
Undrawn borrowing facilities	6 578	6 634	5 750	5 750

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 2021, R5.5 billion (31 March 2020: R5.5 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.

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23. Share capital

Authorised and issued share capital is made up as follows:	Group 31 March 2021 Rm	Group 31 March 2020 Rm	Company 31 March 2021 Rm	Company 31 March 2020 Rm
Authorised				
1 000 000 000 ordinary shares of R10 each	10 000	10 000	10 000	10 000
Issued				
504 975 439 (31 March 2020: 504 975 439) ordinary shares of R10 each (fully paid up)	5 050	5 050	5 050	5 050
6 164 800 (31 March 2020: 6 164 800) shares at no consideration	–	–	–	–

The following table illustrates the movement within the number of shares issued:	Group Number of shares		Company Number of shares	
Shares in issue at the beginning of the year	511 140 239	511 140 239	511 140 239	511 140 239
Shares repurchased and cancelled during the year	–	–	–	–
Shares in issue at the end of the year	511 140 239	511 140 239	511 140 239	511 140 239

There is only one class of shares, ordinary shares. Each share has the same right to receive dividends and the repayment of capital and represents one vote at shareholders' meetings of Telkom SA SOC Ltd. Other than voting rights, there are no other preferences attached to the shares.

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.

24. 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.

The movement within the share-based compensation reserve is:	Group 31 March 2021 Rm	Group 31 March 2020 Rm	Company 31 March 2021 Rm	Company 31 March 2020 Rm
Balance at the beginning of the year	835	512	810	487
Net increase in equity	201	323	154	323
Employee cost (refer to note 6)	203	328	154	323
Vesting of shares	(2)	(5)	–	–
Balance at the end of the year	1 036	835	964	810

The increase in the share-based payment reserve relates to the accelerated vesting of shares due to the voluntary severance, retirement and retrenchment packages in the current year.

25. Non-distributable reserves

	Group 31 March 2021 Rm	Group 31 March 2020 Rm	Company 31 March 2021 Rm	Company 31 March 2020 Rm
	1 361	1 642	732	989
Opening balance	1 642	1 621	989	1 033
Movement during the year	(281)	21	(257)	(44)
(Decrease)/increase in foreign currency translation reserve	(25)	65	–	–
Increase in treasury shares for Telkom Company share plan	(286)	(159)	(285)	(159)
Vesting of shares under Group share plan	2	–	–	–
Escrow shares realised for settlement to employees	12	(14)	12	(14)
Revaluation of the sinking fund investment reserve	1	88	1	88
Insurance service result	15	41	15	41

The fair value gains from the sinking fund 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 (Pty) Ltd, 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:	2021 Number of shares	2021 Rm	2020 Number of shares	2020 Rm
Treasury shares in Escrow	16 056 950	680	12 414 814	231
Rossal No 65 (Pty) Ltd	919 749	39	–	–
Total	16 976 699	719	12 414 814	231

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

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26. Interest-bearing debt

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	**31 March 2021 Rm**	31 March 2020 Rm
Total interest-bearing debt	10 866	12 005	10 866	12 005
Non-current interest-bearing debt	10 173	10 105	10 173	10 105
Local debt	9 135	9 184	9 135	9 184
Foreign debt	1 038	921	1 038	921
Current portion of interest-bearing debt	693	1 900	693	1 900
Local debt	693	1 900	693	1 900
Bond	–	250	–	250
Commercial paper bills	–	600	–	600
Other loans*	693	1 050	693	1 050

** Other loans relate to loans from Absa, Standard Bank and Future Growth. These are local bank loans.*

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	**31 March 2021 Rm**	31 March 2020 Rm
Total interest-bearing debt is made up as follows:	10 866	12 005	10 866	12 005
(a) Local debt	9 828	11 084	9 828	11 084
Telkom debt instruments	9 828	11 084	9 828	11 084
Name, maturity, rate p.a., nominal value				
TL22, 2021, 7.938%	–	250	–	250
TL23, 2022, 5.332%	592	592	592	592
TL24, 2022, 9.04% (fixed)	423	423	423	423
TL25, 2024, 9.57% (fixed)	835	835	835	835
TL26, 2024, 5.642%	400	400	400	400
TL27, 2023, 5.192%	500	500	500	500
TL28, 2025, 9.28% (fixed)	1 000	1 000	1 000	1 000
TL29, 2025, 5.482%	500	500	500	500
TL30, 2024, 5.11%	877	877	877	877
TL31, 2026, 5.32%	623	623	623	623
TL32, 2027, 5.292%	1 000	1 000	1 000	1 000
Commercial paper bill, 2020, 7.242%	–	600	–	600
Export Credit Agency (ECA) loan, 2022 – 2030, 9.3%	–	773	–	773
Export Credit Agency (ECA) loan, 2022 – 2030, 6.142%	907	–	907	–
Export Credit Risk Agreement – insurance premium (unamortised cost)	(94)	(104)	(94)	(104)
Loans, 2021 – 2026, 4.4% – 5.6%	2 265	–	2 265	–
Loans, 2020 – 2026, 6.1% – 8.417%	–	2 815	–	2 815

Total interest-bearing debt is made up of R10 866 million debt at amortised cost (31 March 2020: R12 005 million debt at amortised cost). Finance costs accrued on debt are included in trade and other payables.

Other loans are repayable quarterly and have maturities ranging from 2021 to 2026. The ECA loan is repayable quartely from 2022 to 2030.

The floating debts are priced based on the three-month JIBAR plus a margin.

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	**31 March 2021 Rm**	31 March 2020 Rm
(b) Foreign debt	1 038	921	1 038	921
Telkom	1 038	921	1 038	921
Maturity, rate p.a., nominal value				
ECA ZAR loan: 2022 - 2030, 9.3%	907	772	907	772
Euro: 2022 - 2025, 0.14% (2020: 0.14%), €7.6 million (2020: €7.6 million)	131	149	131	149
Included in non-current and current debt is:				
Debt guaranteed by the South African Government	131	149	131	149

During the year under review, R268 million (31 March 2020: R8 660 million) debt was raised for Group and Company. R1 400 million (31 March 2020: R6 950 million) debt was repaid for Group and Company.

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 22.

Interest-bearing debt
Interest-bearing debt is at amortised cost and finance costs 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.

Debt covenants applicable to Telkom loans require the following for the Group:

- Net debt to EBITDA of at least 3:1
- EBITDA to finance charges of at least 3.5:1

During the year, no non-compliance with the requirements of the covenants were noted.

Repayments/refinancing of the current portion of interest-bearing debt
The repayment of the current portion of interest-bearing debt of R693 million (31 March 2020: R1 900 million) for Company and Group as at 31 March 2021 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		Company	
	31 March 2021 Rm	Restated 31 March 2020* Rm	31 March 2021 Rm	31 March 2020 Rm
Non-current provisions	619	343	601	330
Non-current employee related provisions	606	338	579	316
Subsidiary defined benefit plans (refer to note 29 for the reconciliation of the opening to closing balance)	27	22	–	–
Telephone rebates (refer to note 29 for the reconciliation of the opening to closing balance)	325	316	325	316
Telkom Retirement Fund (refer to note 29 for the reconciliation of the opening to closing balance)	254	–	254	–
Non-current non-employee related provisions				
Other	13	5	22	14
Current provisions	1 613	2 006	1 043	1 589
Current portion of employee related provisions	1 480	1 752	1 014	1 554
Annual leave	473	479	288	306
Balance at the beginning of the year	479	466	306	302
Charged to employee expenses	25	36	(12)	4
Leave paid/utilised	(31)	(23)	(6)	–
Telephone rebates (refer to note 29 for the reconciliation of the opening to closing balance)	39	39	39	39
Bonus, termination packages and other benefits	968	1 234	687	1 209
Balance at the beginning of the year	1 234	670	1 209	519
Charged to employee expenses	1 186	1 636	810	1 321
Payments made	(1 452)	(1 072)	(1 332)	(631)
Current portion of non-employee related provisions				
Other*	133	254	29	35

** Restated. Refer to note 2.3.1.1.*

Annual leave
In terms of the Group's policy, employees are entitled to accumulate vested leave benefits not taken within a leave cycle, to a cap of 15 - 30 days (31 March 2020: 15 - 30 days) which must be taken within a 6 - 19 month (31 March 2020: 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 Group's results have been made public, with a 14th cheque payable for a certain group of employees.

Voluntary Early Retirement Package (VERP)/Voluntary Severance Package (VSP) and retrenchment provision
During the year under review, the Group initiated a voluntary severance and retrenchment process. An expense relating to the process of R270 million (31 March 2020: R1 186 million) was recognised in the year ending 31 March 2021.

Non-employee related provisions
Other provisions relate to the ICASA licence fee provision and restoration provisions.

28. Deferred revenue

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Deferred revenue	1 931	2 150	1 814	1 991
Non-current deferred revenue	235	396	227	375
Current portion of deferred revenue	1 696	1 754	1 587	1 616

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

Deferred revenue recognised at the beginning of the year
At the end of the prior year, R1 754 million (31 March 2020: R1 396 million) for Group and R1 616 million (31 March 2020: R1 338 million) for Company, was recognised as a current liability. The total revenue recognised in the current year, which related to carried forward deferred revenue associated to installation fee revenue and revenue billed in advance, is disclosed in the table below. The closing balance represents new contracts entered into where the performance obligations have not yet been met at year-end. The amounts recognised as a contract liability will generally be utilised within the next reporting period.

Revenue recognised in relation to contract liabilities				
Deferred revenue	2 023	1 857	1 857	1 679

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29. Employee benefits

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Non-current assets	1 317	992	1 317	992
Telkom Pension Fund asset	17	15	17	15
Post-retirement medical aid recognition of net plan asset	1 300	977	1 300	977

The increase in employee benefits, specifically the plan assets, is largely due to the actuarial gain. The actuarial gain is due to the change in experience adjustments.

	Group		Company	
Defined benefit plan actuarial (losses)/gains	(69)	1 080	(69)	1 080
Telkom Pension Fund net actuarial gain/(loss)	1	(8)	1	(8)
Telkom Retirement Fund net actuarial (loss)/gain	(212)	813	(212)	813
Medical aid net actuarial gain	145	170	145	170
Telephone rebate net actuarial (loss)/gain	(1)	105	(1)	105
Long service award net actuarial loss	(2)	–	(2)	–

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.

General information applicable to all funds
The weighted average duration of all the post-employment benefit obligations is 10 years (31 March 2020: 10 years).

The next full valuations for all funds will be performed at 31 March 2022.

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 2021 indicates that the pension fund is in a surplus position of R121 million (31 March 2020: R93 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.

The funded status of the Telkom Pension Fund is disclosed below:	Group 31 March 2021 Rm	Group 31 March 2020 Rm	Company 31 March 2021 Rm	Company 31 March 2020 Rm
The Telkom Pension Fund				
The net periodic pension costs include the following components:				
Interest cost on projected benefit obligations	5	5	5	5
Service cost on projected benefit obligations	1	1	1	1
Interest on plan assets after asset restriction	(7)	(7)	(7)	(7)
Curtailment	–	–	–	–
Net periodic pension expense recognised in profit or loss	**(1)**	**(1)**	**(1)**	**(1)**
The net periodic other comprehensive income includes the following components:				
Actuarial loss/(gain) from financial assumption changes	–	(5)	–	(5)
Actuarial gain due to demographic assumption changes	(2)	(9)	(2)	(9)
Asset ceiling in terms of IAS 19.64	1	22	1	22
Net periodic pension (income)/expense recognised in other comprehensive income	**(1)**	**8**	**(1)**	**8**
Cumulative actuarial gain	(74)	(73)	(74)	(73)
The status of the pension plan obligation is as follows:				
At the beginning of the year	53	53	53	53
Interest cost	6	5	6	5
Current service cost	1	1	1	1
Employee contributions	–	1	–	1
Benefits paid	(12)	–	(12)	–
Actuarial gain	–	(7)	–	(7)
Benefit obligation at the end of the year	**48**	**53**	**48**	**53**
Plan assets at fair value:				
At the beginning of the year	146	152	146	152
Interest on plan assets	16	15	16	15
Benefits paid	(12)	–	(12)	–
Contributions	–	1	–	1
Actuarial gain/(loss)	18	(22)	18	(22)
Plan assets at the end of the year	**168**	**146**	**168**	**146**
Present value of funded obligation	48	53	48	53
Fair value of plan assets	(168)	(146)	(168)	(146)
Fund surplus	(121)	(93)	(121)	(93)
Asset ceiling in terms of IAS 19.64	104	78	104	78
Recognised net asset	**(17)**	**(15)**	**(17)**	**(15)**
Interest on plan assets after asset restriction	10	10	10	10
Actuarial gain/(loss) on plan assets	18	(22)	18	(22)
Actual return on plan assets	**28**	**(12)**	**28**	**(12)**
Plan assets balance comprises:				
Cash and cash equivalents	7	7	7	7
Equity securities	71	66	71	66
Property	3	4	3	4
Bonds	33	23	33	23
Commodities	2	2	2	2
Foreign investments	52	44	52	44
Total	**168**	**145**	**168**	**145**

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for the year ended 31 March 2021

29. Employee benefits continued

Funding arrangements
The Telkom Pension Fund invests its funds in South Africa and internationally. Two fund managers invest in South Africa and globally through their balanced funds. The Telkom Pension Fund is a closed defined benefit fund which no new employees can join.

There is no material investment in Telkom shares included in the Telkom Pension Fund asset.

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	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Males over 65	16.7	16.7	16.7	16.7
Females over 65	20.9	20.8	20.9	20.8
Discount rate (%)	11.5	12.1	11.5	12.1
Interest on plan assets (%)	11.5	12.1	11.5	12.1
Salary inflation rate (%)	6.7	7.4	6.7	7.4
Pension increase allowance (%)	5.5	5.5	5.5	5.5

The overall long-term expected interest on assets is 11.5%. 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	20	22	20	22
The fund portfolio consists of the following percentages:				
Cash (%)	4	5	4	5
Equities (%)	42	45	42	45
Property (%)	2	3	2	3
Bonds (%)	20	16	20	16
Commodities (%)	1	1	1	1
Foreign Investments (%)	31	30	31	30
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 2022 is R0.5 million.

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 are on a defined contribution scheme. 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 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. Therefore, if the present value of the funded obligation was to exceed the fair value of plan assets, Telkom would be required to fund the statutory deficit.

The retirement fund exposes the Group to actuarial risks, such as longevity, currency, interest rate and market risk.

The funded status of the Telkom Retirement Fund is disclosed below:	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
The Telkom Retirement Fund				
The net periodic retirement costs include the following components:				
Interest cost on projected benefit obligations	3 869	3 620	3 869	3 620
Interest on plan assets	(3 836)	(3 589)	(3 836)	(3 589)
Service cost on projected benefit obligations	500	584	500	584
Curtailment	4	8	4	8
Net periodic pension expense recognised in profit or loss	537	623	537	623
The net periodic other comprehensive income includes the following components:				
Actuarial (loss)/gain due to financial assumptions changes	(2 036)	2 851	(2 036)	2 851
Actuarial gain/(loss) due to experience adjustments	1 824	(1 963)	1 824	(1 963)
Actuarial loss due to demographic assumptions changes	–	(75)	–	(75)
Net periodic pension (expense)/income recognised in other comprehensive income	(212)	813	(212)	813
Cumulative actuarial loss	42	254	42	254
Benefit obligation:				
At the beginning of the year	34 972	38 218	34 972	38 218
Interest cost	3 869	3 620	3 869	3 620
Current service cost	500	584	500	584
Employee contributions	264	306	264	306
Benefits paid	(2 190)	(1 516)	(2 190)	(1 516)
Transfers in	11	9	11	9
Curtailment gain	(2 036)	(124)	(2 036)	(124)
Actuarial loss/(gain)	1 551	(6 125)	1 551	(6 125)
Benefit obligation at the end of the year	36 939	34 972	36 939	34 972
Plan assets:				
At the beginning of the year	35 420	37 466	35 420	37 466
Interest on plan assets	3 836	3 589	3 836	3 589
Change in asset restriction	(448)	–	(448)	–
Employer contributions	495	562	495	562
Employee contributions	264	306	264	306
Benefits paid	(2 190)	(1 516)	(2 190)	(1 516)
Curtailment loss	(2 041)	(132)	(2 041)	(132)
Transfers in	11	9	11	9
Actuarial gain/(loss)	1 337	(4 864)	1 337	(4 864)
Plan assets at the end of the year	36 684	35 420	36 684	35 420
Present value of funded obligation	36 939	34 972	36 939	34 972
Fair value of plan assets	36 684	35 420	36 684	35 420
Fund surplus	255	(448)	255	(448)
Asset ceiling in terms of IAS 19.64	–	448	–	448
Net liability	255	–	255	–
Interest on plan assets	3 836	3 589	3 836	3 589
Actuarial gain/(loss) on plan assets	1 337	(4 864)	1 337	(4 864)
Actual return on plan assets	5 173	(1 275)	5 173	(1 275)
Plan asset balance comprises:				
Equities	3 599	4 972	3 599	4 972
Property	1 080	1 376	1 080	1 376
Bonds	14 253	12 460	14 253	12 460
Africa	3 523	3 322	3 523	3 322
Cash	5 515	3 424	5 515	3 424
Foreign investments	8 714	9 863	8 714	9 863
Total	36 684	35 418	36 684	35 418

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for the year ended 31 March 2021

29. Employee benefits continued

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		Company	
Included in the fair value of plan assets:	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Telkom shares	25	97	25	97
The Telkom Retirement Fund investment strategy has been implemented through the appointment of several asset managers with local and global segregated 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.				
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	16.7	16.7	16.7	16.7
Females over 65	20.9	20.8	20.9	20.8
Discount rate (%)	11.5	12.1	11.5	12.1
Interest on plan assets (%)	11.5	12.1	11.5	12.1
Pension increase allowance (%)	4.5	5.3	4.5	5.3
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	13 205	12 683	13 205	12 683
The number of in-service employees entitled to retire in the Telkom Retirement Fund	10 142	12 301	10 142	12 301
The fund portfolio consists of the following percentages:				
Equities (%)	10	14	10	14
Property (%)	3	4	3	4
Bonds (%)	38	35	38	35
Africa (%)	10	9	10	9
Cash (%)	15	10	15	10
Foreign investments (%)	24	28	24	28
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 2022 is R479 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 2021.

Telkom has allocated certain investments to fund this liability as set out in note 15.2. The annuity policy of the sinking fund 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.

The medical aid plan exposes the Group to actuarial risks, such as longevity, currency, interest rate and market risk.

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Medical aid				
Benefit obligation:				
At the beginning of the year	1 702	1 984	1 680	1 962
Interest cost	180	179	180	179
Service cost	1	2	1	2
Actuarial loss/(gain)	29	(243)	29	(243)
Curtailment loss	–	(2)	–	(2)
Buy-outs paid by Telkom	(30)	–	(30)	–
Benefits paid from plan assets	(198)	(188)	(198)	(188)
Contributions paid by Telkom	(27)	(30)	(27)	(30)
Benefit obligation at the end of the year	**1 657**	**1 702**	**1 635**	**1 680**
Plan assets at fair value:				
At the beginning of the year	2 656	2 668	2 656	2 668
Interest on plan assets	303	249	303	249
Benefits paid from plan assets	(198)	(188)	(198)	(188)
Actuarial gain/(loss)	174	(73)	174	(73)
Plan assets at the end of the year	**2 935**	**2 656**	**2 935**	**2 656**
Present value of funded obligation	1 657	1 702	1 635	1 680
Fair value of plan assets	(2 935)	(2 656)	(2 935)	(2 656)
	(1 278)	(954)	(1 300)	(976)
Liability as disclosed in the statement of financial position (refer to note 27)	27	23	–	-
Asset as disclosed in the statement of financial position	(1 305)	(977)	(1 300)	(976)
The net periodic other comprehensive income includes the following components:				
Actuarial (loss)/gain due to financial assumptions changes	(81)	206	(81)	206
Actuarial gain/(loss) due to experience adjustments	240	(36)	240	(36)
Actuarial loss due to demographic assumptions changes	(15)	–	(15)	–
Net periodic pension income recognised in other comprehensive income	**144**	**170**	**144**	**170**
Cumulative actuarial loss	(1 655)	(1 799)	(1 661)	(1 805)
Plan assets at fair value:				
Interest on plan assets	303	249	303	249
Actuarial gain/(loss) on plan assets	174	(73)	174	(73)
Actual return on plan assets	**477**	**176**	**477**	**176**
Plan asset balance comprises:				
Cash and cash equivalents	606	267	606	267
Equity securities	882	812	882	812
Bonds	1 369	540	1 369	540
Foreign investments	78	1 036	78	1 036
Total	**2 935**	**2 655**	**2 935**	**2 655**

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

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29. Employee benefits continued

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.

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Included in the fair value of plan assets:				
Telkom shares	0.3	0.3	0.3	0.3
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	16.7	16.7	16.7	16.7
Females over 65	20.9	20.8	20.9	20.8
Discount rate (%)	11.5	12.1	11.5	12.1
Interest on plan assets (%)	11.5	12.1	11.5	12.1
Medical inflation rate (%)	8.7	8.4	8.7	8.4
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	55	56	55	56
Number of in-service members	419	439	419	439
Number of pensioners	3 322	3 557	3 322	3 557
The fund portfolio consists of the following percentages:				
Cash and money market investments (%)	20	10	20	10
Equities (%)	30	31	30	31
Bonds (%)	47	20	47	20
Foreign investments (%)	3	39	3	39
Total	**100**	**100**	**100**	**100**

The total estimated contributions to be paid to the post-retirement medical aid by the employer for the year ending 31 March 2022 is Rnil as the liability is currently significantly overfunded.

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 2021. Eligible employees must be employed by Telkom until retirement age to qualify for the telephone rebates. The scheme is a defined benefit plan.

The telephone rebate benefit exposes the Group to actuarial risks, such as longevity, currency, interest rate and market risk.

	Group		Company	
The status of the telephone rebate liability is disclosed below:	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Benefit obligation:				
At the beginning of the year	355	451	355	451
Current service cost	3	3	3	3
Interest cost	39	42	39	42
Actuarial (loss)/gain	1	(105)	1	(105)
Curtailment loss	(6)	(10)	(6)	(10)
Past service cost	–	4	–	4
Benefits paid	(28)	(30)	(28)	(30)
Liability as disclosed in the statement of financial position (refer to note 27)	**364**	**355**	**364**	**355**
The net periodic other comprehensive income includes the following components:				
Actuarial (loss)/gain due to financial assumptions changes	(14)	69	(14)	69
Actuarial gain due to experience adjustments	13	–	13	–
Actuarial gain due to demographic assumptions changes	–	36	–	36
Net periodic pension (expense)/income recognised in other comprehensive income	**(1)**	**105**	**(1)**	**105**
Cumulative actuarial loss	103	104	103	104
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	16.7	16.7	16.7	16.7
Females over 65	20.9	20.8	20.9	20.8
Discount rate (%)	11.5	12.1	11.5	12.1
Contractual retirement	65	65	65	65
Average retirement age	55	55	55	55
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.				
Number of members	5 191	6 088	5 191	6 088
Number of pensioners	13 049	12 983	13 049	12 983

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29. Employee benefits continued

	Increase/(decrease) on the post-employment liability			
	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Sensitivity analysis				
The Telkom Pension Fund				
Increase in discount rate by 0.5%	(1)	(1)	(1)	(1)
Decrease in discount rate by 0.5%	1	1	1	1
Increase in inflation rate by 1%	3	3	3	3
Decrease in inflation rate by 1%	(3)	(3)	(3)	(3)
Increase in salary inflation by 1%	3	3	3	3
Decrease in salary inflation by 1%	(3)	(3)	(3)	(3)
Change in post-retirement mortality rating from -1 to -2 years	1	1	1	1
Change in post-retirement mortality rating from -1 to 0 years	(1)	(1)	(1)	(1)
The Telkom Retirement Fund				
Increase in discount rate by 0.5%	(1 150)	(626)	(1 150)	(626)
Decrease in discount rate by 0.5%	1 254	914	1 254	914
Increase in inflation rate by 1%	2 723	1 997	2 723	1 997
Decrease in inflation rate by 1%	(2 302)	(1 202)	(2 302)	(1 202)
Increase in net TRF fund rate by 0.5%	382	319	382	319
Decrease in net TRF fund rate by 0.5%	(376)	(74)	(376)	(74)
Increase in TRF take-up ratio from 53.3% to 100%	605	90	605	90
Medical benefits				
Increase in discount rate by 0.5%	(49)	(49)	(49)	(49)
Decrease in discount rate by 0.5%	52	52	52	52
Increase in inflation rate by 1%	86	86	86	86
Decrease in inflation rate by 1%	(77)	(77)	(77)	(77)
Change in post-retirement mortality rating from -1 to -2 years	71	70	71	70
Change in post-retirement mortality rating from -1 to 0 years	(69)	(68)	(69)	(68)
Telephone rebates				
Increase in discount rate by 0.5%	(12)	(11)	(12)	(11)
Decrease in discount rate by 0.5%	13	12	13	12
Increase in inflation rate by 5%	195	189	195	189
Change in post-retirement mortality rating from -1 to -2 years	5	4	5	4
Change in post-retirement mortality rating from -1 to 0 years	(5)	(5)	(5)	(5)
Increase in normal retirement age from 55 years to 60 years	(26)	(29)	(26)	(29)
Decrease in normal retirement age from 55 years to 50 years	22	26	22	26

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

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

An employee turnover assumption of 1.87% to 8.64% has been used in calculating the expected number of shares that will vest. The turnover relates to the various entities within the Group.

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	2021	2022	2023	2024	2025
Telkom LTIP – 2016 financial year					
Vesting timelines	20%	–	–	–	–
Probability of meeting non-market related criteria	92%	–	–	–	–
Telkom LTIP – 2017 financial year					
Vesting timelines	30%	20%	–	–	–
Probability of meeting non-market related criteria	92%	92%	–	–	–
Telkom LTIP – 2018 financial year					
Vesting timelines	50%	30%	20%	–	–
Probability of meeting non-market related criteria	92%	92%	92%	–	–
Telkom LTIP – 2019 financial year					
Vesting timelines	–	50%	30%	20%	–
Probability of meeting non-market related criteria	–	92%	92%	92%	–
Telkom LTIP – 2020 financial year					
Vesting timelines	–	–	50%	30%	20%
Probability of meeting non-market related criteria	–	–	92%	92%	92%

	Vesting financial year				
Telkom ESOP grants	2021	2022	2023	2024	2025
Telkom ESOP – 2018 financial year					
Vesting timelines	100%	–	–	–	–
Probability of meeting non-market related criteria	92%	–	–	–	–
Telkom ESOP – 2019 financial year					
Vesting timelines	–	100%	–	–	–
Probability of meeting non-market related criteria	–	92%	–	–	–
Telkom ESOP – 2020 financial year					
Vesting timelines	–	–	100%	–	–
Probability of meeting non-market related criteria	–	–	92%	–	–

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 LTIP grant	2021	2022	2023	2024	2025
BCX grant – 2018 financial year					
Vesting timelines	25%	–	–	–	–
Probability of meeting non-market related criteria	92%	–	–	–	–
BCX grant – 2020 financial year					
Vesting timelines	–	–	50%	30%	20%
Probability of meeting non-market related criteria	–	–	92%	92%	92%

Notes to the financial statements continued

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29. Employee benefits continued

BCX ESOP grant	Vesting financial year 2021	2022	2023	2024	2025
BCX grant – 2019 financial year					
Vesting timelines	–	100%	–	–	–
Probability of meeting non-market related criteria	–	92%	–	–	–
BCX grant – 2020 financial year					
Vesting timelines	–	–	100%	–	–
Probability of meeting non-market related criteria	–	–	92%	–	–

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

Yellow Pages grants	Vesting financial year 2021	2022	2023	2024	2025
Yellow Pages grant – 2017 financial year					
Vesting timelines	30%	–	–	–	–
Probability of meeting non-market related criteria	–	–	–	–	–
Yellow Pages grant – 2018 financial year					
Vesting timelines	30%	30%	–	–	–
Probability of meeting non-market related criteria	–	–	–	–	–
Yellow Pages grant – 2019 financial year					
Vesting timelines	40%	30%	30%	–	–
Probability of meeting non-market related criteria	–	–	–	–	–

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:

Gyro LTIP grants	Vesting financial year 2021	2022	2023	2024	2025
Gyro Grant – 2018 financial year					
Vesting timelines	50%	30%	20%	–	–
Probability of meeting non-market related criteria	92%	92%	92%	–	–
Gyro Grant – 2019 financial year					
Vesting timelines	–	50%	30%	20%	–
Probability of meeting non-market related criteria	–	92%	92%	92%	–
Gyro Grant – 2020 financial year					
Vesting timelines	–	–	50%	30%	20%
Probability of meeting non-market related criteria	–	–	92%	92%	92%

Gyro ESOP grants	Vesting financial year 2021	2022	2023	2024	2025
Gyro Grant – 2018 financial year					
Vesting timelines	100%	–	–	–	–
Probability of meeting non-market related criteria	92%	–	–	–	–
Gyro Grant – 2019 financial year					
Vesting timelines	–	100%	–	–	–
Probability of meeting non-market related criteria	–	92%	–	–	–
Gyro Grant – 2020 financial year					
Vesting timelines	–	–	100%	–	–
Probability of meeting non-market related criteria	–	–	92%	–	–

The probabilities were independently verified by the actuaries.

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 2021 and 2025 financial years.

Certain Yellow Pages employees were granted shares in terms of a Yellow Pages share plan. Based on Yellow Pages achieving the performance condition, the shares will vest between the 2021 and 2023 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 2025 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 2021 is 0.74 years (31 March 2020: 1.41 years).

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

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Beginning of the year	12 414 814	13 084 228	10 580 038	12 538 316
Vested shares during the year	(3 193 897)	(986 649)	(3 044 567)	(1 397 494)
Forfeited shares and other movements during the year	(2 444 147)	(4 682 867)	(2 140 723)	(4 068 011)
Granted during the year	9 280 180	5 000 102	9 280 180	3 507 227
Outstanding at the end of the year	**16 056 950**	**12 414 814**	**14 674 928**	**10 580 038**

In relation to market-related performance criteria, IFRS 2 requires a fair value to be placed on employee share grants/options. Fair value is measured as the market price of the entity's share grants/options adjusted for the terms and conditions applicable to the grant/option. Since employee share grants/options are not traded, there is no market price available. For this reason, the fair value of the grants/options must be determined by using an option pricing model.

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29. Employee benefits continued

Group and Company	Market share price (R)	Share price volatility	Future risk free interest rate
Telkom			
Grant 3 (2016 financial year)	64.31	35%	8.00%
Grant 4 (2017 financial year)	58.82	35%	8.50%
Grant 5 (2018 financial year)	73.70	35%	8.00%
Grant 6 (2019 financial year)			
- Vesting 30 June 2021	52.64	35%	7.40%
- Vesting 30 June 2022	52.64	35%	7.60%
- Vesting 30 June 2023	52.64	35%	8.00%
Grant 7 (2020 financial year)			
- Vesting 30 June 2022	93.82	35%	7.24%
- Vesting 30 June 2023	93.82	35%	7.37%
- Vesting 30 June 2024	93.82	35%	7.53%
Grant 8* (2021 financial year)	31.57	40%	4.10%
BCX			
Grant 2 (2018 financial year)			
- Vesting 30 June 2021	52.64	35%	7.40%
- Vesting 30 June 2022	52.64	35%	7.60%
- Vesting 30 June 2023	52.64	35%	8.00%
Grant 3 (2020 financial year)			
- Vesting 30 June 2022	83.70	35%	6.95%
- Vesting 30 June 2023	83.70	35%	7.10%
- Vesting 30 June 2024	83.70	35%	7.26%
Yellow Pages			
Grant 1 (2018 financial year)	55.50	35%	8.50%
Grant 2 (2019 financial year)	73.50	35%	8.00%
Grant 3 (2020 financial year)	52.64	35%	8.00%
Gyro			
Grant 1 (2018 financial year)			
- Vesting 30 June 2020	52.89	35%	7.70%
- Vesting 30 June 2021	52.89	35%	7.80%
- Vesting 30 June 2022	52.89	35%	8.00%
Grant 2 (2019 financial year)			
- Vesting 30 June 2021	52.64	35%	7.40%
- Vesting 30 June 2022	52.64	35%	7.60%
- Vesting 30 June 2023	52.64	35%	8.00%
Grant 3 (2020 financial year)			
- Vesting 30 June 2022	93.82	35%	7.24%
- Vesting 30 June 2023	93.82	35%	7.37%
- Vesting 30 June 2024	93.82	35%	7.53%

* *On 1 July 2020, Telkom granted 8 934 287 shares to a certain group of employees in terms of a Talent Share Award (TSA). The TSA scheme provides for the granting of a fixed number of shares to eligible participating employees at the vesting date. The vesting date is 30 June 2023, at which point the award vests 100% if the performance condition related to the total shareholder return has been met and if the employee is still in the employment of the Telkom Group.*

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.

30. Trade and other payables

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
	11 493	8 339	14 028	10 716
Trade and other payables	6 837	5 084	9 903	7 908
Accruals	4 551	3 143	4 020	2 696
Finance cost accrued	105	112	105	112

Accruals and other payables mainly represent licence fees and amounts payable for goods received, net of Value Added Tax obligations. Included in accruals in the current year for Group is an amount of R90 million relating to the BCX restructuring costs.

Telkom's standard payment terms of trade payables is within 90 days after the date of the receipt of the invoice.

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

	Group		Company	
	31 March 2021 Rm	Restated 31 March 2020* Rm	31 March 2021 Rm	31 March 2020 Rm
Cash generated from operations	14 244	12 756	11 315	11 139
Profit before tax	3 495	906	1 894	(250)
Finance charges and fair value movements	1 527	1 762	1 747	2 178
Investment income and income from associates	(189)	(90)	(1 643)	(2 610)
Interest received from trade receivables and subsidiaries	(151)	(128)	(108)	(78)
Non-cash items	7 271	8 696	6 882	8 963
Depreciation, amortisation, impairment and write-offs	6 870	6 915	6 863	6 808
Increase in expected credit loss provision	419	932	538	450
Bad debts written off	620	208	346	313
(Decrease)/increase in provisions	(386)	203	(656)	1 021
Insurance service result**	(15)	(41)	(15)	(41)
Loss on termination of leases	(9)	–	(9)	–
Loss/(profit) from disposal of property, plant and equipment	5	(18)	–	(6)
Foreign exchange movements	(217)	(91)	(260)	(82)
Share-based payment expenses	203	317	154	321
Write-off of VS Gaming loan	–	–	99	–
Profit on sale of SOX	–	(9)	–	–
IFRS 16 initial direct costs reclassifed to right-of-use assets	–	(8)	–	(8)
Movement in deferred revenue	(219)	288	(178)	187
Movement in working capital	2 291	1 610	2 543	2 936
Movement in inventories	(216)	–	(303)	(37)
Decrease/(increase) in trade receivables, contract assets, finance lease receivables and other receivables	323	(613)	(297)	1 620
Increase in trade and other payables and prepayments	2 184	2 223	3 143	1 353

* *Restated. Refer to note 2.3.1.1.*

** *The insurance service result line item is included in the reconciliation in the current financial year. This was previously included in the foreign exchange movements line item. The March 2020 reconciliation has been updated for comparability purposes.*

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32. Net debt reconciliation

	Group		Company	
	31 March 2021 Rm	31 March 2020* Rm	31 March 2021 Rm	31 March 2020* Rm
Total interest-bearing debt (including lease liabilities) at reporting date	15 838	16 780	17 027	18 679
Total interest-bearing debt (including lease liabilities) at the beginning of the year	16 780	10 241	18 679	10 194
Loans raised	268	8 660	268	8 660
Loans repaid	(1 400)	(6 950)	(1 400)	(6 950)
Finance leases repaid/reclassified to lease liabilities	(104)	(42)	–	–
Repayment of lease liability	(1 195)	(1 086)	(1 724)	(1 634)
Lease liabilities net movement	1 027	5 493	627	7 752
IFRS 16 interest capitalised	445	368	560	556
Other financing activities	–	(104)	–	(104)
Foreign exchange revaluation on loans	17	25	17	25
Finance charges capitalised to interest-bearing debt	–	175	–	180

* *Lease liabilities have been included in the net debt reconciliation in the current year. The March 2020 reconciliation has been updated for comparability purposes.*

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

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

33. Finance charges paid

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Finance charges paid	(1 291)	(1 374)	(1 434)	(1 626)
Finance charges and fair value movements per statement of profit or loss and other comprehensive income	(1 527)	(1 762)	(1 747)	(2 178)
Non-cash items	236	388	313	552
Movements in interest accruals and interest on uncertain tax provisions	21	30	21	30
Net discount amortised	–	180	–	180
Borrowing costs capitalised (refer to note 8)	(31)	(52)	(31)	(52)
Hedging costs	529	219	529	219
Fair value adjustment	(18)	(96)	(16)	(129)
Interest on BCX sinking fund capitalised	–	–	89	206
Foreign exchange loss	(265)	107	(279)	98

34. Taxation paid

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Taxation paid*	(2 194)	(1 320)	(1 112)	(300)
Net tax payable at the beginning of the year	(1 231)	(1 259)	(1 161)	(1 331)
Current taxation	(870)	(1 230)	54	(115)
Other taxes paid (STT and witholding tax)	9	(21)	–	–
Other	(4)	–	–	–
Interest accrued	(16)	(146)	(16)	(146)
Tax positions	–	105	–	131
Net tax payable at the end of the year	(82)	1 231	11	1 161

* *The increase in tax payments of R874 million is primarily attributable to net payments made of R1 172 million (31 March 2021: R300 million) in respect of prior years and the final settlement of the fully provided for prior period disputes with SARS, including the FY2012 dispute previously reported on relating to the loss on the disposal of a foreign subsidiary (refer to note 9).*

35. Dividend paid

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Dividend paid	(257)	(1 711)	(256)	(1 636)
Dividend payable at the beginning of the year	(31)	(29)	(31)	(29)
Declared during the year – dividend on ordinary shares	(256)	(1 710)	(256)	(1 638)
Dividends declared to non-controlling interests	(1)	(3)	–	–
Dividend payable at the end of the year	31	31	31	31

36. Commitments

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Capital commitments authorised	12 303	9 292	11 660	8 855
Commitments against authorised capital expenditure	2 007	2 648	1 808	2 254
Authorised capital expenditure not yet contracted	10 296	6 644	9 852	6 601

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

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

	Group finance lease commitments			
	Total Rm	<1 year Rm	1 - 5 years Rm	>5 years Rm
2021				
Equipment				
Minimum lease payments	2	2	–	–
Finance charges	–	–	–	–
Finance lease obligation	2	2	–	–
2020				
Equipment				
Minimum lease payments	18	15	3	–
Finance charges	(1)	(1)	–	–
Finance lease obligation	17	14	3	–

Company finance lease commitments
Telkom Company has no finance lease commitments as at 31 March 2021 or 31 March 2020.

Finance leases
There are no major restrictions imposed by lease arrangements.

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37. Contingencies

Contingent liabilities
Other than the disclosures below, there have been no significant movement or new matters noted on the contingent positions as reported in the 31 March 2020 financial statements.

High Court
Radio Surveillance Security Services (RSSS)
On 27 August 2020, RSSS served a new summons on Telkom. In terms of the summons, RSSS claims that certain information came to light during the initial trial against Telkom in 2017. RSSS is now claiming the return of 444 alarm systems, alternatively payment of R210 million and a payment of R319 million for alleged outstanding rentals for the alarms. The Plaintiff made certain amendments to its summons, and Telkom has filed its plea to the amended summons.

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.

38. Directors' interest and prescribed officers

Directors' shareholding	Group and Company			
	Beneficial		Non-beneficial	
Number of shares	**Direct**	**Indirect**	**Direct**	**Indirect**
2021				
Executive				
SN Maseko	52 520	–	–	–
TBL Molefe	–	–	–	–
DJ Reyneke	–	–	–	–
	52 520	–	–	–
Non-executive				
AN Samuels	102 094	–	–	–
KW Mzondeki	748	–	–	–
	102 842	–	–	–

There has been no change in the above since 31 March 2021 to the date of approval of the financial statements.

2020				
Executive				
SN Maseko	52 520	–	–	–
TBL Molefe	9 716	–	–	–
	62 236	–	–	–
Non-executive				
JA Mabuza	5 531	–	–	–
KW Mzondeki	748	–	–	–
	6 279	–	–	–

	Group and Company				
Emoluments per director:	**Retainer fees R**	**Attendance fees R**	**Performance bonus R**	**Fringe and other benefits R**	**Total R**
2021					
Non-executive	6 352 595	6 246 423	–	–	12 599 018
N Kapila	584 908	461 813	–	–	1 046 721
KW Mzondeki	424 000	687 578	–	–	1 111 578
SL Botha[1]	211 998	252 967	–	–	464 965
KT Kweyama[2]	317 997	378 259	–	–	696 256
F Petersen-Cook	424 000	588 392	–	–	1 012 392
LL Von Zeuner	424 000	625 092	–	–	1 049 092
RG Tomlinson	424 000	711 132	–	–	1 135 132
MS Moloko	1 591 299	477 363	–	–	2 068 662
DD Mokgatle[3]	353 330	281 424	–	–	634 754
PCS Luthuli	424 000	428 399	–	–	852 399
S Sibisi	424 000	472 385	–	–	896 385
KA Rayner	424 000	632 339	–	–	1 056 339
A Samuels[4]	105 999	89 676	–	–	195 675
H Singh[5]	219 064	159 605	–	–	378 669

	Remunera-tion R	Performance bonus R	Fringe and other benefits R	Total R
Executive that held office during 31 March 2021	15 338 988	14 216 240	19 216 743	48 771 971
SN Maseko (Group Chief Executive Officer)	8 830 449	10 216 240	16 397 068	35 443 757
TBL Molefe (Group Chief Financial Officer)[6]	5 600 000	–	2 817 780	8 417 780
DJ Reyneke (Group Chief Financial Officer)[7]	908 539	4 000 000	1 895	4 910 434
Total emoluments – paid by Telkom				61 370 989

1 *Resigned on 25 September 2020*
2 *Resigned on 31 December 2020*
3 *Deceased on 9 January 2021*
4 *Appointed on 1 January 2021*
5 *Appointed on 25 September 2020*
6 *Resigned on 4 December 2020*
7 *Appointed on 7 December 2020*

Refer to the remuneration report for appointments and resignations.

Included in fringe and other benefits is motor car insurance for SN Maseko of R11 997 (31 March 2020: R11 997).

SN Maseko was granted nil shares (31 March 2020: 196 596 shares) and the total IFRS 2 expense increased by Rnil (31 March 2020: R3 453 587). DJ Reyneke was granted 345 893 shares and the total IFRS 2 expense increased by R3 265 229. TBL Molefe was granted 566 229 shares (31 March 2020: 58 286 shares) and the total IFRS 2 expense increased by R5 345 202 (31 March 2020: R1 023 906). The Group reassessed the estimated amount of shares to vest to executives based on the current performance against vesting targets.

	Group and Company				
Emoluments per director:	**Retainer fees R**	**Attendance fees R**	**Performance bonus R**	**Fringe and other benefits R**	**Total R**
2020					
Non-executive	6 245 585	6 610 597	–	–	12 856 182
N Kapila	473 249	571 111	–	–	1 044 360
JA Mabuza	80 133	227 458	–	–	307 591
KW Mzondeki	706 623	533 042	–	–	1 239 665
SL Botha	389 073	413 996	–	–	803 069
KT Kweyama	334 875	413 996	–	–	748 871
F Petersen-Cook	591 710	413 996	–	–	1 005 706
LL Von Zeuner	661 588	413 996	–	–	1 075 584
GW Dempster	133 342	413 996	–	–	547 338
RG Tomlinson	579 051	413 996	–	–	993 047
MS Moloko	576 352	1 251 723	–	–	1 828 076
DD Mokgatle	312 707	413 996	–	–	726 703
PCS Luthuli	520 429	413 996	–	–	934 425
S Sibisi	332 105	413 996	–	–	746 101
KA Rayner	554 347	301 299	–	–	855 646

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38. Directors' interest and prescribed officers continued

	Remuneration R	Performance bonus R	Fringe and other benefits R	Total R
Executive that held office during 31 March 2020	13 542 905	–	13 704 229	27 247 134
SN Maseko (Group Chief Executive Officer)	8 830 449	–	12 986 598	21 817 047
TBL Molefe (Group Chief Financial Officer)	4 712 456	–	717 631	5 430 087
Total emoluments – paid by Telkom	**20 153 502**	**–**	**13 704 229**	**40 103 316**

	Group and Company				
Emoluments per prescribed officer:	Remuneration* R	Incentive bonus R	Fringe and other benefits** R	Total R	Pension -TRF 13%*** R
2021					
AC Beukes	4 809 998	5 130 000	78 911	10 018 909	437 708
PJ Bogoshi	5 123 000	5 322 797	296	10 446 093	499 493
S Taukobong	6 300 000	6 936 300	12 292	13 248 592	573 300
NM Lekota	3 766 273	4 500 000	1 960 732	10 227 005	395 459
LTS Maloba	4 000 000	4 208 000	12 292	8 220 292	338 000
L Siyo	4 000 000	4 092 000	12 292	8 104 292	232 000
Total emoluments – granted by Telkom	**27 999 271**	**30 189 097**	**2 076 815**	**60 265 183**	**2 475 960**
2020					
AN Samuels	5 407 500	–	14 067 492	19 474 992	407 726
AC Beukes	4 240 000	–	217 821	4 457 821	385 840
CJ Moganwa	3 750 000	–	19 453	3 769 453	372 000
PJ Bogoshi	5 123 000	–	296	5 123 296	499 493
S Taukobong	6 300 000	–	12 293	6 312 293	573 300
NM Lekota	3 766 273	–	296	3 766 569	395 459
LTS Maloba	3 915 963	–	12 293	3 928 256	330 899
DJ Fredericks	3 510 819	–	22 564 799	26 075 618	374 253
L Siyo	3 333 333	–	10 243	3 343 576	193 333
Total emoluments – granted by Telkom	**39 346 888**	**–**	**36 904 986**	**76 251 874**	**3 532 303**

Share allocation per prescribed officer:	Total vested shares year to date	Number of shares FY2015/ 2016	Number of shares FY2016/ 2017	Number of shares FY2017/ 2018	Number of shares FY2018/ 2019	Number of shares FY2019/ 2020	Number of shares FY2020/ 2021	IFRS 2 expense
2021								
AC Beukes	20 254	12 500	–	–	45 455	36 275	505 561	5 470 829
PJ Bogoshi	–	–	–	–	62 611	63 364	517 998	6 079 105
S Taukobong	–	–	–	–	186 503	53 899	637 007	8 282 741
NM Lekota	62 416	–	21 042	67 994	46 542	46 583	380 816	4 725 296
LM Siyo	–	–	–	–	–	37 106	404 449	4 168 279
LTS Maloba	–	–	–	–	–	46 356	404 449	4 255 599
	82 670	**12 500**	**21 042**	**67 994**	**341 111**	**283 583**	**2 850 280**	**32 981 849**

Share allocation per prescribed officer:	Total vested shares year to date	Number of shares FY2014/ 2015	Number of shares FY2015/ 2016	Number of shares FY2016/ 2017	Number of shares FY2017/ 2018	Number of shares FY2018/ 2019	Number of shares FY2019/ 2020	IFRS 2 expense
2020								
AN Samuels	286 265	55 629	40 431	59 179	133 637	91 475	66 883	2 827 730
AC Beukes	18 129	21 926	12 500	–	–	45 455	36 275	1 722 033
CJ Moganwa	–	–	–	–	–	–	65 968	1 158 855
PJ Bogoshi	–	–	–	–	–	62 611	63 364	2 212 993
S Taukobong	–	–	–	–	–	186 503	53 899	4 223 123
NM Lekota	–	–	–	21 042	67 994	46 542	46 583	3 200 008
LM Siyo	–	–	–	–	–	–	37 106	651 838
DJ Fredericks	367 158	86 705	53 066	69 043	148 737	76 359	51 491	2 077 166
	671 552	164 260	105 997	149 264	350 368	508 945	421 569	18 073 746

* *Remuneration includes basic salary, company contribution towards the Telkom Retirement Fund 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.*

39. Related parties

Details of material transactions and balances with related parties not disclosed separately in the financial statements were as follows:	Group 31 March 2021 Rm	Group Restated 31 March 2020 Rm	Company 31 March 2021 Rm	Company Restated 31 March 2020 Rm
With shareholders:				
Government of South Africa				
Related party balances				
Finance lease receivable	240	157	93	157
Trade receivables	991	796	709	542
Impairment of trade receivables	(216)	(152)	(59)	(30)
Related party transactions				
Revenue	(4 385)	(4 566)	(3 321)	(3 250)

At 31 March 2021, the Government of South Africa held 40.5% (31 March 2020: 40.5%) of Telkom's shares, and had the ability to exercise significant influence, and the Public Investment Corporation held 15.48% (31 March 2020: 14.97%) of Telkom's shares.

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39. Related parties continued

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
With subsidiaries:				
Business Connexion (Pty) Ltd				
Related party balances				
Trade receivables			829	788
Other receivables			70	–
Loans, preference shares and other facilities			–	128
Other financial liabilities			(1 854)	(2 754)
Trade and other payables			(2 267)	(2 633)
Related party transactions				
Revenue and other income			(3 675)	(5 296)
Expenses			2 261	2 203
Interest received			(3)	(462)
Interest expense			104	202
Dividend received			(990)	(1 095)
Yellow Pages (Pty) Ltd				
Related party balances				
Trade receivables			1	1
Trade and other payables			(158)	(185)
Related party transactions				
Revenue			(34)	(37)
Dividend received			(26)	(132)
Interest paid			5	7
Swiftnet (Pty) Ltd				
Related party balances				
Trade receivables			2	2
Other receivables			359	243
Trade and other payables			(1 275)	229
Related party transactions				
Expenses			576	610
Dividend received			(415)	(448)
Interest received			–	(142)
Interest expense			30	26

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
Rossal No 65 (Pty) Ltd				
Related party transactions				
Expenses			3	2
VS Gaming (Pty) Ltd (formerly Acajou Investments (Pty) Ltd)				
Related party balances				
Trade and other payables			83	92
Telkom Foundation				
Related party balances				
Trade and other payables			(24)	(20)
Related party transactions				
Expenses			53	63
Gyro Solutions (Pty) Ltd				
Related party balances				
Trade receivables			19	23
Other receivables			8	–
Trade and other payables			(289)	(172)
Related party transactions				
Expenses			71	76
Other income			(2)	(8)
Interest received			–	(1)
Interest paid			–	7
Dividend received			(41)	(161)
Gyro Properties (Pty) Ltd				
Related party balances				
Trade and other payables			(50)	(117)
Related party transactions				
Expenses			113	175
Interest received			–	(16)
Interest paid			3	8
Dividend received			(37)	(83)

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 2021, 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 financial statements continued

for the year ended 31 March 2021

39. Related parties continued

	Group		Company	
	31 March 2021 Rm	31 March 2020 Rm	31 March 2021 Rm	31 March 2020 Rm
With entities under common control:				
Major public entities				
Related party balances				
Finance lease receivable	88	–	–	–
Trade receivables	240	54	207	32
Impairment of trade receivables	(49)	(6)	(31)	–
Trade payables	(1)	(1)	(1)	(1)
Related party transactions				
Revenue (excluding lease income)	(690)	(308)	(453)	(87)
Operating expenses (excluding lease expense)	277	257	277	257
Lease income	(32)	(20)	(32)	(20)
Lease expense	42	36	42	36
Key management personnel compensation:				
(Including directors and prescribed officers' remuneration)				
Related party transactions				
Short-term employee benefits	273	190	254	150
Post-employment benefits	14	17	13	15
Termination benefits	5	23	1	19
Equity compensation benefits	77	62	68	66

Terms and conditions of transactions with related parties
Except as indicated above, outstanding balances at 31 March 2021 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 2021, the Group has not impaired any of the amounts owed by the related parties. This assessment is undertaken each financial period through examining the financial position of the related party and the market in which the related party operates.

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 2021, 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	Issued share capital 2021 R	Interest in issued ordinary share capital 2021 %	Ownership interest held by non-controlling interest 2021 %	Issued share capital 2020 R	Interest in issued ordinary share capital 2020 %	Ownership interest held by non-controlling interest 2020 %
Business Connexion (Pty) Ltd	RSA	2 280 500	100	–	2 280 500	100	–
Yellow Pages (Pty) Ltd	RSA	100 000	100	–	100 000	100	–
Rossal No 65 (Pty) Ltd	RSA	100	100	–	100	100	–
Acajou Investments (Pty) Ltd t/a VS Gaming	RSA	100	100	–	100	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	–	100	100	–
Gyro Solutions	RSA	100	100	–	100	100	–

The total non-controlling interest for the year is R25 million (31 March 2020: negative R29 million) and relates to Business Connexion and is not considered material to the Group.

The Group's interest in the Number Portability Company (an associate) and BCX associates and joint ventures are not regarded as individually material. The equity method is used to account for the financial information of the associate. The investments are recorded at cost in the Company financial statements.

Interest in operating profits, before eliminations, from subsidiaries	Revenue Rm	EBITDA Rm	EBIT Rm	Net profit/(loss) Rm
2021				
Business Connexion (Pty) Ltd	15 742	2 296	1 797	1 359
Yellow Pages (Pty) Ltd	386	43	11	13
Swiftnet (Pty) Ltd	1 237	994	976	723
Rossal No 65 (Pty) Ltd	–	3	3	3
Acajou Investments (Pty) Ltd t/a VS Gaming	–	–	2	2
Telkom Foundation*	53	1	1	1
Gyro Properties	195	97	93	69
Gyro Solutions	325	101	96	71
2020				
Business Connexion (Pty) Ltd	18 743	2 876	2 202	1 088
Yellow Pages (Pty) Ltd	479	56	26	16
Swiftnet (Pty) Ltd	1 246	805	795	451
Rossal No 65 (Pty) Ltd	–	2	–	1
Telkom Foundation*	63	(13)	(13)	(11)
Gyro Properties	272	247	243	164
Gyro Solutions	413	209	201	152

* *Non-profit-making trust.*

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.

Notes to the financial statements continued

for the year ended 31 March 2021

41. Significant events and transactions

Results of the Telkom annual general meeting regarding directors reappointments
On 10 September 2020, the following board members were elected or re-elected as per the annual general meeting ordinary resolutions:

- PCS Luthuli
- DD Mokgatle*
- MS Moloko
- LL von Zeuner
- N Kapila

** Unfortunately, DD Mokgatle passed away on 9 January 2021.*

Dividends
The Telkom board declared an ordinary dividend of 50.08 cents per share on 19 June 2020, paid on 13 July 2020 to shareholders registered at the close of business on 10 July 2020.

Vesting of shares
In terms of the Telkom Share Plan, 192 005 shares vested to Mr Sipho Maseko and 82 569 shares vested to Ms Tsholofelo Molefe in June 2020.

Launch of Yep!
In June 2020, Telkom announed the launch of Yep!, an online marketplace to buy from small, trusted businesses. Through the app, users would be able to locate businesses or services they require in their area, request quotes, directly book appointments via the app, view the store online and review its ratings. Currently, the application is still being developed and only a portion of the app has been capitalised to date, however this is not material to the annual financial statements.

Introduction of financial services
In August 2020, Telkom announced the venture into financial services. To this end, Telkom has partnered with Guardrisk to create a life insurance first party cell and third party cell.

Appointment of Group Chief Financial Officer and executive director
Telkom announced on 4 December 2020 that Ms Tsholofelo Molefe would step down as Group Chief Financial Officer and executive director with effect from 4 December 2020. Mr Dirk Reyneke was appointed as the interim Group Chief Financial Officer from 7 December 2020 and as an executive director of the Telkom board with effect from 14 December 2020. On 5 February 2021, Telkom announced that Mr Dirk Reyneke's appointment as Chief Financial Officer has been made permanent.

Resignation of non-executive directors
Telkom announced on 9 September 2020 that Mses Santie Botha and Khanyisile Kweyama, both independent non-executive directors, resigned from the Telkom board with effect from 25 September 2020 and 31 December 2020, respectively.

Appointment of non-executive directors
Telkom announced on 9 September 2020 that Messrs Alphonzo Samuels and Hemmanth (Herman) Singh had been appointed to the board of directors as a non-executive director and independent non-executive director with effect from 1 January 2021 and 25 September 2020, respectively.

42. Events after the reporting date

Other matters
The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2021 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.

Annexure A – Shareholder analysis

	Number of shareholders	Percentage	Holdings	Percentage
Range of shareholders				
1 – 100 shares	60 167	70.66	1 978 854	0.39
101 – 1 000 shares	22 002	25.84	5 898 719	1.15
1 001 – 10 000 shares	2 294	2.69	6 388 061	1.25
10 001 – 50 000 shares	360	0.42	8 229 011	1.61
50 001 – 100 000 shares	99	0.12	6 771 899	1.32
100 001 – 1 000 000 shares	188	0.22	56 988 026	11.15
1 000 001 and more shares	45	0.05	424 885 669	83.13
	85 155	**100**	**511 140 239**	**100**
Type of shareholder				
Banks/brokers	121	0.14	93 829 824	18.36
Close corporations	42	0.05	109 801	0.02
Endowment funds	117	0.14	942 942	0.18
Individuals	81 707	95.95	15 943 095	3.12
Insurance companies	43	0.05	9 695 750	1.90
Investment companies	5	0.01	128 297	0.03
Medical aid schemes	15	0.02	549 128	0.11
Mutual funds	244	0.29	47 539 976	9.30
Other corporations	56	0.07	207 089 207	40.52
Private companies	143	0.17	2 327 758	0.46
Public companies	2	0.00	6 978	0.00
Retirement funds	736	0.86	114 419 042	22.39
Treasury Stock	5	0.01	17 485 597	3.42
Trusts	1 919	2.25	1 072 844	0.21
	85 155	**100**	**511 140 239**	**100**
Geographical holdings by owner				
South Africa	84 829	99.62	389 603 097	76.22
United States	50	0.06	56 121 329	10.98
United Kingdom	79	0.09	45 691 690	8.94
Europe	47	0.06	16 825 612	3.29
Other	150	0.18	2 898 511	0.57
	85 155	**100**	**511 140 239**	**100**

	Holdings	Percentage
Beneficial shareholders of more than 2%		
The Government of the Republic of South Africa	207 038 058	40.51
Government Employees Pension Fund	79 125 563	15.48
Telkom Treasury Stock	17 485 597	3.42
	303 649 218	**59.41**
Public and non-public shareholders		
Non-public shareholders	224 714 405	43.96
The Government of the Republic of South Africa	207 038 058	40.51
Government buffer account	9 461	0.00
Telkom Treasury Stock	17 485 597	3.42
Executive and non-executive directors and prescribed officers*	171 278	0.03
Subsidiaries' directors*	10 011	0.00
Public shareholders		
Institutional and retail investors	286 425 834	56
	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 2021.

Notes

Administration

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1991/005476/30

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BCX Gyro Telkom Consumer openserve yep!