

# Group Annual Results

For the year ended  
31 March 2015



**Telkom**

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

Group Company Secretary  
Xoliswa Mpongoshe

Transfer secretaries  
Computershare Investor Services  
(Proprietary) Limited  
PO Box 61051, Marshalltown, 2107

Sponsor  
The Standard Bank of South Africa Limited  
Standard Bank Centre  
5 Simmonds Street, Johannesburg, 2001

Directors  
JA Mabuza (Chairman), SN Maseko (Group Chief Executive Officer), DJ Fredericks  
(Chief Financial Officer), I Kgaboesele, K Mzondeki, T Dingaen, G Dempster,  
S Botha, R Tomlinson, N Ntshingila, K Kweyama, F Petersen, N Kapila\**India*,  
LL Von Zeuner

The information contained in this document is also available on  
Telkom's investor relations website [www.telkom.co.za/ir](http://www.telkom.co.za/ir)



# Group Annual Results

For the year ended  
31 March 2015



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# Overview

Sipho Maseko:  
Group Chief Executive Officer

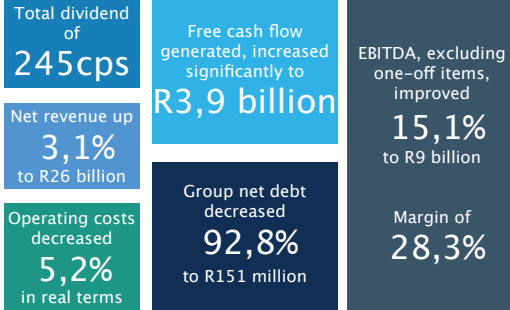


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## FY 15 Highlights



### Achievements



\*Excluding retrenchment expenses, VSPs/VERPs, PRML curtailment and related tax

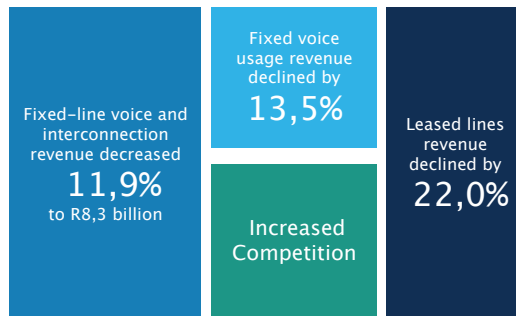
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## FY 15 Highlights

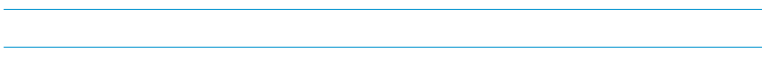


### Challenges



\*Excluding retrenchment expenses, VSPs/VERPs, PRML curtailment and related tax

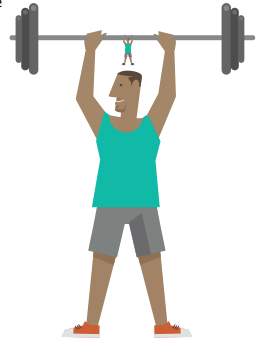
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## Our multi-year strategy is on track



- The leadership team is stable and in place
- Mobile has been de-risked
- Customer experience improvement gaining traction
- Sustainable multi-year cost efficiency programme
- Exiting our non-core activities
- Re-instated the dividend



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## Regaining our customer's trust



- Good progress in Customer Experience rating (NPS)

**Winner of the MyBroadband Fixed and Mobile broadband provider of choice**

- Brand Reputation has shown significant improvement
- Improved Ask Afrika Orange Index rating for service
- Our TV adverts are on the Millward Brown Best Liked Ads in South Africa
- Encouraging take up of new proposition – Smarthome and DSTV Explora



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# Business Performance

Sipho Maseko:  
Group Chief Executive Officer



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# Consumer



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## We have de-risked Mobile



All metrics in Mobile continue to show robust improvements

- Mobile EBITDA improved by **48,7%**
- Mobile data revenue increased **50,6%** to R988 million
- Active Mobile subscribers increased **21,2%** to over 2 million
  - blended ARPU R75,05
- Minutes of use increased **79%**
- Data usage grew **70%**

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## Fixed Consumer gaining traction

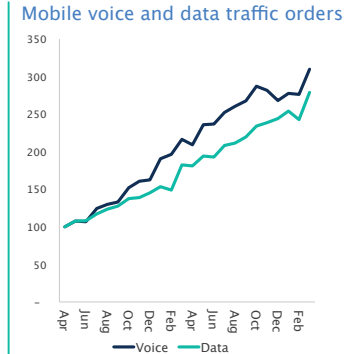


Enhanced value propositions bring about improvements in fixed business

- Residential DSL subscribers increased **7,4%**
- Growth in fixed line data revenues
- Net revenue increased by **12%**
- Internet subscribers grew by **9%**
- Smarthome **converged** offers to drive data usage  
i.e. smart devices, mobility and video (DStv Explora)

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## Well positioned for new customer trends



- More than **21%** of Prepaid mobile customers prefer integrated data products
- Customers moving from 3G to LTE use on average **36%** more data
- Customers with both mobile and fixed services increased **101%** over the year



## Relevance of true convergence



Convergence inevitable to provide competitive service offering

- Mitigates voice usage deterioration
- Offers bundled and bespoke solutions
- Leverage off shared resources
  - Call centre
  - Direct stores
  - End-to-end solutions on one network
- One seamless retail offering for our customers





# Business



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## Business revenue slowdown

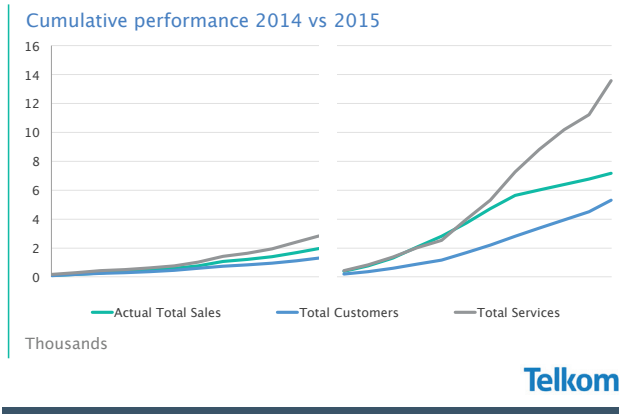


Slowdown in data connectivity revenues, with a marked decline in voice usage

- Data connectivity revenues **R81 million** lower
- Metro-ethernet revenues increased **39,8%**
- Managed data network services revenue increased **13,8%** to R1 046 million
- Business IT services revenue increased **82,4%** to R633 million
- Converged Solution revenues increased by **650%** off a low base

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## Business convergence KPIs



## Strengthening the core



Awaiting the outcome of the Competition Tribunal on the BCX transaction

- The deal with BCX will support growth by **expanding our business into ICT services**
- Once approved by Competition Tribunal, **integration will be swift**
- Maintain BCX as a **separate operational entity** within Telkom
- Significant opportunity to leverage off the **respective client base**
- BCX skills and certifications are **aligned to Telkom's strategy** for future growth

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# Wholesale and Networks



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## Wholesale and Networks



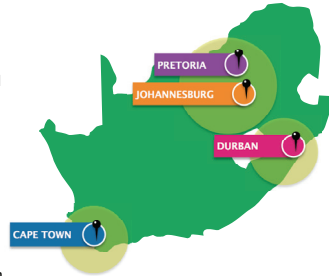
Continued self-provisioning put leased line revenues under pressure

- Revenue from leased line facilities declined **22,0%**
- Increased competition in fibre products and offerings
- Good traction with **FTTH**
- Wholesale unit **price reductions of up to 63% across our product range:**
  - Including Wholesale Fibre Broadband Access, IP Connect, Resell DSL, Metro Ethernet and SAIX dedicated access offerings
- **1 005 286** connected broadband customers:  
Group ADSL subscribers increased **7,9%**

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## Increased broadband penetration

- **20Mbps, 40Mbps** and **100Mbps** Wholesale fibre broadband access in selected areas
- First to market in terms of LTE-A roll out
- Ports activated via **MSAN** access grew **103%**
- Contributed to the **upgrade** of the SAT-3/WASC/SAFE submarine cable system



<b>964 196</b> active ports <sup>1</sup>	<b>1 030 519</b> homes passed <sup>1</sup>	<b>1 317</b> LTE sites integrated <sup>1</sup>	<b>6 100</b> WiFi hotspots <sup>1</sup>
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<sup>1</sup> As at 31 March 2015



## Driving higher utilisation of the network



### Building a more efficient network

- Competitive pricing to **stimulate demand**
- Build portfolio of **value-added services**
- Optimise the **network**
- Increase speeds and **capability**



# Financial Overview

Deon Fredericks:  
Chief Financial Officer



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## Normalised earnings



	F2015	F2014
Profit for the year	2 889	3 590
Profit on PRML	-	(2 169)
VERP/VSP and retrenchment	591	-
Tax on VERP/VSP and retrenchment expenses	(165)	-
Tax benefit on PRML	(546)	(246)
Normalised Profit	2 769	1 175
Normalised HEPS	532,5	332,9

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## Financial highlights



Revenues have continued to stabilise in a tough operating environment

- EBITDA increased 15,1% – Margin of 28,3%
- Operating costs decreased 1,2% in nominal terms
  - Staff efficiency program
  - Benefits of PRML
  - Effective marketing spend
  - Lower business transformation cost
- Resolved tax matters resulting in lower effective rate
- Strong cash flows



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## FY15 Results

	March Rm		%
	2015	2014	
Operating revenue	31 675	31 288	1,2 ↑
Net revenue	25 958	25 167	3,1 ↑
Operating expenses	17 679	17 900	1,2 ↓
EBITDA	8 978	7 798	15,1 ↑
Depreciation and impairments	5 478	5 891	7,0 ↓
Capital investments	5 164	6 413	19,5 ↓
Free cash flow	3 898	1 145	240,4 ↑
Normalised headline earnings per share (cps)	532,5	332,9	60,0 ↑

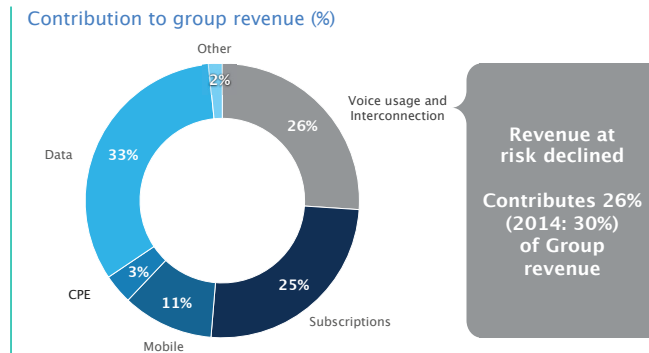
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## Quality of earnings

	March Rm		%
	2015	2014	
<b>Profit for the year</b>	<b>2 889</b>	<b>3 590</b>	<b>19,5 ↓</b>
Net FTR/MTR impact after tax	(522)	(244)	113,9 ↑
Gain on sale of assets	(257)	(77)	233,8 ↑
Severance package costs	591	-	-
Asset impairment	-	392	-
Profit of the sinking fund	(221)	(344)	35,8 ↓
Curtailement gain on PRML	-	(2 169)	-
Tax benefit of PRML payment to insurer	(546)	(246)	122,0 ↑
Reversal of provision for legal dispute	(121)	-	-
Tax on retrenchment cost	(165)	-	-
Deferred tax asset	(250)	-	-
Reversal of prior year tax provisions	(337)	224	250,4 ↑
<b>Adjusted profit for the year</b>	<b>1 061</b>	<b>1 126</b>	<b>5,8 ↓</b>

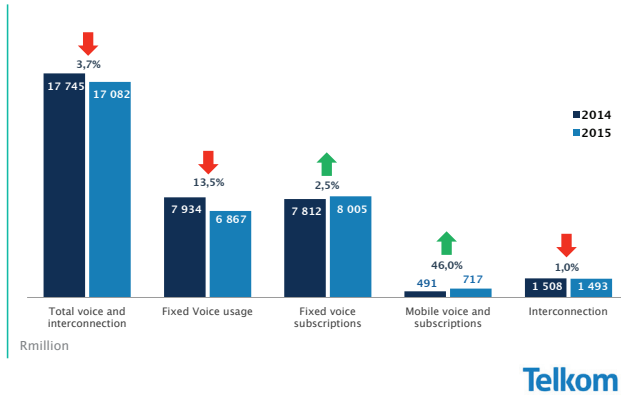
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## De-risking the Business: Growth in Mobile and Data, stabilisation of voice rentals

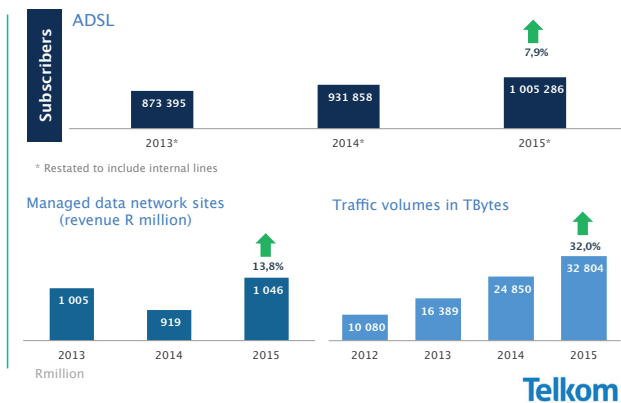


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## Fixed voice usage continued to decline

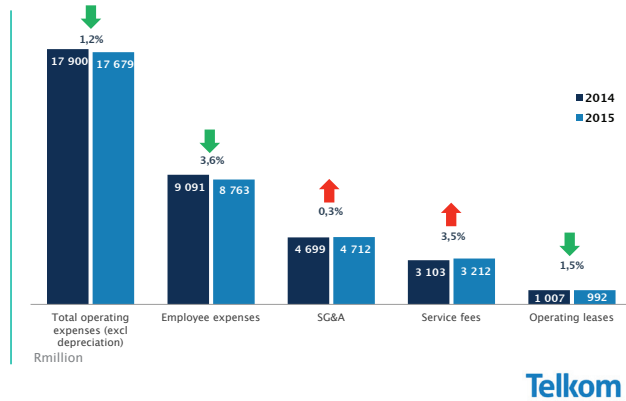


## Data volumes improved





## Continued focus on costs



## Commercially driven approach to capital expenditure



	Rm		%
	2015	2014	
Total capital expenditure	5 164	6 566	21,4 ↓
Group capital expenditure excl mobile	4 683	5 198	9,9 ↓
Converting access network in IP (NGN)	1 504	2 439	38,3 ↓
Maintaining/enhancing existing telecoms and IT networks	3 179	2 759	15,2 ↑
Mobile	481	1 368	64,8 ↓

Capex normalised in the second half

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## Normalised cash flow from operations



	Rm		%
	2015	2014	
Cash flow from operating activities	6 347	6 490	2,2 ↓
Competition Commission payments	291	291	-
Package cost paid	325	710	54,2 ↓
Payment to insurer of PRML	1 950	878	122,1 ↑
Tax refund received	-	(854)	-
Normalised cash flow from operations	8 913	7 515	18,6 ↑
Normalised free cash flow	3 898	1 145	240,4 ↑
Cash at end of period	3 615	1 841	96,4 ↑
Discretionary investments	3 502	3 016	16,1 ↑

We remain lowly geared with a net debt to EBITDA of 0,02x

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## Performance against guidance



	Guided	Achieved
Net revenue	Stabilise to grow	+ 3,1% ✓
EBITDA margin	26%–27%	26,5%* ✓
Capex to revenue	14%–17%	16,3% ✓
Net debt to EBITDA	≤ 1	0,02 ✓

\*Including VSPs/VERPs and retrenchment cost of R591 million

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## FY2016 Guidance



The guidance excludes the impact of the conclusion of the MTN and BCX transactions

	F2015 A	F2016
Net revenue	+3,1%	Stabilise
EBITDA margin	26,5%*	26%-27%
Capex to revenue	16,3%	15%-18%
Net Debt to EBITDA	0,02	≤ 1
Mobile EBITDA	(R684m)	Break-even

\*Including VSPs/VERPs and retrenchment cost of R591 million  
The above have not been reviewed or reported on by the external auditors of the Company

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## Reinstating the dividend



Our dividend policy:

- Dividends are considered on an annual basis based on the financial performance of the Group, operating environment, growth opportunities, as well as debt and cash flow levels.

- The total dividend for the year is **245cps**



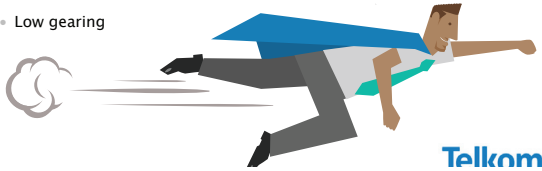
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## Financial health for strategic flexibility



Our strong and healthy financial position provides us with flexibility and choice

- Mobile has been de-risked
- Embedded a culture of efficiently deploying capital
- Continued the strengthening of our balance sheet
- Generated healthy cash flows
- Low gearing



## Prospects

Sipho Maseko:  
Group Chief Executive Officer



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## First phase of turnaround successful, more still to be achieved



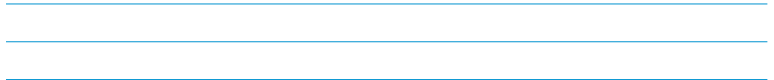
### What we have accomplished

- Stabilised revenues
- Dividend re-instated
- De-risked mobile
- Improved efficiencies
- Disciplined capital allocation
- Customer experience a priority
- Specialised leadership team

### Going forward

- Strengthen customer value proposition
- Review operational business model
- Ensure sustainable regulatory framework
- Instill a high performance culture
- Sustainable financial performance

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## Operating model optimisation

### Three stand-alone business units:

- A **Consumer** business focussing on leading in home connectivity and services for our customers
- An **Enterprise** business focusing on selling connectivity solutions to business customers
- An **Infrastructure wholesale** business to run the network and associated IT, field services and operations to service OLO's

### Benefits of separating the business:

- Removes **complexity**, simpler strategies leading to better efficiencies
- Greater **accountability** and encouraging the right business behaviours
- Clear **decision-making**, allowing for faster solution delivery
- Better **leverage** of infrastructure and **alignment** of incentives to business unit goals
- Greater **value** for shareholders

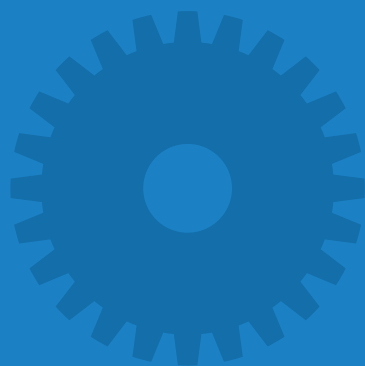
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# Group Annual Results

For the year ended  
31 March 2015



**Telkom**

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## Special note regarding forward-looking statements

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

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

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

The information contained in this document is also available on Telkom's investor relations website [www.telkom.co.za/ir](http://www.telkom.co.za/ir).

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

# Group salient features

For the year ended  
31 March 2015

HEPS at 532,5cps, up

+60%

BEPS at 542,3cps, up

+135,7%

Group revenue

R31,7bn

Total dividends

245cps

Free cash flow generated,  
strong at

R3,9bn

EBITDA excluding once-off  
items increased 15,1% to

R9,0bn

All commentary, messaging and indicators in this report exclude retrenchment, voluntary early retirement and severance package costs of R591 million, the related tax impact of R165 million and the tax benefit on the post-retirement medical aid payment of R546 million for the year ended 31 March 2015. The comparative numbers exclude the R2 169 million net curtailment gain on the post-retirement medical aid liability and the related tax benefit of R246 million.



## ACHIEVEMENTS

- Net revenue up 3,1% to R26,0 billion
- Group net debt decreased 92,8% to R151 million
- Free cash flow generated increased 240,4% to R3,9 billion
- Mobile net revenue increased 174,1% to R954 million
- Mobile data revenue increased 50,6% to R988 million
- Active mobile subscribers increased 21,2% to 2 186 774 with a blended ARPU of R75,05
- EBITDA, excluding the one-off items, improved 15,1% to R9,0 billion
- Headline earnings per share, excluding the one-off items, increased 60,0% to 532,5 cents
- Operating expenses, excluding depreciation, decreased 1,2% to R17,7 billion



## CHALLENGES

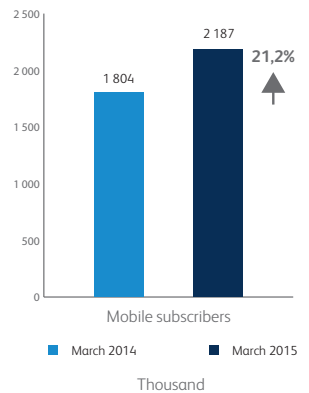
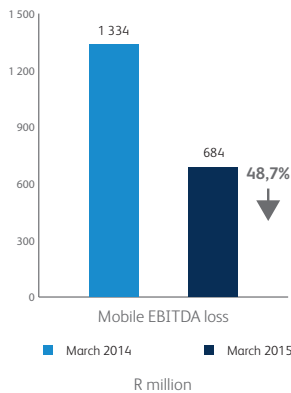
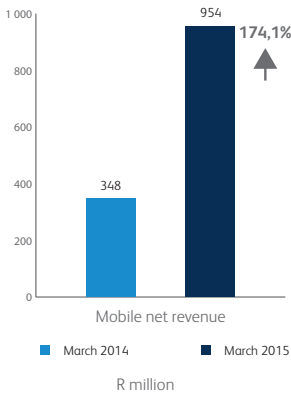
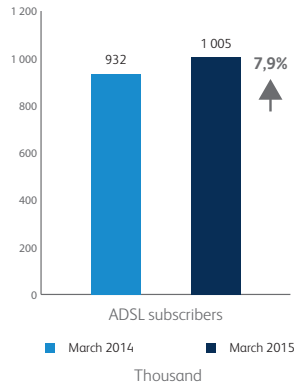
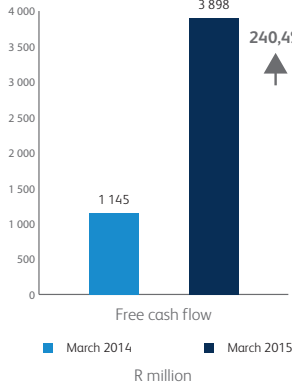
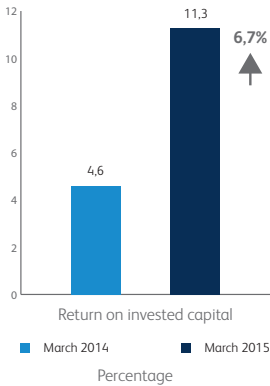
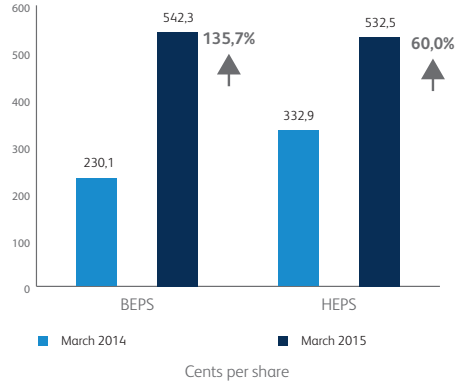
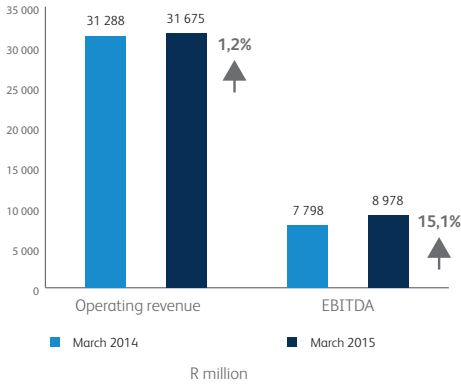
- Fixed-line voice usage revenue decreased 13,5% to R6,9 billion
- 22,0% decrease in leased line revenue



## IMPROVEMENTS

- Fixed-line data revenue increased 1,5% to R10,4 billion
- ADSL subscribers increased 7,9% to 1 005 286
- Managed data network sites increased 1,0% to 47 599
- Mobile sites integrated increased 3,4% to 2 510
- Mobile LTE sites integrated increased 11,3% to 1 317

# Key indicators



## Overview

Johannesburg, South Africa – 8 June 2015, Telkom SA SOC Limited (JSE: TKG) today announced Group annual results for the year ended 31 March 2015.

### Message from Telkom Group CEO Siphso Maseko

We are pleased to announce our results for the year ended 31 March 2015. On a like-for-like basis, i.e. excluding items that do not form part of the results from normal business operations, net revenue increased 3,1 percent to R26,0 billion; while Group operating costs, excluding depreciation, were down 1,2 percent to R17,7 billion. Our normalised EBITDA rose by 15,1 percent to R9,0 billion.

Our Retail Consumer segment performed well with excellent results from our mobile business, which increased its net revenues by 174,1 percent to R954 million. Fixed-line data revenue increased 1,5 percent to R10,4 billion and mobile data revenue increased 50,6 percent to R988 million. We continued to see pressure on voice usage, particularly in our Enterprise business, resulting in an 11,9 percent decrease in fixed-line voice and interconnection revenue to R8,3 billion. Despite the high churn rates in our Consumer business, we grew our ADSL subscribers by 7,9 percent to 1 005 286. Revenue from leased line facilities remained under pressure and declined 22,0 percent to R1 395 million.

We set out to achieve further stability in the business and largely attained it under challenging conditions. We are nearing the completion of the stability phase of our turnaround, which included:

- A continued strengthening of our balance sheet with the settlement of the post-retirement medical aid liability for certain pensioners and addressing our fixed asset base
- Continue our cost interventions to ensure a sustainable and variable cost base going forward
- Maintaining good cash management with free cash flow of R3,9 billion
- Maintaining a low gearing ratio with very low net debt to enable us to be nimble as we move ahead with plans to grow our revenues organically and inorganically
- Continue to focus on the execution of our strategy as we await the South African Competition Tribunal (Competition Tribunal) decision on the Business Connexion Group Ltd (BCX) transaction following its recommendation for approval by the South African Competition Commission (Competition Commission), and our agreement with MTN still being reviewed by the Competition Commission.

We previously indicated that we have improved capital expenditure efficiency. Through our disciplined approach to where we deploy capital we have achieved a capex to revenue ratio of 16,3 percent. In order to drive our

convergence strategy we continue to invest in an all-IP network. We also invested in improving parts of our mobile network, where necessary.

Our net debt was reduced by 92,8 percent to R151 million and our free cash flow increased to R3,9 billion. Our healthy financial position will not only allow us to take advantage of any promising opportunities that could come our way, it has also made it possible for us to pay a dividend this year.

### Declaration of ordinary and special dividend

Ordinary final dividend number 17 of 215 cents per share (March 2014: 0 cents) and a special dividend of 30 cents per share in respect of the year ended 31 March 2015 has been declared payable on Monday, 20 July 2015 to shareholders recorded in the register of the company at close of business on Friday, 17 July 2015. Our strong financial position and healthy cash balances warrant a special dividend of 30 cents as we reintroduce dividend payments for the first time since 2011. The total dividend approved by the board is therefore 245 cents per share. The dividend will be subject to a local dividend withholding tax rate of 15 percent which will result in a net final dividend of 182,75 cents per ordinary share and net special dividend of 25,5 cents per ordinary share to those shareholders not exempt from paying dividend withholding tax. The ordinary and special dividends will be paid out of cash balances.

The ordinary dividend has been calculated with reference to Telkom's current and future debt and cash flow levels. The level of dividend payments going forward will be based on a number of factors, including the consideration of the financial performance, capital and operating expenditure requirements, the Group's debt level, interest coverage, internal cash flows, prospects and available growth opportunities.

The number of ordinary shares in issue at date of this declaration is 522 969 350, which includes the issuing of 2 185 452 ordinary shares on 4 June 2015 to be allotted in terms of the Telkom employee share plan. Telkom SA SOC Limited's tax reference number is 9414001710.

### Salient dates with regard to the ordinary and special dividend 2015

Declaration date	Friday, 5 June 2015
Last date to trade cum dividend	Friday, 10 July 2015
Shares trade ex dividend	Monday, 13 July 2015
Record date	Friday, 17 July 2015
Payment date	Monday, 20 July 2015

Share certificates may not be dematerialised or rematerialised between Monday, 13 July 2015 and Friday, 17 July 2015, both days inclusive.

On Monday, 20 July 2015, dividends due to holders of certificated securities on the South African register will either be transferred electronically to shareholders' bank accounts or, in the absence of suitable mandates, dividend cheques will be posted to such shareholders.

Dividends in respect of dematerialised shareholders will be credited to shareholders' accounts with their relevant CSDP or broker.

## Prospects

We expect the challenging operating environment of the year under review to prevail in the year ahead, compounded by increasing competitive pressures and regulatory interventions. Our response will be to maintain good cost discipline and a careful and considered approach to capex, and to make good use of our strong balance sheet by taking advantage of any new opportunities for growth.

The next phase of Telkom's turnaround strategy continues as we reposition the business for commercial sustainability, which will allow us to realise our ambition of connecting South Africans. Our actions have thus far delivered results, but we need to become more efficient. We are reviewing our current operating model. A major part of this review is looking at a deep functional separation between our wholesale and retail businesses. We foresee an infrastructure business unit, which will be accountable for network deployment and network efficiency. For this operating model to succeed, we must have an efficient and high-performing network. We will update the market regarding our plans during the third quarter of the calendar year.

We must also have a highly efficient and cost effective workforce. Within our workforce there are significant opportunities to create a highly-skilled and productive team by ensuring that employees have the right skills and capabilities to support the changing business. Much like most telecoms operators globally, we must move towards a leaner and more productive workforce. As previously indicated, our aim is to achieve a staff cost to revenue ratio of 25% over the next four years. The 2016 financial year will see an acceleration of our efforts in pursuit of this objective. To this end, we will continue to engage with our major labour unions.

We are pleased that the Competition Commission has recommended to the Competition Tribunal that the BCX transaction should be approved with conditions.

The Competition Commission's recommendation is a significant and positive development as it allows for the commencement of the next phase in the approval process, which is for the Competition Tribunal to set the matter down for hearing.

## Financial guidance

The guidance provided below excludes the impact of the successful conclusion of the MTN and BCX transactions discussed above.

	2016
Net revenue	Stabilise
EBITDA margin	26% – 27%
Capex to revenue	15% – 18%
Net debt to EBITDA	≤1
Mobile EBITDA	Break-even

*The financial guidance above has not been reviewed or reported on by our auditors.*

## Report structure

In line with the Group's convergence strategy, key performance indicators are measured and evaluated on a Group-wide basis. The Group therefore consists of one operating segment.

However, this report provides further details of the fixed-line business which offers fixed-line access and data communication services through Telkom South Africa, and the mobile business, which offers mobile voice services, data services and handset sales through Telkom Mobile. The contribution of the subsidiary, Swiftnet, is also shown separately. The Telkom category represents Telkom Company's contribution to the Group, including consolidation entries.

The comparative information for March 2014 has been restated as a result of the reclassification of Trudon as a discontinued operation. Refer to note 2.3 in the condensed consolidated provisional annual financial statements.

In addition, the following item in the comparative reporting period has been reclassified to provide more relevant disclosure:

- Income relating to undersea cables activities that are not in the ordinary course of business of R83 million has been reclassified from operating revenue to other income.

## Results from continuing operations

The Group recorded a profit after tax of R2,9 billion (March 2014: R3,6 billion). This is 19,5 percent lower than the previous year and was driven by a one-off R2 169 million net gain recognised on the curtailment of the post-retirement medical aid liability included in the comparative reporting period as well as retrenchment, voluntary early retirement and severance package costs of R591 million for 1 205 employees in the current year.

## Overview (continued)

### Results from operations (continued)

**The one-off items above are not part of the results from normal operations for the year under review and have therefore also been excluded from the discussion below.**

The Group recorded a normalised profit after tax of R2 769 million (March 2014: R1 175 million) and EBITDA of R8 978 million (March 2014: R7 798 million), resulting in a 60,0 percent increase in headline earnings per share. The increase was driven by the benefit from lower payments to mobile operators and lower employee expenses due to the curtailment of the post-retirement medical aid liability as well as higher investment income. This was partly offset by lower gains on foreign exchange and fair value movements as a result of the implementation of hedge accounting and lower gains recognised on the underlying assets held by the cell captive.

We managed to reduce the EBITDA loss of our Mobile business by 48,7 percent by increasing service and subscriptions revenue (excluding equipment sales) by 48,0 percent. We also recorded promising growth of 50,6 percent in mobile data revenue and 82,4 percent in IT Business Services revenue. Data revenue now constitutes approximately 35,9 percent of group revenue, which increased 4,5 percent from the prior year. However, we still face significant challenges in our fixed-line voice revenue as fixed-to-mobile substitution continues. Fixed-line data revenue continues to be impacted by lower pricing driven by competition.

We managed to reduce operating costs by 1,2 percent. This reduction was largely driven by lower employee, effective marketing and security costs and a decrease in vehicle leases. Increased bad debts and property management costs partly offset these savings.

The Group generated strong cash flows as we took a measured approach when considering capital investment as well as focusing on managing our balance sheet more efficiently. This resulted in a healthy capital structure with net debt decreasing by 92,8 percent to R151 million at 31 March 2015.

## Operational data

	March 2015	March 2014	%
ADSL subscribers <sup>1</sup>	1 005 286	931 858	7,9
Closer subscribers	833 363	845 742	(1,5)
Internet all access subscribers <sup>2</sup>	574 761	534 441	7,5
Fixed access lines ('000) <sup>3</sup>	3 439	3 618	(4,9)
Post-paid	2 325	2 363	(1,6)
Post-paid – ISDN channels	697	737	(5,4)
Pre-paid	372	439	(15,3)
Payphones	45	79	(43,0)
Ports activated via MSAN access	964 196	475 144	102,9
Fixed-line penetration rate (%) <sup>4</sup>	6,6	7,0	(0,4)
Revenue per fixed access line (ZAR)	4 639	4 630	0,2
Total fixed-line traffic (millions of minutes)	16 315	18 045	(9,6)
Managed data network sites	47 599	47 125	1,0
Telkom Company employees <sup>5</sup>	18 333	19 197	(4,5)
Swiftnet employees	108	116	(6,9)
Fixed access lines per employee <sup>5</sup>	188	188	–
Active mobile subscribers <sup>6</sup>	2 186 774	1 803 675	21,2
Pre-paid	1 607 649	1 423 193	13,0
Post-paid	579 125	380 482	52,2
Mobile base stations constructed	2 601	2 592	0,3
Mobile sites integrated	2 510	2 428	3,4
LTE sites integrated	1 317	1 183	11,3
ARPU (Rand)	75,05	62,79	19,5
Pre-paid	39,68	31,92	24,3
Post-paid	196,89	173,28	13,6
Churn % – pre-paid	51,0	43,8	(7,2)

1.Includes 8 238 (March 2014: 4 914) internal lines. ADSL subscribers includes business, consumer, corporate, government and wholesale customers.

2.Includes Telkom Internet ADSL, ISDN and WIMAX subscribers.

3.Excludes Telkom internal lines.

4.Penetration rate is based on the 2011 Census population statistics.

5.Based on number of Telkom Company employees, excluding subsidiaries.

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

# Financial performance

## Group operating revenue

In ZAR millions	March 2015	March 2014	%
Voice and subscriptions	15 589	16 237	(4,0)
Fixed-line usage	6 867	7 934	(13,5)
Fixed-line subscriptions	8 005	7 812	2,5
Mobile voice and subscriptions	717	491	46,0
Interconnection	1 493	1 508	(1,0)
Fixed-line domestic	452	458	(1,3)
Fixed-line international	931	971	(4,1)
Mobile interconnection	110	79	39,2
Data	11 383	10 898	4,5
Data connectivity <sup>1</sup>	5 441	5 461	(0,4)
Leased line facilities	1 395	1 789	(22,0)
Internet access and related services	1 832	1 676	9,3
Managed data network services	1 046	919	13,8
Multi-media services	48	50	(4,0)
Mobile data	988	656	50,6
IT Business Services revenue	633	347	82,4
Customer premises equipment sales and rentals	2 704	2 186	23,7
Sales	247	307	(19,5)
Rentals	865	758	14,1
Mobile handset and equipment sales	1 592	1 121	42,0
Other	415	367	13,1
Swiftnet	91	92	(1,1)
<b>Total</b>	<b>31 675</b>	<b>31 288</b>	<b>1,2</b>

Reclassification of comparative information

1. Income relating to the undersea cables activities that are not in the ordinary course of business of R83 million has been reclassified from data connectivity revenue to other income.

Group operating revenue increased 1,2 percent to R31 675 million (March 2014: R31 288 million), driven by higher mobile voice and data revenue, higher IT Business Services revenue and higher equipment sales. This was partly offset by the continuous decline in fixed-line voice revenue and lower data leased line revenue resulting from self-provisioning by other licensed operators.

Fixed-line voice usage revenue continued its downward trend, decreasing 13,5 percent to R6 867 million (March 2014: R7 934 million). This can be attributed to a 9,6 percent decline in voice minutes, resulting from fixed-to-mobile substitution and a 4,9 percent decline in the number of lines. The decrease was in business as well as residential lines. Business lines decreased due to the consolidation of business activities and cost-saving initiatives.

Fixed-line subscriptions revenue grew 2,5 percent to R8 005 million (March 2014: R7 812 million) as a result of average line rental tariff increases of around 6 percent.

Mobile voice and subscriber revenue increased 46,0 percent to R717 million (March 2014: R491 million). This can be attributed to a 21,2 percent increase in the number of active mobile subscribers and a 19,5 percent increase in blended ARPU.

Interconnection revenue remained relatively flat. The decrease in international interconnection revenue was due to lower international outgoing traffic volumes.

Revenue from data connectivity services decreased 0,4 percent to R5 441 million (March 2014: R5 461 million), caused by a decline in Diginet and IPLC revenue, due to increased competition and migration to Metro Ethernet services. This was partially offset by an increase in ADSL revenue and Metro Ethernet services. ADSL revenue increased as a result of a 7,9 percent increase in ADSL subscribers to 1 005 286 (March 2014: 931 858).

With continued self-provisioning by other licensed operators, revenue from leased line facilities remained under pressure and declined 22,0 percent to R1 395 million (March 2014: R1 789 million).



Higher growth of 9,3 percent increase in Internet access and related services revenue was supported by a 7,5 percent increase in Internet subscribers.

Managed data network services revenue increased 13,8 percent to R1 046 million (March 2014: R919 million) due to an increase in the number of VPN Supreme and satellite services customers.

In line with our strategy to focus on data, we offered attractive data deals and promotional products which led to an increase in data subscribers, and a 50,6 percent increase in mobile data revenue to R988 million (March 2014: R656 million).

We won some key strategic deals in the IT market, which boosted our IT Business Services data revenue by 82,4 percent to R633 million (March 2014: R347 million).

The strategic decision that was made to discontinue sales of PC and gaming equipment saw a 19,5 percent decline in customer premises equipment sales to R247 million (March 2014: R307 million). Despite this, our rentals increased 14,1 percent to R865 million (March 2014: R758 million) due to increased uptake in next generation equipment rentals and higher tariffs.

Mobile handset and equipment sales revenue increased 42,0 percent, driven by higher bulk sales to dealers and a sharp increase in smartphone and tablet sales.

### Group other income

In ZAR millions	March 2015	March 2014	%
Telkom <sup>1</sup>	697	529	31,8
Swiftnet	2	2	–
<b>Total</b>	<b>699</b>	<b>531</b>	<b>31,6</b>

*Reclassification of comparative information*

*1. Income relating to undersea cable activities that are not in the ordinary course of business of R83 million has been reclassified from operating revenue to other income.*

Other income includes profit on the disposal of investments, property, plant and equipment as well as interest received from debtors and sundry income.

Other income increased 31,6 percent to R699 million (March 2014: R531 million) as a result of higher profit on sale of properties.

### Group direct expenses

In ZAR millions	March 2015	March 2014	%
Payments to other operators	2 930	3 944	25,7
Direct cost	615	560	(9,8)
Cost of sales	2 172	1 617	(34,3)
<b>Total</b>	<b>5 717</b>	<b>6 121</b>	<b>6,6</b>

### Telkom direct expenses

In ZAR millions	March 2015	March 2014	%
Payments to other operators	2 902	3 920	26,0
Mobile network operators	1 450	2 308	37,2
International network operators	887	946	6,2
Fixed-line network operators	254	338	24,9
Data commitments	311	328	5,2
Direct cost	615	560	(9,8)
Cost of sales	2 172	1 616	(34,4)
<b>Total</b>	<b>5 689</b>	<b>6 096</b>	<b>6,7</b>

## Financial performance (continued)

Payments to mobile operators decreased 37,2 percent as a result of a reduction in mobile termination rates. The 34,4 percent increase in cost of sales is largely attributed to the increase in the cost of mobile device sales.

### Group operating expenses

In ZAR millions	March 2015	March 2014	%
Employee expenses	8 763	9 091	3,6
Selling, general and administrative expenses	4 712	4 699	(0,3)
Service fees	3 212	3 103	(3,5)
Operating leases	992	1 007	1,5
Operating expenses excluding depreciation, amortisation, impairments and write-offs	17 679	17 900	1,2
Depreciation, amortisation, impairments and write-offs	5 478	5 891	7,0
<b>Total</b>	<b>23 157</b>	23 791	2,7

Group operating expenses including depreciation, amortisation, impairments and write-offs decreased by 2,7 percent to R23 157 million (March 2014: R23 791 million) in the year ended 31 March 2015, primarily due to asset impairments and accelerated depreciation on new connections installed to customer premises included in the prior year as well as lower employee expenses as a result of the curtailment of the post-retirement medical aid liability in the prior year.

### Telkom operating expenditure

In ZAR millions	March 2015	March 2014	%
Employee expenses	8 703	9 037	3,7
Salaries and wages	7 172	7 103	(1,0)
Benefits	2 017	2 315	12,9
Workforce reduction expenses	–	75	100,0
Employee related expenses capitalised	(486)	(456)	(6,6)
Selling, general and administrative expenses	4 702	4 695	(0,2)
Materials and maintenance <sup>1</sup>	2 908	2 886	(0,8)
Marketing	714	799	10,6
Bad debts	319	170	(87,7)
Other <sup>1</sup>	761	840	9,4
Service fees	3 209	3 096	(3,7)
Property management	1 934	1 741	(11,1)
Consultants, security and other	1 275	1 355	5,9
Operating leases	987	1 004	1,7
Buildings	455	455	–
Equipment	48	35	(37,1)
Vehicles	484	514	5,8
Depreciation, amortisation, impairments and write-offs	5 459	5 872	7,0
Depreciation	4 481	4 588	2,3
Amortisation	757	652	(16,1)
Impairment and write-offs	221	632	65,0
<b>Total</b>	<b>23 060</b>	23 704	2,7

Reclassification of comparative information

<sup>1</sup>Copper theft losses of R134 million has been reclassified from materials and maintenance to the other category for more relevant disclosure.

Employee expenses were 3,7 percent lower due to the curtailment of the post-retirement medical aid liability for in-service members and pensioners, a 4,5% reduction in full-time employee headcount and lower part-time staff headcount. This was offset by a 6,2 percent average salary increase for bargaining unit employees and a 6,0 percent average salary increase for management employees.

Selling, general and administrative expenses remained relatively flat. More focused marketing expenses resulted in a decrease of 10,6 percent to R714 million (March 2014: R799 million). This was partially offset by increased bad debts as we made provision based on the adverse economic conditions affecting payment patterns. The other category decreased 9,4 percent to R761 million (March 2015: R840 million) as we settled certain pending litigation, partially offset by higher inventory write-offs and licence fees.

Space optimisation projects and higher electricity tariffs led to an 11,1 percent increase in property management expenses. Consultants, security and other service fees decreased 5,9 percent, driven by lower consulting costs incurred relating to the Company's transformation programme.

The 5,8% decrease in vehicle leases was mainly attributed to fewer kilometres travelled, a lower average cost of fuel and benefits from contract renegotiations.

Depreciation decreased 2,3 percent to R4 481 million (March 2014: R4 588 million) due to higher accelerated depreciation on new connections installed to customer premises included in the prior year. Impairments and write-offs declined 65,0 percent to R221 million (March 2014: R632 million). This decline is largely attributable to the impairment of certain legacy and technologically aged items in the prior year.

### Mobile operating expenditure

Details of Telkom Mobile operating expenditure are provided below.

In ZAR millions	March 2015	March 2014	%
Payments to other operators	505	482	(4,8)
Direct cost	512	461	(11,1)
Cost of sales	1 436	1 056	(36,0)
Employee expenses	368	359	(2,5)
Selling, general and administrative expenses	920	988	6,9
Service fees	100	144	30,6
Operating leases	260	220	(18,2)
Depreciation, amortisation, impairments and write-offs	720	598	(20,4)
<b>Total</b>	<b>4 821</b>	<b>4 308</b>	<b>(11,9)</b>

### Investment income

Investment income consists of interest received on short-term investments and bank accounts. Investment income increased by 73,6 percent to R283 million (March 2014: R163 million) as a result of higher cash balances held by the Group.

### Finance charges and fair value movements

Finance charges include interest paid on local and foreign borrowings, amortised discounts on bonds and commercial paper bills, fair value gains and losses on financial instruments and the cell captive as well as foreign exchange gains and losses on foreign currency denominated transactions and balances.

Foreign exchange and fair value gains decreased 74,1 percent to R89 million (March 2014: R344 million). This decrease was caused by lower fair value gains on derivatives due to the implementation of hedge accounting effective 1 October 2013, which results in certain foreign exchange gains and losses not being recognised in earnings in the current period. Lower fair value gains realised on the underlying assets held by the cell captive also contributed to the decrease. The interest expense decreased 11,9 percent to R560 million (March 2014: R636 million) as a result of lower debt levels.

## Financial performance (continued)

### Taxation

The normalised consolidated tax expense excludes the R546 million (March 2014: R246 million) benefit from the payment to an insurer for our post-retirement medical aid liability to in service members and pensioners and the R165 million tax benefit on the voluntary severance and retrenchment expenses. The normalised consolidated tax expense decreased by 10,0 percent to R543 million (March 2014: R603 million) mainly as a result of favourable prior year adjustments of R337 million (March 2014: R224 million unfavourable) and the recognition of a deferred tax asset of R250 million (March 2014: Nil).

### Consolidated statement of financial position

The Group's capital structure remains strong. Net debt, including financial assets and liabilities, decreased 92,8 percent to R151 million from R2 092 million as at 31 March 2014, resulting in a net debt to EBITDA ratio of 0,02 times.

On 31 March 2015, the Group had cash balances, including other financial assets and liabilities, of R4 677 million (31 March 2014: R1 930 million). The higher cash balances emanate from a measured approach to capital investment with a focus on returns as well as cash received from a R1 billion loan secured to extend our debt maturity profile.

### Free cash flow

In ZAR millions	March 2015	March 2014	%
Cash generated from operations before dividends paid as reported	6 347	6 490	(2,2)
Add back: Payment to Competition Commission	291	291	–
Add back: Payment to insurer for post-retirement medical aid	1 950	878	122,1
Add back: Package cost	325	710	(54,2)
Less: Taxation refund received	–	(854)	(100)
Cash generated from operations before dividends paid	8 913	7 515	18,6
Cash paid for capital expenditure	(5 015)	(6 370)	21,3
<b>Free cash flow</b>	<b>3 898</b>	1 145	240,4

Free cash flow increased significantly to R3 898 million (March 2014: R1 145 million) as a result of the 15,1 percent increase in EBITDA and a 21,3 percent decrease in cash paid for capital expenditure.

### Group capital expenditure

Our capital expenditure programme is aligned to our strategy to build our next generation network and grow mobile and converged service offerings.

Group capital expenditure, which includes spend on intangible assets, decreased 21,4 percent to R5 164 million (March 2014: R6 566 million) and represents 16,3 percent of Group operating revenue (March 2014: 21,0 percent).

In ZAR millions	March 2015	March 2014	%
Baseline	1 834	1 837	0,2
Network evolution	1 504	2 439	38,3
Mobile	481	1 368	64,8
Sustenance	224	198	(13,1)
Effectiveness and efficiency	543	162	(235,2)
Support	348	357	2,5
Other	17	27	37,0
Swiftnet	20	25	20,0
Capital expenditure included in PPE	4 971	6 413	22,5
Strategic inventory of a capital nature	193	153	(26,1)
<b>Total</b>	<b>5 164</b>	6 566	21,4

Baseline capital expenditure of R1 834 million (March 2014: R1 837 million) consists largely of the deployment of technologies to support the growing data services business, Internet capacity growth, links to the mobile cellular operators and access line deployment in selected high-growth commercial and business areas.

Network evolution expenditure of R1 504 million (March 2014: R2 439 million) is related to the continued rollout of the next generation network programme which aims to modernise the legacy voice network, provide high-speed broadband in selected areas and to address the associated operational and business support systems. The lower expenditure is largely due to a more rigorous focus on project selection, in accordance with the Group's focus on efficient execution of its strategy. Our roll out was also impacted by civil work required to install fibre to the home and business.

Mobile capital expenditure decreased 64,8 percent to R481 million (March 2014: R1 368 million), due to the shift to a more concentrated rollout in major metropolitan areas. The current focus on the radio access network (RAN) is to complete existing projects and to provide capacity to relieve congestion in identified growth areas.

The sustenance category expenditure of R224 million (March 2014: R198 million) was largely linked to the replacement of obsolete power systems as well as the replacement and modernisation of the access and core network. The increase is due to a focus on access network rehabilitation, mainly to improve the customer experience for voice and ADSL services.

The increase in the effectiveness and efficiency category to R543 million (March 2014: R162 million) resulted from a number of projects, including the relocation of Telkom head office staff to Centurion, a contact centre consolidation initiative and the replacement of electric lighting with lower energy LED lights.

The support capital expenditure of R348 million (March 2014: R357 million) is primarily related to the provision of new buildings and building extensions in support of network growth, building compliance upgrades, the replacement of obsolete personal computers and the purchase of test equipment for technical staff.

# Group Annual Financial Statements

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For the year ended  
31 March 2015

**Telkom**



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## **AUDITORS**

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

## **BOARD APPROVAL**

The condensed consolidated provisional annual financial statements were authorised for issue by the Board of Directors of Telkom (Board) on 5 June 2015.

## **PREPARER AND SUPERVISOR OF CONDENSED CONSOLIDATED PROVISIONAL ANNUAL FINANCIAL STATEMENTS**

These condensed consolidated provisional annual financial statements were prepared by Mrs Gladys Machinjike (Executive Financial Accounting and Reporting) and supervised by Mr Robin Coode (Group Executive Accounting).

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

for the year ended 31 March 2015

	Notes	2015 Rm	Restated* 2014 Rm
<b>Continuing operations</b>			
<b>Total revenue</b>	4	<b>32 400</b>	31 905
<b>Operating revenue</b>	4	<b>31 675</b>	31 288
Payments to other operators	5.1	2 930	3 944
Cost of sales	5.2	2 787	2 177
<b>Net operating revenue</b>		<b>25 958</b>	25 167
Other income		699	531
<b>Operating expenses</b>		<b>23 748</b>	21 622
Employee expenses	5.3	9 354	6 922
Selling, general and administrative expenses	5.4	4 712	4 699
Service fees	5.5	3 212	3 103
Operating leases		992	1 007
Depreciation, amortisation, impairment, write-offs and losses	5.6	5 478	5 891
<b>Operating profit</b>		<b>2 909</b>	4 076
Investment income	4	283	163
<b>Finance charges and fair value movements</b>		<b>471</b>	292
Finance charges		560	636
Foreign exchange and fair value movements		(89)	(344)
<b>Profit before taxation</b>		<b>2 721</b>	3 947
Taxation (income)/expense	6	(168)	357
<b>Profit from continuing operations</b>		<b>2 889</b>	3 590
<b>Profit from discontinued operations</b>	7	<b>367</b>	353
<b>Profit for the year</b>		<b>3 256</b>	3 943
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit and loss</b>			
Exchange gains on translating foreign operations		–	4
Recycling of foreign currency translation reserve		–	122
<b>Items that will not be reclassified to profit and loss</b>			
Defined benefit plan actuarial (losses)/gains		(944)	2 277
Defined benefit plan asset ceiling limitation		448	(1 106)
Income tax relating to components of other comprehensive income	8	139	(157)
<b>Other comprehensive (loss)/income for the year, net of taxation</b>		<b>(357)</b>	1 140
<b>Total comprehensive income for the year</b>		<b>2 899</b>	5 083
<b>Profit attributable to:</b>			
Owners of Telkom		3 151	3 822
Non-controlling interest		105	121
<b>Profit for the year</b>		<b>3 256</b>	3 943
<b>Total comprehensive income attributable to:</b>			
Owners of Telkom		2 794	4 962
Non-controlling interest		105	121
<b>Total comprehensive income for the year</b>		<b>2 899</b>	5 083
<b>Total operations*</b>			
<b>Basic earnings per share (cents)</b>	9	<b>617,1</b>	748,5
<b>Diluted earnings per share (cents)</b>	9	<b>604,5</b>	744,8
<b>Continuing operations</b>			
<b>Basic earnings per share (cents)</b>	9	<b>565,8</b>	703,1
<b>Diluted earnings per share (cents)</b>	9	<b>554,2</b>	699,6

\*Refer to note 2.3 and note 9.



# Condensed consolidated provisional statement of financial position

at 31 March 2015

	Notes	2015 Rm	2014 Rm
<b>Assets</b>			
<b>Non-current assets</b>		<b>30 554</b>	<b>31 039</b>
Property, plant and equipment	10	24 387	25 123
Intangible assets	10	2 793	2 833
Other investments		2 231	2 759
Employee benefits	11	452	35
Other financial assets	12	28	74
Finance lease receivables		413	202
Deferred taxation		250	13
<b>Current assets</b>		<b>10 511</b>	<b>8 366</b>
Inventories	10	552	646
Income tax receivable		1	8
Current portion of finance lease receivables		200	118
Trade and other receivables		4 895	5 565
Current portion of other financial assets	12	1 247	187
Cash and cash equivalents	13	3 616	1 842
Assets of disposal group classified as held for sale	7.2	917	–
<b>Total assets</b>		<b>41 982</b>	<b>39 405</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the parent</b>		<b>25 676</b>	<b>22 771</b>
Share capital		5 208	5 208
Treasury shares	15	–	(771)
Share-based compensation reserve		126	11
Non-distributable reserves	15	1 507	2 580
Retained earnings		18 835	15 743
Non-controlling interest		363	377
<b>Total equity</b>		<b>26 039</b>	<b>23 148</b>
<b>Non-current liabilities</b>		<b>4 421</b>	<b>6 156</b>
Interest-bearing debt	16	3 244	3 775
Employee related provisions	17	437	1 388
Non-employee related provisions	17	39	108
Deferred revenue		687	869
Deferred taxation		14	16
<b>Current liabilities</b>		<b>11 403</b>	<b>10 101</b>
Trade and other payables	18	5 571	5 119
Shareholders for dividend		19	21
Current portion of interest-bearing debt	16	1 612	321
Current portion of employee related provisions	17	1 867	1 597
Current portion of non-employee related provisions	17	302	731
Current portion of deferred revenue		1 502	1 431
Income tax payable		344	782
Current portion of other financial liabilities		185	98
Credit facilities utilised	13	1	1
Liabilities of disposal group classified as held for sale	7.2	119	–
<b>Total liabilities</b>		<b>15 943</b>	<b>16 257</b>
<b>Total equity and liabilities</b>		<b>41 982</b>	<b>39 405</b>

# Condensed consolidated provisional statement of changes in equity

for the year ended 31 March 2015

	2015 Rm	2014 Rm
<b>Balance at 1 April</b>	<b>23 148</b>	18 177
Attributable to owners of Telkom	<b>22 771</b>	17 798
Non-controlling interests	<b>377</b>	379
<b>Total comprehensive income for the year</b>	<b>2 899</b>	5 083
Profit for the year	<b>3 256</b>	3 943
<b>Other comprehensive income</b>	<b>(357)</b>	1 140
Exchange gains on translating foreign operations	-	4
Recycling of foreign currency translation reserve	-	122
Net defined benefit plan remeasurements	<b>(357)</b>	1 014
Dividend declared*	<b>(119)</b>	(123)
Adjustment to shares held in Escrow	<b>(4)</b>	-
Increase in share-compensation reserve	<b>115</b>	11
<b>Balance at 31 March</b>	<b>26 039</b>	23 148
Attributable to owners of Telkom	<b>25 676</b>	22 771
Non-controlling interests	<b>363</b>	377

\*Dividend declared to the non-controlling interests of the Trudon Group.

# Condensed consolidated provisional statement of cash flows

for the year ended 31 March 2015

Notes	2015 Rm	2014 Rm
<b>Cash flows from operating activities</b>	<b>6 226</b>	6 366
Cash receipts from customers	<b>31 852</b>	32 455
Cash paid to suppliers and employees	<b>(25 210)</b>	(26 143)
Cash generated from operations	<b>6 642</b>	6 312
Interest received	<b>470</b>	358
Finance charges paid	<b>(491)</b>	(585)
Taxation refund	<b>–</b>	854
Taxation paid	<b>(274)</b>	(449)
Cash generated from operations before dividend paid	<b>6 347</b>	6 490
Dividend paid	<b>(121)</b>	(124)
<b>Cash flows from investing activities</b>	<b>(5 113)</b>	(4 333)
Proceeds on disposal of property, plant and equipment and intangible assets	<b>253</b>	67
Proceeds on disposal of investment	<b>750</b>	–
Additions to assets for capital expansion	<b>(5 015)</b>	(6 370)
(Increase)/decrease in repurchase agreements	<b>(1 101)</b>	1 970
<b>Cash flows from financing activities</b>	<b>685</b>	(2 583)
Loans raised	<b>1 000</b>	300
Loans repaid	<b>(310)</b>	(3 036)
Finance lease repaid	<b>(170)</b>	(156)
Settlement of derivatives	<b>165</b>	309
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1 798</b>	(550)
Net cash and cash equivalents at beginning of year*	<b>1 841</b>	2 381
Trudon cash and cash equivalents classified as held for sale	<b>(27)</b>	–
Effect of foreign exchange rate gains on cash and cash equivalents	<b>3</b>	10
<b>Net cash and cash equivalents at end of year*</b>	<b>3 615</b>	1 841

\*Refer to note 7 for cash flow activities on discontinued operations of the iWayAfrica Group, over which control was relinquished on disposal in the prior financial year and of the Trudon Group, which has been reclassified as a discontinued operation in the current financial year.

# Notes to the condensed consolidated provisional annual financial statements

for the year ended 31 March 2015

## 1. Corporate information

Telkom SA SOC Limited (Telkom) is a company incorporated and domiciled in the Republic of South Africa (South Africa) whose shares are publicly traded. The main objective of Telkom, its subsidiaries and associate (the Group) is to supply telecommunication, multimedia, technology, information and other related information technology services to Telkom's customers, as well as mobile communication services, in South Africa.

## 2. Basis of preparation and accounting policies

### Basis of preparation

The condensed consolidated provisional annual financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and in compliance with the Listings Requirements of the JSE Limited and the South African Companies Act, 2008.

The condensed consolidated provisional annual financial statements are presented in South African Rand, which is the Group's functional currency. All financial information presented in Rand has been rounded off to the nearest million.

The condensed consolidated provisional annual financial statements are prepared on the historical cost basis, with the exception of certain financial instruments initially (and sometimes subsequently) measured at fair value. Details of the Group's significant accounting policies are set out below and are consistent with those applied in the previous financial year.

### Significant accounting judgements, estimates and assumptions

In preparing these condensed consolidated provisional annual financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those applied to the consolidated financial statements for the year ended 31 March 2014.

### Significant accounting policies

The condensed consolidated provisional annual financial statements have been prepared in accordance with the accounting policies adopted in the Group's last annual financial statements for the year ended 31 March 2014, except for the adoption of the amendments, new standards described below.

### 2.1. The following new standards, amendments to standards and interpretations that have been adopted and do not have a material impact on the Group.

Standard(s), amendment(s)	Salient feature of the changes	Effective date
IFRS 3 Business Combinations	Amendment to scope exception of joint ventures in paragraph 2(a).	1 July 2014
IFRS 8 Operating Segments	Amendment relating to aggregation of segments and reconciliation of the total reportable segments' assets to the entity's assets if segment assets are reported regularly.	1 July 2014
IFRS 11 Joint Arrangements	Amendment to IFRS 11 requirements for accounting for an acquired interest in a joint operation that constitutes a business and additional disclosure requirements in terms of IFRS 3 Business Combinations and other IFRS for business combinations.	1 January 2016
IFRS 13 Fair Value Measurement	Amendment of scope exclusion in IFRS 13.52 to include all contracts accounted for within the scope of IAS 39 and IFRS 9, regardless of whether they meet the definition of financial asset or financial liability as defined in IAS 32.	1 July 2014
IAS 16 Property, Plant and Equipment	Amendment to the revaluation method: Proportionate restatement of accumulated depreciation of an item of property, plant and equipment.	1 July 2014

Standard(s), Amendment(s)	Salient feature of the changes	Effective date
IAS 16 Property, Plant and Equipment and IAS 41 Agriculture	Amendment to IAS 16 and IAS 41 to define bearer plants and include within the scope of IAS 16 Property, Plant and Equipment those bearer plants that are expected to bear produce for more than one period and have a remote likelihood of being sold as agricultural produce. These were previously in the scope of IAS 41.	1 January 2016
IAS 16 Property, Plant and Equipment	Amendment providing clarification on acceptable methods of depreciation and amortisation.	1 January 2016
IAS 19 Employee Benefits	Amendment providing the clarification of the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	1 July 2014
IAS 24 Related Party Disclosures	Amendment requires disclosure of key management personnel services, provided to the reporting entity or to the parent of the reporting entity, as a related party in the reporting entity.	1 July 2014
IAS 27 Separate Financial Statements	Amendment to IAS 27 to enable an entity to account for investments in subsidiaries, joint ventures and associates using the equity method when preparing separate financial statements.	1 January 2016
Investment Entities (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements)	Amendment exempting 'investment entities' (as defined) from the consolidation of particular subsidiaries. Such investment entity should measure the investment in each eligible subsidiary at fair value through profit or loss.	1 January 2014
IAS 32 Financial Instruments: Presentation	Amendment to application guidance on the offsetting of financial assets and financial liabilities and the related net credit exposure.	1 January 2014
IAS 38 Intangible Assets	Amendment providing guide on the revaluation method: proportionate restatement of accumulated amortisation of an intangible asset.	1 July 2014
IAS 38 Intangible Assets	Amendment providing clarification of acceptable methods of depreciation and amortisation.	1 January 2016
IAS 39 Financial instruments: Recognition and Measurement	Amendment for novation of derivatives and the continuation of hedge accounting.	1 January 2014
IAS 40 Investment Property	Amendment providing the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	1 July 2014
IFRIC 21 Levies	Interpretation on the accounting for levies imposed by governments.	1 January 2014

# Notes to the condensed consolidated provisional annual financial statements (continued)

for the year ended 31 March 2015

## 2. Basis of preparation and accounting policies (continued)

### 2.2. Standards and interpretations in issue not yet adopted and not yet effective

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

Pronouncement	Title	Effective date
IFRS 1 First-time Adoption of International Financial Reporting Standards	Consequential amendment to IFRS 7 Financial Instruments Disclosures: Servicing contracts disclosures and offsetting of financial assets and liabilities disclosures in condensed interim financial statements.	1 January 2016
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	Amendment to the accounting treatment of changes to a plan of sale or to a plan of distribution to owners where an entity reclassifies an asset or disposal group from held for sale to held for distribution or vice versa.	1 January 2016
IFRS 7 Financial Instruments Disclosures	Amendment requiring disclosures about the initial application of IFRS 9.	1 January 2018*
IFRS 7 Financial Instruments Disclosures	Additional hedge accounting disclosures resulting from the introduction of a hedge accounting chapter in IFRS 9.	1 January 2018*
IFRS 7 Financial Instruments Disclosures	Servicing contracts disclosures: Application guidance to clarify whether a servicing contract gives rise to continuing involvement in a transferred asset for the purposes determining the transfer disclosure requirements.	1 January 2016
IFRS 9 Financial Instruments	Classification and measurement of financial assets and financial liabilities and derecognition requirements.	1 January 2018*
IFRS 10 Consolidated Financial Statements	Amendment of the accounting for a split of gains or losses on the loss of control between: (i) the recognition of gains or losses in profit or loss of a parent company and (ii) the elimination against the carrying amounts of investments in the existing associate/joint venture and former subsidiary when control over the subsidiary is lost.	1 January 2016
IFRS 14 Regulatory Deferral Accounts	The new standard describes the financial reporting requirements for 'regulatory deferral account balances' that arise when an entity provides goods or services to customers at a price or rate that is subject to rate regulation. This standard is applicable to first time adopters of IFRS.	1 January 2016
IFRS 15 Revenue from contracts with customers	This new standard provides principles that an entity will apply to determine the measurement of revenue and timing of when it is recognised. The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services.	1 January 2017

Pronouncement	Title	Effective date
IAS 1 Presentation of Financial Statements	Amendment aiming to ensure that an entity does not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.	1 January 2016
IAS 19 Employee Benefits	Discount rate: requirement to use the market yields on government bonds denominated in the currency of high quality corporate bonds in cases where there is no deep market for such bonds for the purpose of discounting post-employment benefit obligations.	1 January 2016
IAS 28 Investment in Associates or Joint Ventures	See IFRS 10 Consolidated Financial Statements	1 January 2016
IAS 34 Interim Financial Reporting	Certain disclosures are to be given either in the interim financial statements or incorporated by a cross-reference from the interim financial statements to some other statement. These disclosures must also be available to users on the same terms and at the same time as the interim financial statements for the interim financial report to be complete.	1 January 2016
IAS 39 Financial Instruments: Recognition and Measurement	Amendment to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception.	1 January 2018*
IFRS 10, IFRS 12 and IAS 28, Investment Entities: Applying the Consolidation Exception	Amendment granting exemption from preparation of consolidated Financial Statements for an intermediate parent entity that is subsidiary of an investment entity even if that parent entity measures all of its subsidiaries at fair value. Consequential amendments have also been made to IAS 28 exemption from applying the equity method for entities that are subsidiaries and hold interest in associate and joint venture.	1 January 2016

\*The standards apply when IFRS 9 is applied.

# Notes to the condensed consolidated provisional annual financial statements (continued)

for the year ended 31 March 2015

## 2 Basis of preparation and accounting policies (continued)

### 2.3 Adjustments to the consolidated statement of profit or loss and other comprehensive income

for the year ended 31 March 2014

	As previously reported Rm	Undersea cable revenue* Rm	Discontinued operation** Rm	Restated Rm
<b>Continuing operations</b>				
<b>Total revenue</b>	33 061		(1 156)	<b>31 905</b>
<b>Operating revenue</b>	32 483	(83)	(1 112)	<b>31 288</b>
Payments to other operators	3 944		–	<b>3 944</b>
Cost of sales	2 498		(321)	<b>2 177</b>
<b>Net operating revenue</b>	26 041	(83)	(791)	<b>25 167</b>
Other income	479	83	(31)	<b>531</b>
<b>Operating expenses</b>	21 918		(296)	<b>21 622</b>
Employee expenses	7 137		(215)	<b>6 922</b>
Selling, general and administrative expenses	4 682		17	<b>4 699</b>
Service fees	3 110		(7)	<b>3 103</b>
Operating leases	1 052		(45)	<b>1 007</b>
Depreciation, amortisation, impairment, write-offs and losses	5 937		(46)	<b>5 891</b>
<b>Operating profit</b>	4 602	–	(526)	<b>4 076</b>
Investment income	176		(13)	<b>163</b>
<b>Finance charges and fair value movements</b>	292		–	<b>292</b>
Finance charges	636		–	<b>636</b>
Foreign exchange gains and fair value movements	(344)		–	<b>(344)</b>
<b>Profit before taxation</b>	4 486	–	(539)	<b>3 947</b>
Taxation	494		(137)	<b>357</b>
<b>Profit from continuing operations</b>	3 992	–	(402)	<b>3 590</b>
<b>Profit from discontinuing operations</b>	(49)	–	402	<b>353</b>
<b>Profit for the year</b>	3 943	–	–	<b>3 943</b>

\*This is income relating to undersea cables activities that are not in the ordinary course of business, therefore it was reclassified from operating revenue to other income.

\*\*The restatement is due to the classification of the Trudon Group as a discontinued operation.



### 3. Segment information

The Executive Committee (Chief operating decision maker) manages the business on a combined basis. This reflects the financial information reviewed by the Executive Committee when making decisions about performance and resource allocation and is consistent with the manner in which the Telkom network generates revenue, ie on a combined basis. As a result, Telkom has a single operating and reporting segment. No Group geographical information is provided as the majority of the Group's operations are carried out in South Africa.

The Telkom segment provides fixed-line access, fixed-line usage, data communications services, mobile voice and data services and customer premises equipment sales.

### 4. Total revenue

Operating revenue  
Other income (excluding profit on disposal of property, plant and equipment, intangible assets and investments)  
Investment income

	2015 Rm	Restated 2014 Rm
	32 400	31 905
	31 675	31 288
	442	454
	283	163

Operating revenue increased due to higher mobile voice and data revenue, higher IT business services revenue and higher equipment sales. This was partly offset by the continuous decline in fixed-line voice revenue and lower data leased line revenue resulting from self-provisioning by other licensed operators.

Investment income increased as a result of higher cash balances held by the Group.

#### Change in estimate

In the current financial year the Group reassessed its voice customer relationship period (CRP) that is used for the deferral of installation fee revenue. The CRP was changed from 9 years to 6.5 years. This is more reflective of the modern day customer behaviour within the industry. The change in estimate resulted in revenue increasing by R111 million in the current year.

#### Change in comparative

The comparative in other income has increased by R83 million due to a reclassification from operating revenue relating to income from undersea cables to more appropriately reflect its nature.

# Notes to the condensed consolidated provisional annual financial statements (continued)

for the year ended 31 March 2015

	2015 Rm	Restated 2014 Rm
<b>5. Operating expenses</b>		
<b>5.1 Payments to other operators</b>	<b>2 930</b>	3 944
Payments to other network operators (interconnection fees) has decreased due to the reduction in the mobile termination rates.		
<b>5.2 Cost of sales</b>	<b>2 787</b>	2 177
The increase in the cost of sales is largely attributable to the increase in the mobile device sales.		
<b>5.3 Employee expenses</b>	<b>9 354</b>	6 922
The increase in employee expenses is mainly due to a net curtailment gain of R2.2 billion that related to the curtailment and settlement of the post-retirement medical aid benefit which occurred in the prior financial year. The average salary increase as well as the retrenchment packages, voluntary early retirement packages and voluntary severance packages gave rise to the increase in employee expenses offset by a settlement gain that related to the post-retirement medical aid benefit.		
<b>5.4 Selling, general and administrative expenses</b>	<b>4 712</b>	4 699
Selling, general and administrative increased marginally. More focused marketing activities resulted in a decrease in selling, general and administrative expenses in the current financial year. The decrease was partially offset by an increase in bad debt provision. The adverse economic conditions gave rise to higher impairments.		
<b>5.5 Service fees</b>	<b>3 212</b>	3 103
The increase in service fees is driven by costs relating to higher utilities and maintenance costs on Telkom properties.		
<b>5.6 Depreciation, amortisation, impairment and write-offs</b>	<b>5 478</b>	5 891
Depreciation of property, plant and equipment	<b>4 500</b>	4 605
Amortisation of intangible assets	<b>758</b>	654
Impairment of property, plant and equipment and intangible assets	<b>-</b>	392
Write-offs of property, plant and equipment and intangible assets	<b>220</b>	240
The decrease in depreciation is due to accelerated depreciation on new connections installed to customer premises in the prior financial year that was not incurred to the same extent in the current financial year together with the impairment of certain legacy and technologically aged items that did not occur in the current financial year.		
<b>6. Taxation (income)/expense</b>	<b>(168)</b>	357
South African normal company taxation	<b>(56)</b>	484
Deferred taxation	<b>(112)</b>	(127)
The reduction in the tax expense in the current financial year was mainly as a result of the reversal of tax provisions raised and refunds in respect of prior years that related to matters that were resolved with SARS during the current financial year.		
In the current financial year the Group raised a deferred tax asset of R250 million of which a net amount of R112 million was processed through profit or loss.		

	2015 Rm	2014 Rm
<b>7. Discontinued operations</b>		
<b>7.1 Pan African business, iWayAfrica and Africa Online Mauritius</b>		
On the 20th of December 2013, Telkom sold the Pan African business, iWayAfrica and Africa Online Mauritius, through a private sale to Gondwana International Networks.		
iWayAfrica was formed as the result of the amalgamation of MWEB Africa and Africa Online in 2007 when MWEB Africa was purchased by Telkom. The iWayAfrica business operated in eight countries on the continent offering terrestrial wireless and VSAT services to business and residential markets, as well as via its channel partners in many other countries on the continent. Telkom's investment in iWayAfrica was already fully impaired at 31 March 2012. Gondwana took over the assets and liabilities (including amounts owed by Telkom) for a nominal consideration.		
<b>Analysis of the results of the discontinued operations:</b>		
Revenue*	-	240
Expenses*	-	(289)
Loss before taxation of the discontinued operations	-	(49)
Taxation	-	-
<b>Loss after taxation of the discontinued operations</b>	-	(49)
<i>*Revenue is comprised of operating revenue, other income and investment income. Expenses is comprised of operating expenses and finance charges.</i>		
<b>The net cash flows attributable to the operating, investing and financing activities of discontinued operations:</b>		
Operating cash flows	-	(38)
<b>Total cash outflows*</b>	-	(38)
<i>*Cash flows included for 2014 are up to 20 December 2013. At 20 December 2013, on the date of disposal, iWayAfrica had R48 million cash on hand.</i>		
<b>7.2 The Trudon Group</b>		
On 27 November 2014, the Telkom Board approved the disposal of Telkom's 64,9% shareholding in Trudon to Trumancon. This is part of Telkom's strategic imperative to focus on its fixed-line and internet based business. Trudon provides advertising and marketing options to the small, medium and micro enterprises and corporate market. They also deliver local commercial search options.		
The conclusion of the transaction is subject to the fulfilment of certain material conditions precedent.		
<b>Analysis of the results of the discontinued operations:</b>		
Revenue*	<b>1 127</b>	1 156
Expenses*	<b>(638)</b>	(617)
Profit before taxation of the discontinued operations	<b>489</b>	539
Taxation	<b>(122)</b>	(137)
<b>Profit after taxation of the discontinued operations**</b>	<b>367</b>	402
<i>*Revenue is comprised of operating revenue, other income and investment income. Expenses is comprised of operating expenses.</i>		
<i>**As the carrying amount of Trudon is less than the fair value less costs to sell, no re-measurement is required.</i>		

# Notes to the condensed consolidated provisional annual financial statements (continued)

for the year ended 31 March 2015

	2015 Rm	2014 Rm
<b>7. Discontinued operations (continued)</b>		
<b>7.2 The Trudon Group (continued)</b>		
<b>The major classes of assets and liabilities of the business classified as a disposal group:</b>		
<b>Assets</b>	<b>917</b>	
Property, plant and equipment and intangible assets	281	
Inventories	86	
Trade and other receivables	493	
Cash and cash equivalents	27	
Other current and non current assets	30	
<b>Liabilities</b>	<b>119</b>	
Trade and other payables	64	
Other current and non current liabilities	55	
<b>The net cash flows attributable to the operating, investing and financing activities of discontinued operations:</b>		
Operating cash flows	(9)	
Investing cash flows	(54)	
<b>Total cash inflows</b>	<b>(63)</b>	
The capital gains tax consequences on the sale of Trudon, if any, will be offset against the cumulative capital losses in Telkom company.		
<b>8. Income taxation effects of other comprehensive income</b>		
Exchange gains on translating foreign operations	–	4
Recycling of foreign currency translation reserve	–	122
<b>Net foreign currency translation gains for foreign operations</b>	<b>–</b>	<b>126</b>
Defined benefit plan actuarial (losses)/gains	(944)	2 277
Tax effect of defined benefit plan actuarial (losses)/gains	264	(306)
<b>Net defined benefit plan actuarial (losses)/gains</b>	<b>(680)</b>	<b>1 971</b>
Defined benefit plan asset ceiling limitation	448	(1 106)
Tax effect of defined benefit plan asset ceiling limitation	(125)	149
<b>Net defined benefit plan asset ceiling limitation</b>	<b>323</b>	<b>(957)</b>
<b>Other comprehensive (loss)/income for the year before taxation</b>	<b>(496)</b>	<b>1 297</b>
<b>Tax effect of other comprehensive (loss)/income for the year</b>	<b>139</b>	<b>(157)</b>
<b>Other comprehensive (loss)/income for the year, net of taxation</b>	<b>(357)</b>	<b>1 140</b>

	2015 Rm	Restated 2014 Rm
<b>9. Earnings per share</b>		
<b>Total operations</b>		
Basic earnings per share (cents)	617,1	748,5
Diluted earnings per share (cents)	604,5	744,8
Headline earnings per share (cents)*	607,3	851,4
Diluted headline earnings per share (cents)*	594,9	847,1
<b>Continuing operations</b>		
Basic earnings per share (cents)	565,8	703,1
Diluted earnings per share (cents)	554,2	699,6
Headline earnings per share (cents)*	556,0	806,0
Diluted headline earnings per share (cents)*	544,6	801,9
<b>Discontinued operations</b>		
Basic earnings per share (cents)	51,3	45,4
Diluted earnings per share (cents)	50,3	45,2
Headline earnings per share (cents)*	51,3	45,4
Diluted headline earnings per share (cents)*	50,3	45,2
<b>Reconciliation of weighted average number of ordinary shares:</b>	<b>Number</b>	<b>Number</b>
Ordinary shares in issue	<b>520 783 900</b>	520 783 900
Weighted average number of shares held by subsidiaries and in Escrow	<b>(10 190 084)</b>	(10 190 084)
<b>Weighted average number of shares outstanding</b>	<b>510 593 816</b>	510 593 816
<b>Reconciliation of diluted weighted average number of ordinary shares</b>		
Weighted average number of shares outstanding	<b>510 593 816</b>	510 593 816
Expected future vesting of shares	<b>10 654 715</b>	2 587 629
<b>Diluted weighted average number of shares outstanding</b>	<b>521 248 531</b>	513 181 445
<i>*The disclosure of headline earnings is a requirement of the JSE Limited and is not a recognised measure under IFRS. It has been calculated in accordance with the South African Institute of Chartered Accountants' circular 2/2013 issued in this regard.</i>		
<b>Total operations</b>		
<b>Reconciliation between earnings and headline earnings:***</b>	<b>Rm</b>	<b>Rm</b>
Profit for the year	<b>3 256</b>	3 943
Non-controlling interests	<b>(105)</b>	(121)
Profit attributable to Owners of Telkom	<b>3 151</b>	3 822
Profit on disposal of property, plant and equipment and intangible assets	<b>(257)</b>	(77)
Loss on disposal of subsidiary	-	23
Impairment loss on property, plant and equipment and intangible assets**	-	392
Write-offs of property, plant and equipment and intangible assets	<b>220</b>	240
Taxation effects	<b>(13)</b>	(53)
<b>Headline earnings</b>	<b>3 101</b>	4 347

\*\*The impairment resulted in deferred taxation consequences that were not recognised in the Statement of Financial Position in the prior financial year.

\*\*\*The amounts have been restated due to the reclassification of the Trudon Group as a discontinued operation.

# Notes to the condensed consolidated provisional annual financial statements (continued)

for the year ended 31 March 2015

	2015 Rm	Restated 2014 Rm
<b>9. Earnings per share (continued)</b>		
<b>Continuing operations</b>		
<b>Reconciliation between earnings and headline earnings:***</b>		
Profit from continuing operations	<b>2 889</b>	3 590
<b>Profit attributable to Owners of Telkom</b>	<b>2 889</b>	3 590
Profit on disposal of property, plant and equipment and intangible assets	<b>(257)</b>	(77)
Loss on disposal of subsidiary	-	23
Impairment loss on property, plant and equipment and intangible assets**	-	392
Write-offs of property, plant and equipment and intangible assets	<b>220</b>	240
Taxation effects	<b>(13)</b>	(53)
<b>Headline earnings</b>	<b>2 839</b>	4 115
<b>Discontinued operations</b>		
<b>Reconciliation between earnings and headline earnings:***</b>		
Profit from discontinued operation	<b>367</b>	353
Non-controlling interests	<b>(105)</b>	(121)
Profit attributable to Owners of Telkom	<b>262</b>	232
<b>Headline earnings</b>	<b>262</b>	232
<small>**The impairment resulted in deferred taxation consequences that were not recognised in the Statement of Financial Position in the prior financial year.</small>		
<small>***The amounts have been restated due to the reclassification of the Trudon Group as a discontinued operation.</small>		
<b>10. Capital additions and disposals</b>	<b>2015 Rm</b>	<b>2014 Rm</b>
Property, plant and equipment		
Additions	<b>4 038</b>	5 695
Disposals	<b>(16)</b>	(17)
Intangible assets		
Additions	<b>933</b>	763
Disposals	-	-
The capital expenditure is due to the deployment of the Next Generation Network, mobile cellular services and baseline technologies. The lower expenditure is largely due to a more rigorous focus on project selection in accordance with the Group's focus on efficient execution of its strategy.		

Mobile capital expenditure decreased due to the shift to a more concentrated rollout in major metropolitan areas. The current focus for the radio access network (RAN) is to complete current projects and to provide capacity to relieve congestion in identified growth areas.

An estimated amount of R193 million (2014: R153 million) included in inventories will be used for Telkom's network expansion in the 2016 financial year of which R137 million was purchased in the current financial year.

Finance charges of R93 million (2014: R93 million) were capitalised to property, plant and equipment and intangible assets in the current financial year.

Intangible assets additions mainly relate to software.

	2015 Rm	2014 Rm
<b>11. Employee benefits</b>	<b>452</b>	35
Telkom Pension Fund asset	28	35
Post-retirement medical aid net plan asset	424	–
The increase is due to the recognition of the net post-retirement medical aid plan asset arising from the annuity policy.		
<b>12. Other financial assets</b>		
<b>Non-current other financial assets consist of:</b>	<b>28</b>	74
– Derivative instruments	28	74
Cross currency swaps	28	74
<b>Current other financial assets consist of:</b>	<b>1 247</b>	187
– Repurchase agreements	1 101	–
– Derivative instruments	146	187
Forward exchange contracts	70	139
Firm commitments	5	4
Cross currency swaps	71	44
The increase is due to the repurchase agreement held at reporting date.		
<b>13. Net cash and cash equivalents</b>	<b>3 615</b>	1 841
Cash shown as current assets	3 616	1 842
Cash and bank balances	135	193
Short-term deposits	3 481	1 649
Credit facilities utilised	(1)	(1)

The increase in cash and cash equivalents is mainly due to the inflow of a loan of R1 billion (refer to note 16). The balance includes R2 663 million ring-fenced for the acquisition of Business Connexion (BCX) subject to regulatory approval.

# Notes to the condensed consolidated provisional annual financial statements (continued)

for the year ended 31 March 2015

## 14. Financial risk management

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

The condensed consolidated provisional annual financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 March 2015. The Group uses derivatives as hedging instruments.

### 14.1 Liquidity risk

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

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

Compared to the 2014 financial year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

### 14.2 Fair value of financial instruments

The carrying amount of financial instruments approximate fair value, with the exception of interest-bearing debt (at amortised cost) which has a fair value of R5 312 million (2014: R4 752 million) and a carrying amount of R4 856 million (2014: R4 096 million) (refer to note 16).

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

Type of financial instrument	Fair value at 31 March 2015 Rm	Valuation technique	Significant inputs
Receivables, bank balances, repurchase agreements, other liquid funds, payables and accruals, credit facilities utilised and shareholders for dividends	6 631	Undiscounted future estimated cash flows due to short term maturities of these instruments	Probability of default
Derivatives	(11)	Discounted cash flows	Yield curves Market interest rate Market foreign currency rate
Borrowings	5 312	Discounted cash flows and quoted bond prices	Market interest rate Market foreign currency rate

The estimated net fair values as at the reporting date have been determined using available market information and appropriate valuation methodologies as outlined below. This value is not necessarily indicative of the amounts that the Group could realise in the normal course of business. The fair value of the financial assets and financial liabilities are sensitive to exchange rate and interest rate movements.

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

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



The fair value of receivables, bank balances, repurchase agreements and other liquid funds, payables and accruals, approximate their carrying amount due to the short-term maturities of these instruments.

### 14.3 Fair value hierarchy

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

The different levels have been defined as follows:

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

The following table presents the Group's assets and liabilities that are measured at fair value and amortised cost:

Hierarchy levels		2015 Rm	2014 Rm
<b>Assets measured at fair value</b>			
Investment in Cell Captive Preference Shares	Level 1	2 227	2 755
Forward exchange contracts	Level 2	70	139
Firm commitments	Level 2	5	4
Cross currency swaps	Level 2	99	118
<b>Liabilities measured at fair value</b>			
Interest rate swaps	Level 2	(1)	–
Firm commitments	Level 2	(170)	(37)
Forward exchange contracts	Level 2	(14)	(61)
<b>Liabilities measured at amortised cost</b>			
<i>Interest-bearing debt consisting of:</i>		(5 312)	(4 752)
Quoted debt securities	Level 1	(3 355)	(3 445)
Unquoted debt securities	Level 2	(1 957)	(1 307)
<b>15. Non-distributable reserves</b>		<b>1 507</b>	<b>2 580</b>
Cell Captive reserve		2 282	2 580
Shares held by subsidiaries and in Escrow		(775)	–

The Group has a Cell Captive preference share investment to fund Telkom's post-retirement medical aid liability.

The fair value gains from the Cell Captive are recognised in profit or loss and then transferred to non-distributable reserves.

The reserve also represents Telkom shares held by subsidiaries and in Escrow, to be utilised in terms of the Telkom Employee Share Plan. Telkom previously disclosed the reserve as treasury shares.

# Notes to the condensed consolidated provisional annual financial statements (continued)

for the year ended 31 March 2015

	2015 Rm	2014 Rm
<b>16. Interest-bearing debt</b>		
<b>Non-current interest-bearing debt</b>	<b>3 244</b>	3 775
Local debt	2 605	2 815
Foreign debt	101	307
Finance leases	538	653
<b>Current portion of interest-bearing debt</b>	<b>1 612</b>	321
Local debt	1 260	–
Foreign debt	239	236
Finance leases	113	85
<p>The Group obtained long-term funding of R1 billion during the current financial year to diversify its debt maturity profile and to finance its activities.</p> <p>The repayment of the current portion of interest-bearing debt of R1 612 million (nominal as at 31 March 2015) is expected to be repaid from cash balances, available operational cash flow and/or the issue of new debt instruments.</p> <p>Management believes that sufficient funding facilities will be available at the dates of repayment.</p>		
<b>17. Provisions</b>		
<b>Non-current portion of provisions</b>	<b>476</b>	1 496
Employee related	437	1 388
Non-employee related	39	108
<b>Current portion of provisions</b>	<b>2 169</b>	2 328
Employee related	1 867	1 597
Non-employee related	302	731
<p>The decrease in non-current employee related provisions is mainly due to the effect of the settlement recognised on a portion of the post-retirement medical aid benefit. The settlement is as a result of an offer to pensioners who retired after 1994, but before 30 April 2013 to transfer the post-retirement medical aid liability obligation to an insurer.</p> <p>The increase in the current portion of employee related provisions is mainly due to the voluntary severance, voluntary early retirement and retrenchment process.</p> <p>The decrease in non-employee related provisions is due to the reclassification at 30 September 2014 of an amount of R304 million to trade and other receivables to more accurately reflect the substance of a transaction with a third party. The partial settlement of the fine imposed by the Competition Commission has also contributed to the decrease in the non-employee related provision.</p>		

	2015 Rm	2014 Rm
<b>18. Trade and other payables</b>	<b>5 571</b>	5 119
Trade payables	2 795	2 632
Finance cost accrued	108	74
Accruals and other payables	2 668	2 413
<p>The increase is mainly due to orders placed for Telkom campaigns that occurred in the current financial year. Included in the current year balance is the prior financial year refund from SARS of R854 million. Refer to note 20.</p>		
<b>19. Commitments</b>		
Capital commitments authorised	<b>5 500</b>	5 055
Commitments against authorised capital expenditure	1 057	1 132
Authorised capital expenditure not yet contracted	4 443	3 923
<p>Capital commitments are largely attributable to purchases of property, plant and equipment and software. Management expects these commitments to be financed from internally generated cash and other borrowings.</p>		

## 20. Contingencies

### Contingent liabilities

#### Matters before ICASA

##### *Phutuma Networks Proprietary Ltd (Phutuma)*

Phutuma filed a complaint against Telkom at ICASA's Complaints and Compliance Committee (the CCC) in February 2010. On 16 February 2015, after the matter having been heard by the CCC, Telkom received the CCC's final ruling dated 27 November 2014. The CCC ruled that the complaint had been withdrawn and that as a result thereof, it is not able to make any recommendations to the ICASA council. Telkom thus regards the matter as finalised on that basis.

##### *End-User and Service Charter Regulations*

Allegations have been made at the CCC regarding Telkom's alleged non-compliance with the requirements of the End-User and Service Charter Regulations relating to the clearance of reported faults. The CCC heard the matter and has ruled that Telkom is not in breach of the Regulations and recommend that ICASA review the regulations. Telkom has initiated administrative review proceedings seeking to set-aside the applicability of the Regulations since the CCC ruling is not binding on ICASA. The review has not been finalised as yet.

#### High court

##### *Telkom/ICASA, Neotel and CCC*

Neotel requested Telkom to provide access to Telkom's local loop in November 2010. Telkom declined the request and Neotel submitted a formal complaint to the CCC which made an order directing Telkom to provide Neotel access to Telkom's local loop. Telkom launched an interim relief application for an order that the CCC order not be implemented pending a review application in the High Court to review and set aside the CCC order. The parties have since agreed to a court order in terms of which Telkom withdrew its application for interim relief and ICASA in turn undertook not to implement the CCC order pending the outcome of Telkom's application for review. No date has been set down as yet for the hearing of the review application.

##### *Radio Surveillance Security Services Proprietary Ltd (RSSS)*

RSSS sued Telkom for R215 million (including VAT). Telkom is defending the claim and has filed a plea and counterclaim for R22 million. An application will be made for a special court to be allocated due to the duration of the proposed trial. The parties are exploring a possible settlement.

# Notes to the condensed consolidated provisional annual financial statements (continued)

for the year ended 31 March 2015

## 20. Contingencies (continued)

### Contingent liabilities (continued)

#### High court (continued)

##### *Phutuma Networks Proprietary Ltd (Phutuma)*

In August 2009, Phutuma issued a summons against Telkom, arising from a tender published by Telkom in November 2007, claiming damages in the amount of R5,5 billion. The High Court granted absolute 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. In November 2014, the SCA rescinded its previous order and in February 2015, the SCA granted Phutuma leave to appeal.

##### *African Pre-paid Services Nigeria Limited (APSN) v Multi-Links (MLT): Arbitration matter*

In December 2014, APSN withdrew its claim, in arbitration proceedings, against MLT (a previous subsidiary of Telkom, in Nigeria), and MLT also withdrew its counterclaim against APSN, as part of a settlement agreement concluded between Telkom and MLT on the one hand and Blue Label and others on the other hand, in respect of an action instituted by both Telkom and MLT against Blue Label, African Pre-paid Services, APSN and 3 others. The settlement was on a walk away basis.

#### Other

##### *HIP Oils Topco Ltd (HIP Oils)*

With the sale of Telkom's shares in MLT to HIP Oils, Telkom provided a taxation indemnity and a creditors indemnity to HIP Oils and MLT where such liability was incurred prior to 3 October 2011 and to the extent that such liability exceeded the amounts set out in the creditors list to the Sale and Purchase Agreement. Telkom also undertook to indemnify HIP Oils of any contingent liabilities and obligations owed or owing to creditors of MLT where such liability or obligation was incurred and not disclosed to HIP Oils prior to October 2011.

In December 2014, Telkom and HIP Oils concluded a settlement agreement in terms of which both parties waived and abandoned all their claims against each other and released and indemnified each other from all past and future liabilities.

##### *Section 197: Labour Relations Act*

Telkom has also been engaging with organised labour in relation to the outsourcing of various business operations in an effort to unlock operating and cost efficiencies in line with the Company's multi-year turnaround strategy. This necessitated invoking a process in terms of Section 197 of the Labour Relations Act, in a bid to outsource certain services as going concerns. Section 197 (7) states that Telkom and the new employers are jointly and severally liable to any employee who becomes entitled to receive a payment a result of the employee's dismissal for a reason relating to the new employer's operational requirements or liquidation or sequestration. Telkom will be held liable for a period of 12 months after the date of transfer, which may result in an onerous obligation.

##### *Onerous lease obligation*

In its bid to create a single Corporate Office at its owned Centurion Campus, Telkom is in the process of terminating the head office lease of buildings in the CBD with the Telkom Retirement Fund. The optimal exit strategy is being considered and may result in an onerous cost if the settlement value is more than the present value of the lease obligation.

#### Tax matters

Following Telkom's objection, the assessment received from SARS in respect of the 2010 year of assessment has been resolved as at 31 March 2015.

### Contingent assets

#### Tax matters

As noted in the 2014 consolidated annual financial statements the tax treatment of the loss that arose in 2012 and 2014 financial years on the sale of foreign subsidiaries are based on a specific set of circumstances and a complex legislative environment. A tax refund received during the prior financial year, relating to the 2012 sale, is contingent and will only be recognised once the matter has been resolved with SARS. Refer to note 18.

## 21. Related parties

Details of material transactions and balances with related parties were as follows:

### With shareholders:

#### Government of South Africa\*

Related party balances

Finance lease receivable

Trade receivables

Provision for doubtful debt

Related party transactions

Revenue

Individually significant revenue\*\*

*City of Cape Town*

*Department of Correctional Services*

*Department of Health: Gauteng*

*Department of Justice*

*South African National Defence Force*

*South African Police Services*

*South African Revenue Services*

*S.I.T.A. Proprietary Ltd*

*South African Post Office*

*Ekurhuleni Metropolitan Council\*\*\**

*KZN Ethekewini Municipality\*\*\**

*Department of Internal Affairs*

Collectively significant revenue\*\*

	2015 Rm	2014 Rm
Finance lease receivable	366	51
Trade receivables	462	456
Provision for doubtful debt	(16)	–
Related party transactions		
Revenue	(3 747)	(3 334)
Individually significant revenue**	(1 771)	(1 322)
<i>City of Cape Town</i>	(41)	(45)
<i>Department of Correctional Services</i>	(82)	(90)
<i>Department of Health: Gauteng</i>	(389)	(51)
<i>Department of Justice</i>	(109)	(114)
<i>South African National Defence Force</i>	(69)	(72)
<i>South African Police Services</i>	(628)	(597)
<i>South African Revenue Services</i>	(34)	(38)
<i>S.I.T.A. Proprietary Ltd</i>	(205)	(206)
<i>South African Post Office</i>	(55)	(52)
<i>Ekurhuleni Metropolitan Council***</i>	(52)	–
<i>KZN Ethekewini Municipality***</i>	(46)	–
<i>Department of Internal Affairs</i>	(61)	(57)
Collectively significant revenue**	(1 976)	(2 012)

\*Comparatives were restated. This was to incorporate the finance lease transaction.

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

\*\*\*Individually significant from the current year.

At 31 March 2015, the Government of South Africa held 39,8% (2014: 39,8%) of Telkom's shares and the Public Investment Corporation held 12% (2014:13,5%) of Telkom's shares.

# Notes to the condensed consolidated provisional annual financial statements (continued)

for the year ended 31 March 2015

	2015 Rm	2014 Rm
<b>21. Related parties (continued)</b>		
<b>With entities under common control:</b>		
<b>Major public entities</b>		
<i>Related party balances</i>		
Trade receivables	74	35
Trade payables	(1)	(1)
<i>Related party transactions</i>		
Revenue	(238)	(253)
Expenses	238	250
Individually significant expenses	226	236
<i>South African Post Office</i>	77	89
<i>Eskom</i>	144	136
<i>South African Broadcasting Corporation</i>	5	11
Collectively significant expenses	12	14
Rent received	(53)	(49)
Individually significant rent received: <i>South African Post Office</i>	(46)	(43)
Collectively significant rent received	(7)	(6)
Rent paid	29	29
Individually significant rent paid: <i>South African Post Office</i>	19	19
Collectively significant rent paid	10	10
<b>Key management personnel compensation: (Including directors and prescribed officers' emoluments)</b>		
<i>Related party transactions</i>		
Short-term employee benefits	141	190
Post-employment benefits	10	10
Termination benefits	5	2
Equity compensation benefits	-	6

## Terms and conditions of transactions with related parties

Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for related party receivables or payables.

## 22. Significant events

### Results of the Telkom Annual General Meeting regarding Directors re-appointments

All Board members were re-elected as per the Annual general meeting ordinary resolutions with the exception of Mr L Maasdorp who withdrew his nomination to be re-elected as director with effect from 27 August 2014.

### Retirement of Director

Telkom announced on 8 August 2014 that Mr Jacques Schindehütte retired from the Board with full benefits and the disciplinary proceedings have been discontinued. Telkom settled the retirement benefit with Mr Schindehütte during November 2014.

### Appointment of Executive Director and Chief Financial Officer

Telkom announced on 15 September 2014 that Mr Deon Fredericks had been appointed as an Executive Director and Chief Financial Officer of Telkom SA SOC Ltd effective from 12 September 2014.

### Appointment of Non-Executive Directors

Telkom announced on 1 December 2014 that Ms Thembisa Dinga, Mr Graham Dempster, Mr Rex Tomlinson and Ms Nunu Ntshingila have been appointed as Non-Executive Directors with effect from 3 December 2014.

### Resignation of Director

Telkom announced on 3 December 2014 that Dr Clive Fynn had resigned as a non-executive director with immediate effect.

### Post-Retirement Medical Aid

During November 2014, Telkom provided the Post-1994 pensioners the option to transfer their post-retirement medical aid benefit to an insurer. All except three pensioners exercised their option to transfer their benefit to the insurer. A settlement gain was recognised in the current financial year.

### MTN and Telkom Radio Access Network (RAN) assets Transaction

On 7 March 2014, Telkom signed a heads of agreement in terms of which MTN South Africa would take over the financial and operational responsibility for the roll-out and operation of Telkom's RAN. The parties will conclude reciprocal roaming agreements to enable customers of either party to roam on each other's network.

The proposed transaction is subject to conclusion by the parties of various binding commercial agreements to give effect to the transaction, and various other approvals, including approvals by regulatory authorities as may be required for the implementation of the proposed transaction.

### Acquisition of Business Connexion (BCX)

On 22 May 2014, Telkom announced its firm intention to make an offer to acquire the entire issued share capital of BCX in a bid to improve performance and restore profitability.

Shareholders of BCX approved the acquisition by Telkom at an Ordinary Scheme Meeting held on 11 August 2014. On 13 May 2015 the Competition Commission of South Africa approved the acquisition subject to certain conditions. Both parties are awaiting approval from the Competition Tribunal and discussions are being held with the Independent Communications Authority of South Africa.

### Restructuring of the organisation-management and specialist layers

In April 2014, as part of the larger Telkom turnaround strategy the Company initiated discussions with organised labour, with a focus on an organisational restructuring process that would result in headcount reduction.

The staff affected by this organisational restructuring, was limited to the management and specialist layers. Telkom consulted with organised labour on an ongoing basis since 4 May 2014, regarding possible dismissals in terms of Section 189 of the Labour Relations Act, on all elements of the restructuring process. At the end of September 2014, the Section 189 process was concluded in relation to the affected staff.

# Notes to the condensed consolidated provisional annual financial statements (continued)

for the year ended 31 March 2015

## 22. Significant events (continued)

### **Restructuring of the organisation-management and specialist layers** (continued)

The intention of the Telkom turnaround strategy is to secure the future commercial sustainability of the business. The sustainable success of the Company is largely dependent on both the attraction and retention of qualified, competent and experienced professional staff. The organisational restructuring is not driven so much by headcount reduction targets as it is by business imperatives that will shape the long-term commercial sustainability of the Company.

### **Outsourcing of various business elements**

Telkom has also been engaging with organised labour in relation to the outsourcing of various business operations in an effort to unlock operating and cost efficiencies in line with the Company's multi-year turnaround strategy. This necessitated invoking a process in terms of Section 197 of the Labour Relations Act, in a bid to outsource certain services as going concerns. Telkom's call centre operations, internal printing division as well as the network and operations and retail supply chain sections, were transferred and outsourced on 30 April 2015.

Telkom also offered Voluntary Severance (VSPs) and Voluntary Early Retirement Packages (VERPs) to employees affected by the Section 197 process and who opted for severance or early retirement packages. These employees exited Telkom's services on 30 April 2015.

### **Closure of unviable stores**

In a continuous bid to unlock cost efficiencies Telkom conducted a detailed analysis of the viability of the 95 Telkom Direct Stores. Certain stores were unprofitable and deemed unviable, making closure inevitable. Section 189 notices were issued to organised labour in relation to the affected staff in this environment. After exploring every option to place affected employees in other areas of business, unsuccessful employees were retrenched.

### **Telkom driving ICT innovation and growth**

On 7 May 2015 Telkom launched the Future Makers programme in terms of which it will invest over R100 million for enterprise and supplier development. Future Makers focuses on driving innovation in the ICT sector by growing access to technology and by offering long-term business support, mentorship and funding to small, medium and micro-enterprises.

### **Head Office move to Centurion Business Park**

There are currently two Telkom Campuses in Tshwane i.e. the Corporate Offices within the Pretoria CBD area, which Telkom is leasing from the Telkom Retirement Fund (TRF) and secondly, the Centurion Campus. The financial and business objectives are to create a single Telkom Corporate Office at Telkom's owned Centurion Campus by virtue of expanding and revamping the facility. The current Telkom offices in the CBD are outdated and do not represent a look and feel that portrays a modern company and a conducive working environment. In addition, the space allocated to staff is considered to be non-economical as space can be better utilised by having a more open plan concept.

Telkom intends to vacate the CBD premises and settle the outstanding lease and other obligations with the TRF. The benefits to Telkom includes; savings pertaining to rental, utility and maintenance expenditure at the Pretoria CBD Campus, establishment of a modern Campus at Centurion with associated facilities, a conducive working environment with a better look and feel, better utilization of accommodation and future expansion opportunities.

The exit strategy pertaining to the corporate offices within the Pretoria CBD, which is subject to a lease that expires in 2019, is being assessed.



## 23. Subsequent events

### Dividends

The Telkom Board declared an ordinary dividend of 215 cents per share and a special dividend of 30 cents per share on 5 June 2015 payable on 20 July 2015 to shareholders registered on 17 July 2015.

### Transfer of ordinary shares

On 2 June 2015, Telkom transferred 1 584 641 ordinary shares from Acajou Investment Proprietary Limited to Escrow. These shares were allocated to employees as part of the Telkom Employee Share Plan.

### Issuing of ordinary shares

On 4 June 2015, Telkom issued 2 185 452 ordinary shares for no consideration. The shares will be allotted and issued in terms of the Telkom Employee Share Plan.

### Allocation of shares in terms of the Telkom Employee Share Plan

On 5 June 2015, the Board approved the third and final allocation of shares to employees in terms of its employee share plan. The number of shares to vest will depend on the extent to which the performance conditions are met at the end of the applicable performance period.

### Other matters

The directors are not aware of any other matter or circumstance since the financial year ended 31 March 2015 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.

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**Telkom**

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